

# The LaRouche-Riemann survival program for Mexico's economy

by David Goldman

Mexico's economy is in a deep state of shock, and poised for an economic decline this year far in excess of the 3 percent negative growth projected by the International Monetary Fund. As Mexico's creditors admit with some concern, the International Monetary Fund agreement signed in December by the new de la Madrid government merely postpones the crisis, for the simple reasons that the balance of payments, debt service, and import numbers agreed upon between Mexico and the Fund are as fraudulent as those Brazil has presented to its creditors.

Even the Mexican Treasury's projections for 1983 allow for no more than \$11 billion in imports, while the import-level which would permit zero economic growth is over \$18 billion. 70 percent of Mexican industry depends on assembly of components imported from the United States, such that the exhaustion of inventories of such components implies an additional minimum reduction of industrial output by 10 percent over the year; a reduction in oil prices, a rise in U.S. interest rates, and a shrinkage in the predicted U.S. market for Mexican goods, all of which are left out of the current government numbers, will make the situation impossibly worse.

## What kind of transformation?

In one form or another, the next months will force a general transformation of the Mexican economy, eliminating the cancerous burden of government and private overhead which has distorted Mexican economic development during the past two decades. Whether the operation will also kill the patient, however, is an unresolved question: the computer-assisted study we present here demonstrates that the patient may survive using the correct spectrum of policies.

Two Mexican Presidents in the past twelve years tried and failed to correct this economic distortion: Luís Echeverría with considerable daring, and, somewhat more conservatively, José López Portillo. Neither was able to overcome the overwhelming influence of the investment policies of Mexico's northern neighbor, which treated Mexico as a cheap-labor extension of American industry, and insisted upon producing consumer goods destined for middle class consump-

tion, such as home appliances.

In 1980, the Fusion Energy Foundation published in collaboration with this journal a development program entitled "Mexico in the Year 2000." Under vastly more favorable world economic conditions, and at the height of Mexico's apparent oil wealth, we recommended that Mexico conduct a sharp turn away from the "import-substitution" system which had produced an industrial structure 94 percent of which produced consumer goods, and whose output contributed little to the basic development requirements of the country. We demonstrated, employing the LaRouche-Riemann system of computer-based analysis, that Mexico had the potential to become precisely what then-National Security Adviser Zbigniew Brzezinski said he would never tolerate: "another Japan south of the border."

In fact, the opposite of what we had recommended was done, despite President López Portillo's best efforts to the contrary: the oil revenues produced a boom in middle-class consumption and an ill-based expansion of the "import substitution" industries. Although some progress was made on the vital national projects, e.g. the Las Truchas steel complex, the Landbridge at the southern isthmus, the PHLINO irrigation system for the fertile Northwest, and the new coastal cities, the great projects envisioned by the López Portillo administration lagged badly; and worst, the Mexican government delayed a decision on a nuclear-energy program until, under the pressure of last year's financial crisis, the program was postponed indefinitely.

Now the absence of foreign exchange is eradicating the import-substitution industrial sector—almost half the economy in monetary terms. What might, under better circumstances, have been done as a matter of internally generated policy is now becoming fact as a result of external pressure. Can Mexico survive this?

The following computer-based study shows that it can, with one crucial assumption: that it enjoys the support of an Ibero-American Common Market, i.e. the ability to sell a minimum of 60 percent of its 1982 level of oil sales in return for technology to the remainder of Ibero-America, and to at least some of the industrial nations. Under given political

circumstances, if Mexico were to abrogate its suicide pact with the International Monetary Fund, it could expect the same treatment Argentina received during the Malvinas war: a trade embargo from most of the OECD nations, and especially from the United States, with whom the Mexican economy is integrated down to the last level of detail. This threat, communicated by Federal Reserve officials and private bankers, played a not inconsiderable role in Mexico's decision to capitulate, for the time being, to the IMF's demands.

There is no reason to expect that an Ibero-American breakaway from the IMF system, in favor of continental autarky, is a state of affairs accessible by any path of political development arising from present events. Ultimately the North and South must agree to what the re-organization of the monetary system will be. Nonetheless, given no alternative but the destructive austerity proposed by the IMF with the backing of most major industrialized-nation governments, developing nations will have no choice but to move along such an autarkical trajectory until the industrial nations return to reason.

In this sense, the present revision of the *EIR*-Fusion Energy Foundation "Mexico in the Year 2000" program is hypothetical: it demonstrates that, even under conditions of an economic break with the United States, Mexico could continue economic growth. As noted, there is no good reason to assume that Mexico could move linearly along this path; if the United States fails utterly as a factor in world affairs, the chances for stability in any region of the world economy will not be measurable by this or any other means. However, as a guide to policy for the immediate period ahead, this program represents Mexico's only chance.

One note of caution is required on the reliability of data. According to Mexican senior officials who prepare national income accounts, virtually all pre-1975 data are fraudulent; despite efforts to produce real data since then; "some of it is valid, and some of it is, well, projections," in the words of one administrator. The database employed required a general revision of Mexican national income accounts which leave out, for example, all home consumption in agriculture—the largest single element of consumption in the economy—and contain estimates for depreciation which evidently are "projections" of the worst sort. However, the *EIR* team rigorously cross-gridded the constant-peso numbers for output, investment, and consumption produced by the government against all other available data, and made substantial revisions in the published numbers on the basis of this cross-gridding. The result is a view of the Mexican economy at least as accurate as that currently available to the government in systematic form, and sufficiently accurate to make our general results reliable.

### Minimum development requirements

The question is the following: Given a cutoff of economic relations with the United States, and a much smaller market for Mexican oil, could Mexico nonetheless solve basic de-

velopment problems along the lines we proposed three years ago in "Mexico in the Year 2000?" The answer is that Mexico would lose about 10 years relative to the time-scale we earlier projected, but could nonetheless move in the same direction.

From this standpoint, the urgent, minimum development requirements would be:

1) Crash efforts to complete the Northeast Hydraulic Plan (PHLINO), which would irrigate about 1 million hectares of best-quality land, raising grain yields per hectare from about 1.5 tons to 6 tons;

2) Rebuilding (or re-grading and tracking) the Mexican rail system to permit transport of bulk quantities of fertilizer and grains in and out of the growing agricultural zones, as well as providing the required rolling stock;

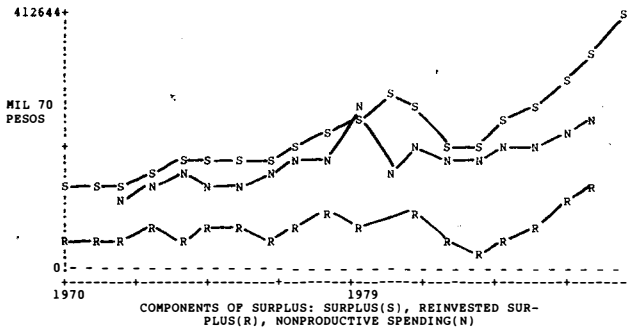
3) Using the present industrial base as a springboard for development of an expanded agricultural equipment and construction equipment industry, largely through reconversion of the automobile sector;

4) A crash national effort to create a machine-tool industry, cannibalizing skilled manpower where required from nonviable sections of the consumer-durables industry, soliciting technical assistance from Brazil and other well-established machine-tool producers, and beginning the production of machine-tools domestically. This is the minimum requirement for the reconversion and maintenance program needed to keep at least part of Mexican industry operating; perhaps 60 percent of presently installed manufacturing capacity might be retained, although only 30 percent is currently independent of U.S. components requirements (though not of spare parts), given a crash program to expand the country's machining capacity.

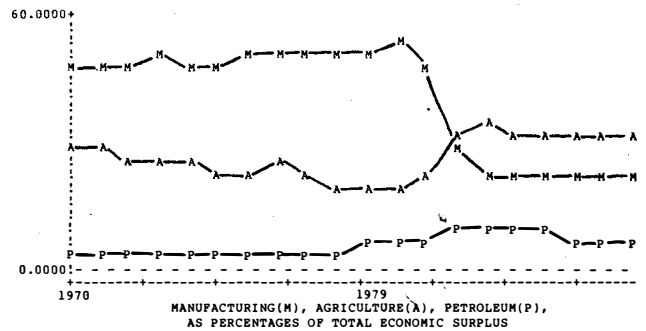
The result is a program that 1) ensures that the basic requirements of the population are met, 2) prepares Mexico for rapid industrialization during the 1990s, and 3) requires Spartan austerity for that section of the Mexican population whose incomes have grown most rapidly during the past 10 years, i.e. the middle class. The austerity requirements may be summarized this way: everyone who now has a personal automobile, a refrigerator, or an electric hair-dryer will have to make do with it for the rest of the 1980s, and those who do not will have a hard time obtaining one. But the diet, housing, and clothing of the majority of the population will improve steadily, and the basic productivity bottlenecks will be solved.

Turning to the output of the computer model, **Graph 1** shows the Surplus (tangible profit), and its two components, Reinvested Surplus (margin of expansion of capital and labor inputs into the economy), and Nonproductive Spending (tangible consumption of households not engaged in goods production), with historical data through 1981, and projections for the remaining period under our recovery program. It is notable that the great majority of tangible profit, or surplus, is consumed by non-productive spending, up through 1980, when virtually all such profit is diverted towards nonproductive spending. This reflects the historic misuse of oil wealth, which became a fund for consumer goods imports or imports

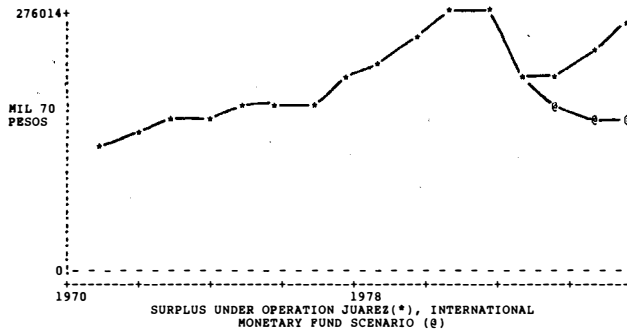
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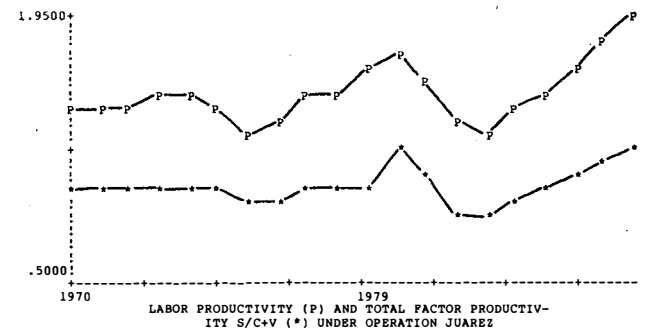
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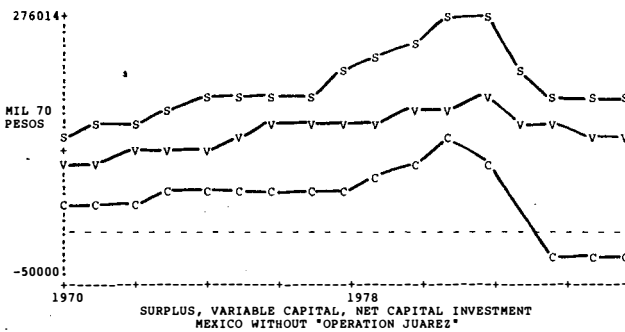
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GRAPH 6



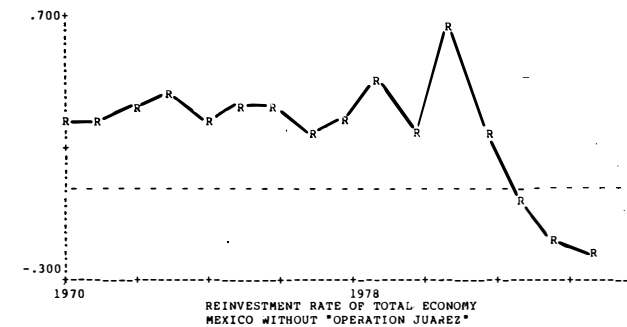
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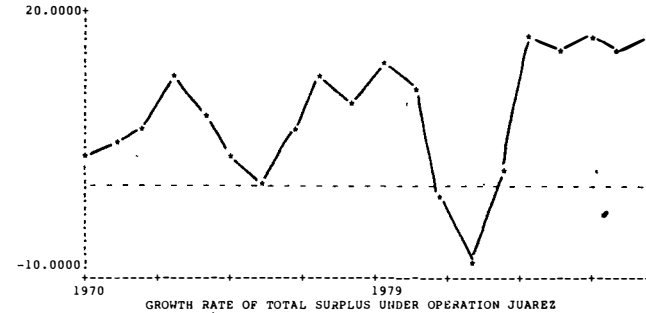
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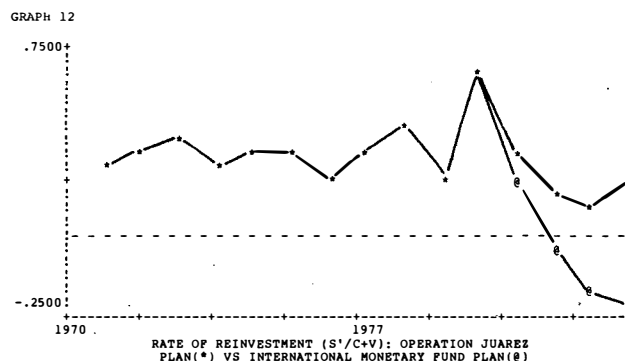
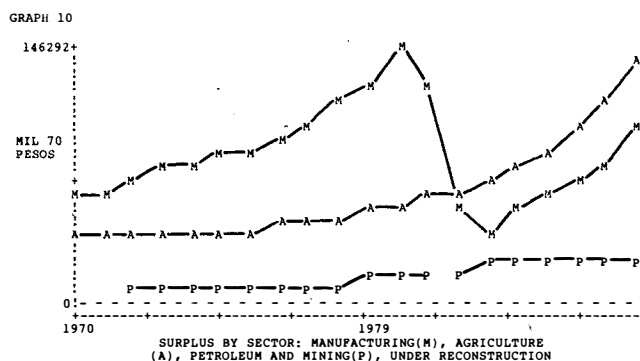
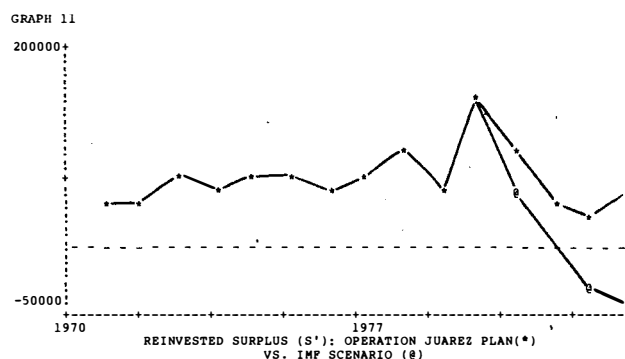
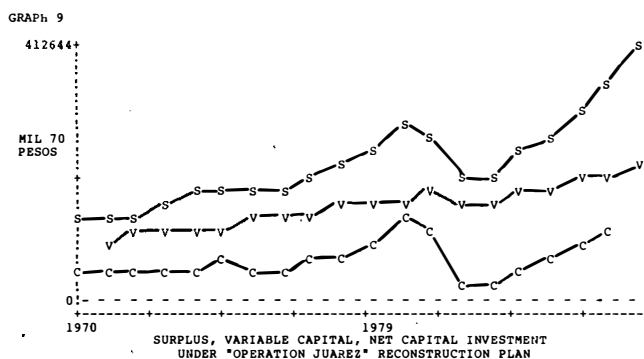


GRAPH 4



GRAPH 8





of "intermediate goods" for the local consumer-goods producers, feeding middle-class consumption. As the graph shows, Reinvested Surplus—the margin of the productive sector's expansion (manufacturing, agriculture, construction, mining, transportation, electrical utilities) stagnated relative to the potential growth, i.e., the growth of total tangible profit.

In the broadest terms, the most important feature of the program, whose basic outline is taken from *EIR* Contributing Editor Lyndon H. LaRouche, Jr.'s special report, "Operation Juárez," is this: the rate of growth of surplus does not rise much beyond previous levels (see also Graph 8), but its components shift away from nonproductive spending (through suppression of middle-class consumption) towards reinvestment in the productive sectors. This is shown clearly in the projections for 1982-89.

Graph 2 contrasts the behavior of Surplus, or tangible profit, under our "Operation Juárez" plan and the current International Monetary Fund program; the initial falloff in 1982 is identical (in fact, the fall during 1982 shown is less severe than what apparently has already occurred. Our estimate for 1982 was not derived from the 1982 data but from the projected consequences of a trade embargo with the United States. That alone should indicate the problems with the IMF program). Between 1983 and 1987, the last year shown, the economy recovers as noted above under the programmatic

proposals we outlined, while showing no recovery at all under the IMF demands. The latter trajectory arises from the abandonment of even those major projects which Mexico could undertake with its own resources.

Graph 3 shows the trajectory implied by the IMF program in more detail; noteworthy is that the lowest line on the graph, net capital investment, runs into the negative, showing net disinvestment in capital stock.

Graph 4 shows the rate of reinvestment (reinvested profit divided by capital and labor inputs, or  $S'/(C+V)$ ). This is the principal measure of the growth potential of the economy, and it falls from a high point of about 0.70 in 1980 to nearly negative 0.25 in 1987. The forecast was not pursued beyond this point; the implication is that the economy had ceased to function in its present form.

Graph 5 returns to the recovery projection. It shows the relative shares in the economy of manufacturing, agriculture, and petroleum. Perforce, manufacturing falls drastically as a percentage of output, because 40 percent of the sector had ceased to exist under our assumptions. However, it is able to keep pace with the growth of agriculture in the succeeding years (i.e., its percentage of the economy does not fall). The petroleum sector, which had risen as a portion of the total economy up through 1982, falls somewhat in relation to other sectors, for the obvious reason that Mexico would not have access to the same world market for oil, and would have more

pressing investment requirements.

**Graph 6** shows the productivity performance of the economy by two measures: labor productivity, or tangible profit per unit of labor input ( $S/V$ ), and total productivity, tangible profit per unit of both labor and capital inputs ( $S/C + V$ ). The collapse of both is unavoidable after 1982, for the simple reason that the apparently most productive sector, manufacturing, is reduced drastically; therefore the average productivity falls. However, the economy is able to more than regain its previous productivity, principally by raising productivity in agriculture and construction, the sectors that lagged the most previously.

**Graph 7** shows productivity by sector. Manufacturing productivity drops sharply on the basis of our input assumption that the reconversion of industries away from foreign parts dependency and, most importantly, from auto, towards agricultural and construction equipment, will take approximately three years before industry can resume productivity growth; this is followed, as the graph shows, by a period of sharp productivity increase. Agriculture and construction, however, show the first significant increases in productivity during the entire historical period, calculated from the predictable effects of capital inputs, based on a study of the reconversion potential in existing Mexican industry.

**Graph 8** shows the resulting growth rate of total surplus, or tangible profit, following the 1982 shakeout.

**Graphs 9 and 10** summarize the results for the "Opera-

tion Juárez" program. Surplus rises at previous rates, with the difference that the rise is based on sharp increases in net capital investment; this permits steady growth of labor consumption, or variable capital. **Graph 10** shows the rapid rise of agricultural surplus—based largely on the irrigation of 1 million new hectares, principally in the Northeast. Also shown are the rise in manufacturing, and the relative stagnation of petroleum output.

**Graphs 11 and 12** summarize the contrast between the "Operation Juárez" program and the consequences of the IMF plan. Reinvested surplus (the margin of expansion of the productive sector) has already recovered by 1987, **Graph 11** shows, while continuing to fall (net contraction of the productive sector) under the IMF program. The rate of reinvested surplus ( $S'/C + V$ ) has similarly recovered by 1987, en route back to previous historical levels by the end of the decade, while the path shown for the IMF plan shows an economy that can no longer function.

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*For additional details of EIR's emergency program for Mexico, please contact Mr. Peter Ennis, EIR's Director of Special Services, at 212-247-8820.*

*LaRouche-Riemann analysis of Mexico's recovery potential was conducted by an EIR-Fusion Energy Foundation team in New York City and Mexico City, including David Goldman, Sylvia Brewda, Jorge Bazua, David Ramonet, Delia Lozano, Peter Rush, and others.*

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