International Credit by Héctor Apolinar

So much for the Mexican model

As expected, after the general elections, the "Economic Solidarity Pact" is proclaimed a total fiasco.

The "masked ball" is over. The much-touted anti-inflationary plan of Mexico, proposed as the model for countries such as Brazil, has come to an inglorious end in the midst of food shortages, a resurgence of inflation, capital flight, and a deep economic depression.

Only two weeks after the July 6 general elections, the cost of the Economic Solidarity Pact, which had been imposed last December, began to be made public.

On July 27, the Chamber of Transformation Industries, which gathers most of the small and medium-sized industrialists, released a study which states that the Economic Solidarity Pact has exacted a drastic sacrifice in minimum wage levels for Mexican workers, which dropped by 15.7% in the first seven months of the current year. This adds up to a reduction of 49.6% in the buying power of wages during the period 1982-87—the term of President Miguel de la Madrid's administration.

The impact of falling wages on the sales of goods has been catastrophic, it was reported on July 21 by the president of the Mexican Confederation of Sales and Marketing Executives, Eduardo Rodríguez. He announced that the sales of intermediate consumer goods fell by 21% in the first six months of this year. As part of this picture, clothing sales fell by 30.5%, shoes by 27.4%, and automobiles, 28%.

Meanwhile, the productive sectors of the country are rebelling against the "repression" in prices exercised by the government by what they call "fiscal terrorism," which has put them on the verge of bankruptcy.

On July 27, the president of the National Agricultural Council, José Manuel Caso, who represents the biggest private agricultural producers of the country, stated that the farmers and cattlemen have entered into their second half-year of economic recession, because prices are seven months behind production costs, and this is why investments are not being made.

The business leader warned that this lag has produced "a shortage of various products and basic grains." He indicated that the products which are in shortest supply are eggs, milk, maize (corn), and sorghum. He cited as a clear example of shortages, the case of red meat, which has disappeared from the markets, because the government will not accept a price increase, although in reality there has already been one.

He added that milk production has gone down by 20% so far this year, which explains why there has been less supply, in a period when supply has traditionally been greater than demand.

Mr. Caso proposed that an increase in the prices of farm products be allowed, along with a wage increase "so as to give breathing room to the most vulnerable sectors of the economic system."

The disaster of Mexican national agriculture is even more clear-cut if one observes that it was in August 1987 that the government set the floor prices to be paid for the basic crops. Nonetheless, when the Economic Solidarity Pact was put in during December 1987, a hike of 80% was decreed for the main agricultural inputs, including fertilizers.

In the industrial sector things are no less serious. An unofficial report published by the newspaper *El Financiero* on July 21, indicates that the economic Cabinet foresees that national industry will suffer a drop of between 12 and 14% in 1988, which augurs an economic depression every bit as deep as the one in 1983, the first year of the De la Madrid government.

In 1983, the drop in industrial production reached −4.9%, the lowest in modern Mexican history.

The bad news just keeps coming out. The Bank of Mexico had to admit that inflation reared its head in June and reached the level of 2%, while it was 1.1% in the first half of July—all pointing to a clear upward trend.

Of course, inflation was what the Economic Solidarity Pact was supposed to eliminate.

These disastrous economic indicators are the motor which is driving the rapid "dollarization" of Mexican national finances, and putting on the screws for yet another devaluation of the peso. The Bank of Mexico announced on July 26 that there was a decrease of $1.2 billion in the international reserves, owing to a run into dollars by investors.

Last Jan. 8, after imposing the Economic Solidarity Pact at the behest of the Wall Street bankers and against the wage demands of the trade unions, President Miguel de la Madrid threatened anyone who might resist, saying, "It is illegitimate to incite the citizens to civil rebellion or to resistance against the laws and authority."

Six months later, on July 6, the Mexican electorate responded by massively rejecting De la Madrid's chosen successor to the presidency, Budget Minister Carlos Salinas de Gortari. The wise men of Wall Street should perhaps take heed.