Click here for Full Issue of EIR Volume 16, Number 45, November 10, 1989

Dateline Mexico by Carlos Cota

The 'Dorian Gray' economic Pact

The Salinas government seems to think it can keep the Economic Stability Pact sinning against the economy for ever.

Since December 1987, the Mexican economy has been ruled by a series of "stability pacts" intended to fight hyperinflation. In December 1988, when the Salinas de Gortari presidency began, the Pact was extended until June 1989, and then to April 1990. The Pact was designed to "freeze" the economy—prices, wages, and exchange rates—so as to shrink inflation. It assumed a reduction in the internal interest rate and, if not a reduction, at least a freeze, of the public deficit, through reduced public investment.

From its results, one could compare the Pact to the one Dorian Gray made with the devil in Oscar Wilde's famous story. Gray would stay young forever and remain as dashing as in a portrait a friend painted of him, but the portrait would grow older and uglier for every sin he committed. His sudden death would occur when his wickedness finally attacked the one he most loved.

The Salinas government has committed so many sins against the national economy that its portrait has grown shabby indeed, but it seems to think the Pact can go on forever, because it apparently loves no one.

The whole premise behind the Pact was "a successful renegotiation of the foreign debt," to obtain financial resources for internal investment. After two years of "sacrifices," the good news promised by government economic forecasts has disappeared into thin air.

The Brady Plan (the "successful renegotiation") has proven a fiasco. The private creditor banks have repeatedly denied the new loans, which are supposed to amount to 30% of the total debt renegotiated. The promises of new funds have not even reached 20%.

José Angel Gurría, Mexico's debt negotiator, was as welcome as a dog in church when he toured the world financial capitals. In Paris, the bankers dismissed him with icy skepticism. "Lending money [to Mexico] again doesn't tempt anyone," said Mr. Vienot, president of France's Société Générale. Gurría was almost run out of London, told that the British creditors "prefer SWAPs," an alternative not included in the Brady Plan's three options. In Tokyo, even before Gurría's arrival, the Bank of Tokyo's president stated that it would be "very difficult to convince the banks to participate in new financing."

According to the schedule set by the Bank Advisory Committee, the creditors were to have their answer to the "financial menu" presented by the Mexican government by Halloween. Oct. 31 came and went, and the witches' cauldron of new finances is still barely simmering.

Mexican foreign trade has hit its nadir. According to the government, imports in 1989 were expected to grow 11.6%, or $20.7 billion. But imports have already grown 35% each quarter, nearly $2 billion above projections. Despite the fact that a serious trade deficit is predicted for the last quarter, the government is reporting with its usual hoopla that the GNP will grow 3%.

Where will the foreign exchange come from to stabilize Mexico? Private sector economic studies place international reserves at $6.6 billion, less than half of what Mexico had in August 1988. By the end of 1989, the government is promising inflation of 18-20%, and an internal interest rate annualized at 32%. In fact, inflation by year's end will be above 30%, and the financial wizards are trying in vain to keep the interest rate from going higher than 42%. The galloping inflation is due to the hushed-up, selective freeing of the prices of some products, in response to pressure from business circles which are insisting that Mexico has entered the danger zone comparable to that experienced by Brazil's Cruzado Plan and Argentina's Austral Plan. They say a serious financial breakdown and danger of shortages are imminent.

The labor unions are demanding an end to the wage freeze and emergency hikes in the minimum wage, which fell this year by 7% with respect to 1988.

Interest rates have entered into the game of the "financial bicycle," as it is known in Argentina. If rates are lowered or kept fixed, capital flight goes up. If the rates are raised to stop capital flight, the pressure rises on the federal deficit and the internal public debt.

The government's economic wizards are aware of their failures, but say they still have one more card up their sleeve, namely, foreign investment. The Trade Secretary has authorized more than $2 billion in direct foreign investment in Mexico. The problem is that only $562 million worth of foreign investment has materialized in the first half of 1989.

The Mexican government's own studies confirm that the "orthodox programs" of other countries have failed miserably in their "final phases." Nonetheless, the wizards hysterically insist, "The Pact will continue at all costs!"

© 1989 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.