Why Mexico is ready to explode

Carlos Cota of the Mexican Labor Party analyzes the economic background to the present fascist inversion.

The article translated here was published in the Jan. 1 issue of Solidaridad iberoamericana, *the official newspaper of the Mexican Labor Party, under the title, "Transition to What?"*

It is quite understandable that most Mexicans built up their hopes for the new President, Carlos Salinas de Gortari. After all, the six years of Miguel de la Madrid were a dark, seemingly endless, tunnel of despair. But, the change does not mean the end of the tunnel.

The longings for change were shown at Salinas's Dec. 1 inauguration by the congressmen from the ruling Institutional Revolutionary Party (PRI) who applauded vigorously when the new President ordered an immediate renegotiation of the foreign debt.

Salinas said, "First, the net transfer of funds abroad must abate so that the economy can have sustained growth; second, the value of the historic debt accumulated up to now should be reduced; third, those new funds needed for Mexico's sustained growth should be assured on long enough terms to avoid the uncertainties caused by annual negotiations; and, fourth, the real value of the debt should diminish and its proportion relative to what we Mexicans produce should also become ever smaller, during my administration."

The new President also affirmed, "We will not grow again in an enduring way if we continue transferring 5% of the national product abroad, as we have done up to now."

The truth of the foreign debt is that our economy is trapped by the "innovative" restructurings of 1985 and 1986. De la Madrid bequeathed to his heir Mexico's promise to pay its creditors $15.9 billion in 1989. That is 30% amortization payments and 70% interest. Mexico is scheduled to pay about $90 billion in debt service during the coming six years. It may be noted in **Figure 1** that those debt restructurings committed Mexico to pay more than previously scheduled from 1990 to 2006. Mexico will have to pay much more if dollar interest rates do not stop their spiral upwards. Most of Mexico's debt pays interest at about 1% over the off-shore dollar rate (LIBOR). For every percentage rise in LIBOR, Mexico owes $600-700 million more annually.

Two days before he left office, Miguel de la Madrid admitted having paid an average of $12 billion (6.6% of the Gross National Product) in debt service in each year of his presidency. The finance secretariat's figures, on the other hand, are much higher. They put debt service paid between 1983 and 1988 at $88.589 billion (almost $15 billion a year).

Many comparisons can be made. Between 1976 and 1988, Mexico's total foreign debt increased from $24 billion to $103 billion.

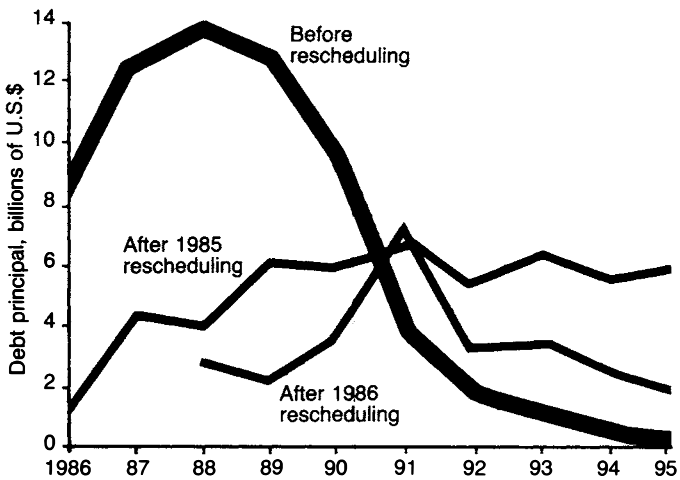
Strictly speaking, President Salinas's orders in no way counter the straitjacket his predecessor agreed to with the creditors.

Real economy vs. the computers

President Salinas posed the following realities in his inauguration speech: "Mexico's modernization is indispensable to be able to meet the demands of the 85 million Mexicans of today, to which 10 million more will be added during the next six years. All will demand food, urban services, housing, education, and an honest way of life. During my term, 9 million students will enter the national education system. . . . A million youths a year aspire to a worthy job, to a sure future."

He should recognize that, during the six years which he

FIGURE 1
Mexico's debt amortization schedule



Source: IMEF

Miguel De la Madrid's debt reschedulings set a trap for his successor. Observe the jump in payments due in 1990-92.

TABLE 1
More than 40% of Mexican workforce is unemployed
(in millions)

Year	Population	E.A.P.*	Employed	Unemployed	% Unemployed
1970	48.2	13.0	12.2	0.8	6.1
1980	66.8	28.1	15.4	6.7	30.3
1985	78.5	24.0	16.8	7.2	30.1
1986	81.0	24.8	15.1	8.7	35.0
1987	83.0	24.9	15.6	9.3	37.5
1988	85.0	25.5	15.1	10.4	40.8

* Economically Active Population

ended with his protest, 14 million Mexicans were born. The needs of almost half of them were completely unmet, because government social spending was cut to 1970 levels. The GNP per inhabitant was reduced 14% and consumption per capita by 14.3%. The total investment per inhabitant was 35.5% less.

Thus, by 1994, there will be 24 million children between the ages of 0 and 12, suffering from malnutrition caused by the sell-out of De la Madrid to the creditors.

To talk today of the need to create 1 million jobs annually is pure demagogy which denotes the absence of any serious intent to solve the unemployment problem. **Table 1** shows the structure of the economically active population. By analyzing it, the hair-raising conclusion is reached that Mexico's economy has to provide 2 million productive positions per year.

The De la Madrid regime generated 1 million unemployed annually among youth whose expectations for a regular wage were smashed by the recession it induced against the economy. Factories and farms closed. With this policy it threw almost 50% of the labor force into unemployment or under-employment.

To try to take care of more than 12 million indigents with the National Social Solidarity Program is a mere chimera. That could provoke a confrontation between those favored by the program and those who are kept out of it.

The economy does not grow

President Salinas postulated "a new epoch of growth" in which "the private sector will play a fundamental role." He also stated, "The motor for the new growth will basically come from internal savings." Such growth should translate into the expansion of the internal market, increasing employment and gradually strengthening the buying power of wages and encouraging cooperatives.

On examining where this recovery stage must begin, one concludes that the actions to be taken are much more difficult than mere statements.

What private sector? Real private investment in Mexico during De la Madrid's six-year term was negative 17.5%; real public investment was negative 50.7%; and total real investment was negative 26.4%. Industry is operating at only 40% of its installed capacity, and that reduced capacity is further threatened by the lowering of trade barriers and by the excessive importation of goods which could be produced inside Mexico.

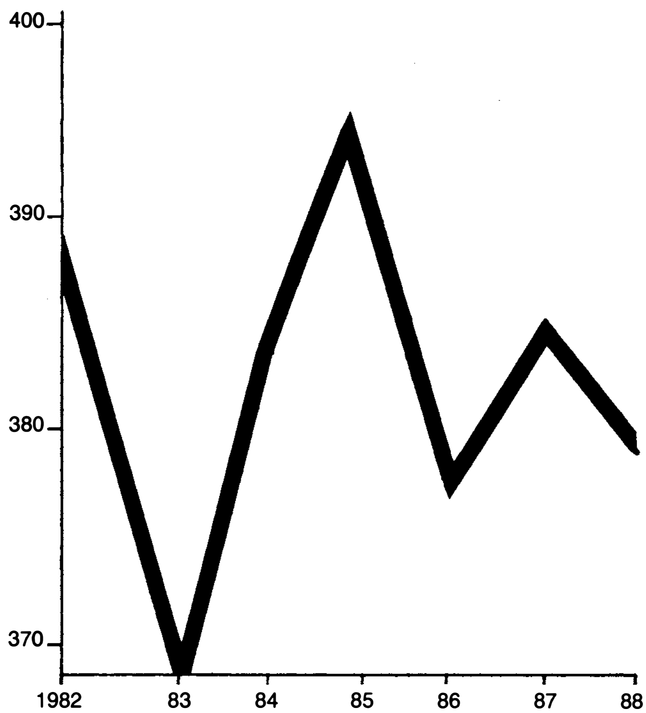
The De la Madrid regime held Mexico's economy locked in deep recession which it will be hard to get out of.

In 1983, the GNP fell by 5.3%; in 1984 and 1985 it went up by 3.7% and 2.7% successively, but it never overcame its previous decline. In 1986, the GNP fell another 3.6%, then recovering by 1.1% in 1987, only to again drop an estimated 2.0% in 1988 (see **Figure 2**).

Mexico does not need "we will grow again" rhetoric; it needs the parts of its productive aparatus which have been dislocated by the previous administration's inflationary flogging to be put back together again.

In 1983, the government promised 50% inflation, but it

FIGURE 2
Mexico's Gross National Product skids downward under De la Madrid
(billions of constant 1988 pesos)



Sources: Wharton Econometrics and Mexican Planning Secretariat.

At the end of De la Madrid's six years, production was 2% lower than at the beginning.

came out to 80.3%; in 1984 it promised it would reduce it to 30-35%, but the result was 59.2%. In 1985, they spoke of 45-50%, but it was 63.7%. In 1986, in the name of realism, they asked for a 85-90% target, but inflation was 159%. In 1988, inflation was reduced to 50% with brutally recessive effects. The physical economy did not grow. That shows us we are facing nothing more than statistical manipulations (see **Figure 3**). To propose a gradual recovery of real wages is to not want to recognize that dramatic measures are required here. Wages in real terms have been cut more than 50%. In real terms, that means workers have lost one-half to two-thirds of their buying power. To speak of gradualism is to stay under the conceptual dictatorship that wages are inflationary, that the inflationary crisis is due to "excessive demand" (see **Figure 4**).

1989, more recession

"The increase in economic activity should be gradual. . . . Immediate growth is limited by recent years' low investment rates. A sudden recovery would stimulate an imbalance. . . . We cannot speed up the pace. . . . 1989's economic policy will be one of transition."

To think that the economy could be kept on *stand-by*, as the IMF keeps in its waiting rooms the finance ministers who go to it to beg for loans, would be very dangerous. And, it seems that is what is going on. President Salinas also said 1989 is determined "by the time required for the firm renegotiation of the foreign debt."

The Planning and Budget Secretariat claims the 1989 expenditures budget will increase 15% from what was spent in 1988, which was cut five times by 195.5 billion pesos. If the budget were implemented, more recession and more stagnation are in store for this year, since, in real terms it would be 11% lower than last year.

A 15% increase would only restore what was taken out of the 1988 budget and add a little bit, but the 1989 budget would still be negative in respect to the 1987 one. We face a budget which is nominally slightly negative and deeply negative in real terms.

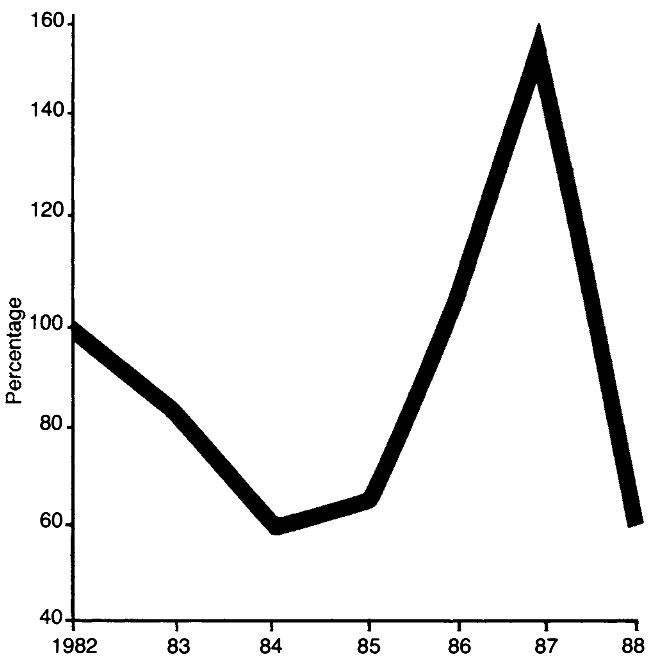
It is not true that the new President means linear continuity with the previous government. From what he has proposed, he would break the gradual downward spiral of economic recession—and accelerate us into generalized depression.

Moratorium, the only way out

The only way to resolve the dramatic situation which we are in, is to unilaterally suspend payment on the foreign debt. Whether the new President likes it or not, this is the only thing which could be done to slow the disintegration of the national economy.

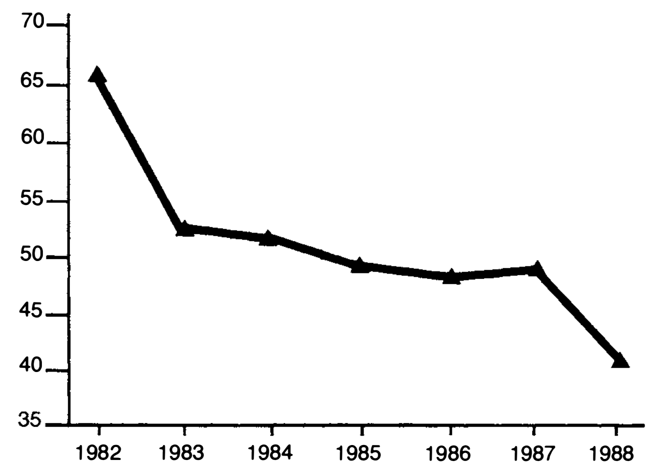
The resources devoted to servicing the foreign debt must be used for a genuine economic recovery which starts by raising the real incomes of the workers, reactivating the productive apparatus with accessible credits. By increasing public investment, the federal government should encourage pro-

FIGURE 3
Inflation rollercoaster under De la Madrid (December to December increase)



Sources: Wharton Econometrics and Planning Secretariat

FIGURE 4
Mexican wages fall under De la Madrid
(1977 = 100)



Source: Mexican Workers' Confederation.

A campaign poster of Mexican President Carlos Salinas de Gortari, as "doctored" by participants in a rally for Cuauhtémoc Cárdenas, July 1988, Mexico City. Salinas's original slogan, "The facts will confirm my words," was altered to read, "The frauds will confirm my words" ("Los fraudes confermaran mis palabras").

grams to generate productive jobs, provide new incentives and opportunities for national businessmen, restore the economic infrastructure destroyed by the previous administration, and create new basic infrastructure.

Whether or not the new President agrees, Mexico should hold a summit meeting to found a Common Front of Ibero-American Debtors.

Debt moratorium should be accompanied by strict exchange controls and a domestic monetary reform to eliminate the speculative rot imposed by the Salinas government.

The federal government ended 1988 with an internal debt calculated at 96-100 trillion pesos ($80 billion). It doubled, in peso terms, during the year. The debt ballooned last year for the same reason as the previous five years: the monetary policy of keeping the interest rates on government debt paper high. These are mostly treasury certificates bought by speculative brokers from the government. The brokers do not then sell them to "small investors," but to other government offices and state sector companies. Sooner or later this bubble will explode in the President's face. The government may simply become unable to pay interest.

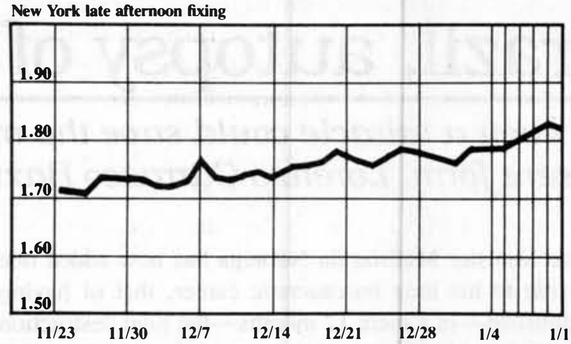
The challenge is to turn this speculative mess into efficient low-interest credit for productive activities. Small savers, who hold a minuscule part of the public debt, should get preferential treatment.

We are not talking about populist actions. We must replace the wheels of a moving train, a train which is about to go over a cliff. We have to repair it, we have to stop its fall and we have to get it back on the track.

Currency Rates

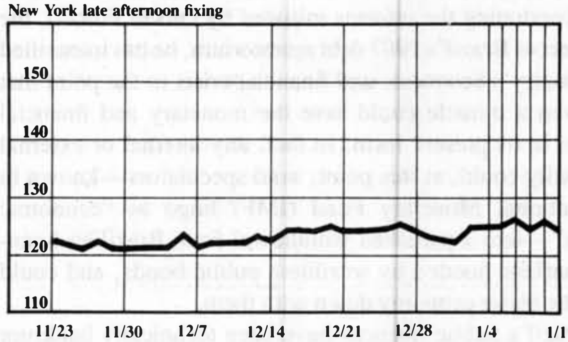
The dollar in deutschemarks

New York late afternoon fixing



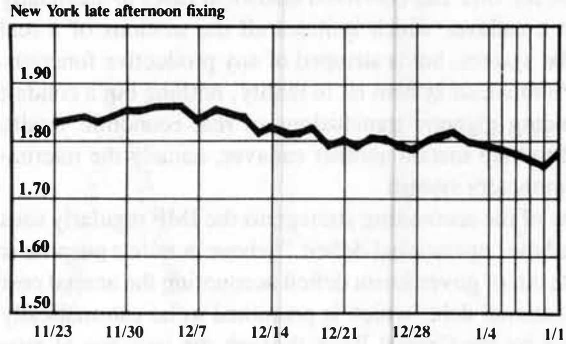
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing