DatelineMexico by Josefina Menéndez

Battle over the budget

The pressure is on to relax the IMF spending ceilings, but the economic hardliners appear to have the upper hand.

By all accounts, the 1984 budget, due to be released Nov. 22, will continue the harsh austerity policies imposed this year.

Leaks to the press suggest a public spending limit of 11.0 to 11.5 trillion pesos, approximately $70 billion at current exchange rates. This is roughly 60 percent higher than the 1983 budget in nominal terms, but perhaps as much as 20 percent below in real terms.

The related targets under Mexico's International Monetary Fund program are 1) bring inflation down to 60 percent (it is running at 80 percent by the government's suspect calculations, and over 100 percent by private sector and labor calculations), 2) reduce the government deficit as a portion of GDP down to 5.5 percent (this year it was pegged for 8.5 percent, but the government will probably bring it in several points below that through the virtual abolition of capital projects), and 3) cut net foreign borrowing to $4.0 billion (this year it was $5.0 billion).

The news is not that the budget hardliners—Finance Minister Jesús Silva Herzog, Planning and Budget Minister Carlos Salinas De Gortari, and Bank of Mexico head Miguel Mancera—seem to have won the day, but rather that there was a last-minute but serious surge of pressure from both business and labor to begin ending the IMF controls. For the first time in the de la Madrid administration, the pressure was sufficient to touch off a real fight in the cabinet on basic economic policy.

The underlying shambles of the Mexican productive apparatus is shown in Banco de Mexico statistics, not yet released to the public, which indicate a 10 percent average drop in industrial production over the year.

Auto, metalworking, and domestic electrical appliances will all fall 40 percent or more. The last week in October, Pemex announced a 15 percent cutback in the production of refined oil products, going from 1.265 million bpd to 1.1 million bpd, because of the fall-off in internal demand. This fall-off is especially severe since the consumption of gasoline and other refined products has traditionally been much higher in the growth industries than in the rest of the economy.

The paralysis of the economy is seen from another angle in the reports that roughly 800 billion pesos are sitting idle in the banks, almost three times the amount of new loans of these institutions, due to lack of loan demand. These unproductive pesos are creating a crisis for the banking system. These are pesos which have been deposited by individual savers, who duly draw interest on them—but the banks have not lent them out to generate needed income.

During the first two weeks in November, a large number of producers protested the gutting of their industries and demanded a revival of public-sector spending.

Carlos Mireles, vice-president of the Canacintra chambers of industry, warned that industry is "currently operating at 40 percent of capacity." Urging an increase in government spending, Mireles noted that, "From the contraction of public spending comes a cascade of contraction in the [rest of] the national economy." The capital goods division of Canacintra reported that the paralysis of key government projects in oil, electricity, and steel had meant a 50 percent decline in the demand for capital goods during the year.

Similar protests were heard from Bernardo Reichkemen, president of the National Chamber of the Electrical Industry, and Carlos Pani, president of the National Association of the Chemical Industry.

These business protests came on top of the most intense challenge yet by labor to the government's IMF policies. As he left a Nov. 10 labor summit, at which labor leaders for the first time attacked the IMF by name for the policy of eliminating subsidies in the prices of basic necessities, Mexican Workers Confederation leader Fidel Velźquez told the press: "We have been left no choice but to radicalize our labor approach. . . . If the economic crisis is not contained, it will probably result in social disturbances."

The pressure from these sectors seems to have pushed both Commerce Minister Hector Hernández and Energy, Mines, and State Sector Industry chief Horacio Labastida into a camp favoring a slight loosening of the budgetary reins—to perhaps a "6.5 percent solution" on the budget deficit question rather than the 5.5 percent demanded by the IMF. Hernández's concerns were less due to personal considerations—he has been a consistent backer of the IMF—than to his role as a sounding board for the importers and producers in the country who had received authorizations for $14 billion in imports from his ministry, but only $7 billion dollars worth of foreign currency from the Finance Ministry and the Banco de Mexico. For now, the protests have been overridden—but the heat is on.