The Mexican economy: An IMF 'success' that almost killed the patient

by Jorge Bazua

This article, by an economics analyst from our Mexico City bureau, is the first in a series of EIR *case studies of the destruction of economies by the International Monetary Fund (IMF). In the Establishment press of the United States and Europe, Mexico is touted as a "success" model for solving a large debt problem by applying the IMF's "medicine." In fact, Mexico's economy and its potential as a market for other countries' goods is being rapidly brought to a halt.*

In the course of 1983, Mexico underwent a drastic drop in its economic activity, unprecedented in the country's modern history—a drop shown in a reduction of nearly 5% in the gross national product, a contraction of 15% in the total consumption of the country, and of 25% in its levels of investment, and about a million persons who lost their jobs—all thanks to the fact that the country followed to the letter the kind of austerity measures demanded by the IMF from the debtor countries of Latin America. The 15% drop in total consumption was recently discovered by *EIR* to be the result not only of reduced production, but also of redirecting 10% of the gross national product into exports, rather than domestic consumption.

FIGURE 1
Trends in production and investment
(Annual Change in Percentage)

	1981	1982	1983
Gross Domestic Product	7.9%	−0.5%	−4.7%
GDP Productive Sectors	9.0	−1.1	−5.1
Agriculture	6.1	−0.6	3.4
Oil and Mining	15.3	9.3	−2.2
Manufactures	6.9	−2.9	−7.3
Construction	11.8	−5.0	−14.3
Electricity	8.4	6.7	1.3
Transportation	10.7	−3.8	−4.0
Gross Fixed Investment	14.7	−15.9	−25.3
Public	15.8	−14.2	−28.6
Private	13.9	−17.3	−22.6
Net Fixed Investment	17.0	−26.3	−42.1

Source: Bank of Mexico, Mexican Ministry of Planning and Budget

This economic collapse is seen in its true magnitude if we take into consideration the fact that the country's economy had shown sustained growth during the last 25 to 30 years, registering an average growth rate of 5%, and even reaching rates close to 10% in the four years before the beginning of the economic recession at the end of 1982.

The change in direction of the economic activity of the country started during the second half of 1982, rooted in the massive capital flight which left the country without the hard currencies needed to bring in the imports necessary to maintain its production levels. This provoked the strangulation of much of the national economy, given Mexico's high level of dependency on imported parts. The devaluation of the peso clinched this process of economic deterioriation and disarray.

This was the main reason that led then-President José López Portillo to decide to set up exchange controls and nationalize the private banks, as a means to stanch the bleeding of currencies out of the country. And this was the context in which the government of Miguel de la Madrid came to power, with a half-paralyzed economic apparatus due to generalized scarcity of currencies and lack of imports.

The first economic measures which the new administration handed down, within the scheme of the so-called Immediate Program of Economic Re-Ordering, consisted of a new devaluation of the currency and the establishment of a dual exchange system, fixing one type of nominal exchange at 95 pesos to the U.S. dollar and another "free" exchange at 150 to the dollar. These measures meant a devaluation of 36% and 114% respectively, relative to the exchange system

FIGURE 2
Trends in employment and wages
(Annual Change in Percentage)

	1981	1982	1983*
Total Employment (Millions)	20.0	19.9	19.2
Total Employment	6.6%	−0.9%	−3.4%
Productive Employment	7.0	−2.7	−3.8
Average Annual Wage	4.6	−2.4	−26.0
Total Wages	11.2	−3.3	−28.5

*The 1983 figures are estimated.

which the previous administration had left behind, of 70 pesos to the dollar, and of 280% and 500% with respect to the prevailing exchange rates at the beginnning of 1982. With these measures and others which we shall detail below, the beginning of a phase-change was marked in the national economy, which, far from improving things, deepened and accelerated the deterioration of the country's productive apparatus.

The economic program of the new administration began under the strategy of "economic re-ordering" formulated by the Secretary of Planning and Budget, Carlos Salinas de Gortari, in complete conformity with the contractionary policies of the IMF. Such a strategy, as it was presented by Salinas de Gortari in the National Development Plan at the outset of 1983, claimed that the economic crisis had originated in the ambitious development programs of the previous administrations (Echeverría and López Portillo), which had overreached the internal savings capacity of the country and had provoked a heavy imbalance in the national finances and the balance of payments. Consequently, it was necessary to make big "adjustments" to eliminate the imbalance and re-establish the national economy's growth capacity.

The Salinas program

Basing himself on these suppositions, Salinas de Gortari set forth the premises upon which the economic strategy of the country would be founded during the six-year presidential term:

1) The country will have to generate a surplus in its balance of goods and services to cover the debt service on foreign debt, which is estimated to stay around 5% of the Gross Domestic Product (GDP).

2) National development will be sustained by internal savings and not foreign financing, which implies increasing income and reducing the expenses of the public sector in order to reduce its deficit with respect to the GDP from 16% in 1982, to 8% in 1983, and to 4% by the end of the six-year term.

3) Public investment shall be oriented toward contracting the levels of investment in capital intensive sectors and supporting labor-intensive sectors that can create make-work jobs.

With these premises, the economic program was shown to be subordinated to the austerity and looting schemes of the IMF, in terms of reorienting the national economy toward the creation of "surplus" to pay interest on the debt. This represents the most important phase-change, since the country at no time in the last 30 years had been in the black in its foreign trade balance.

It is important to note that the economic strategy formulated by the Secretary of Planning and Budget in reality was not oriented toward solving the economic crisis precipitated in the second half of 1982 but to eliminate the development programs of the two previous administrations, whose priorities of productive growth and jobs creation were not subordinated to premises of financial equilibrium.

To "correct" such an imbalance, according to Salinas de Gortari's plan, the country would have to "significantly increase its non-oil exports and decrease its imports, despite an unpropitious international context." To induce this change in the foreign sector of the economy, a "realistic" exchange policy was needed which would keep the peso constantly undervalued, so as to make imports more costly and discourage them, and make exports "more competitive," as well as turning the country into an "attractive" place for foreign tourism.

FIGURE 3

Trends in imports and exports

(Annual Change in Percentage)

	1981	1982	1983
Total Imports	15.2%	−39.0%	−45.8%
Consumer Goods	6.6	−46.3	−63.4
Intermediate Goods	12.0	−36.2	−36.5
Capital Goods	25.4	−42.0	−59.6
Total Exports	19.1	25.1	1.6
Agricultural Products	−7.7	14.9	4.2
Minerals	13.7	−11.0	−10.9
Oil and Natural Gas	31.0	14.9	−2.9
Manufactures	−4.1	11.1	21.5

Source: Bank of Mexico, Mexican Ministry of Planning and Budget

FIGURE 4

Trends in the balance of payments

(Millions of Dollars)

	1981	1982	1983
Trade account	−4,510	6,793	13,678
Imports	23,930	14,437	7,721
Exports	19,420	21,230	21,399
Oil and Gas	13,830	16,477	16,002
Other Products	5,590	4,783	5,397
Service account	349	−407	1,729
Income	11,390	7,690	6,883
Debits	11,041	8,097	5,154
Interest on Debt	8,383	11,264	9,861
Current Accounts Balance	−12,544	−4,879	5,546
Balance of Capital	21,929	8,574	−853
Errors and Omissions*	−8,373	−8,362	−1,432
Reserves	1,012	−4,667	3,261

*This figure represents mainly non-registered capital flight.
Source: Bank of Mexico, Mexican Ministry of Planning and Budget

The other important part of the administration's economic strategy is the "anti-inflationary policy," which has been centered on reduction of public spending, given that the rise in inflation levels was attributed to the "exaggerated" growth in public spending of the past two governments. It must be kept in mind that public spending in Mexico involves government and state-owned enterprises, and most of it is concentrated in wages and investments, both in productive areas (oil, electricty, steel, transport), as well as in basic services (education, health).

An important aspect of the orchestration of anti-inflationary policy during 1983 was the fixing of a goal of reducing the inflation levels from the 100% reached in 1982 to 50% in the course of 1983, which was taken as a point of departure to determine the amount of the public budget. Meanwhile, the inflation-limiting goal served also as the basis for freezing wage increases, with the argument that if bigger increases were given to compensate for the inflation that occurred in 1982, then the inflationary spiral would continue. This marked a 180° reversal of the wage policy which the country had followed for a long time—that of granting wage increases to recover lost purchasing power.

The economic disaster which occurred during 1983 is nothing but the direct result of the "anti-inflationary" and "financial equilibrium"-oriented strategy which the present administration has followed under the leadership of Salinas de Gortari, sticking fully to the "recommendations" the IMF formulated for all the Latin American economies.

The decision to maintain the peso constantly undervalued and to keep domestic interest rates high, under the pretext of blocking capital flight, led to strong inflationary pressures which put the annual inflation index at 80% by the end of the year, considerably surpassing the predicted goal of 50%. The repercussions on the average monthly level of national inflation were even greater, which rose 102% to the average level of 1982.

In this inflationary context, the policy of not granting wage increases over the initially established ceiling of 50% tore gaping holes in the purchasing power of Mexicans' wages, which in real terms dropped by more than 25%. Completing this picture is the desolate spectacle of the domestic market, which is estimated to have contracted by some 15% in all in 1983. If we take as a reference point the consumption levels of 1981, the magnitude of the contraction of the internal market goes up to 20%.

Production dwindles

In the face of the contraction of the internal market, the productive activity of the country was noticably reduced, above all in the sectors related to production of consumer durables and capital goods. It forced a large number of industries to turn toward the external market, which despite its depressed state, absorbed a growing quantity of national products which were sold below the prevailing prices on that market, but represented profits for the national producers because of the extreme undervaluation of the Mexican peso.

As a result, national production of goods was reduced by 5.1%, showing a more drastic fall in the production of manufactures, whose level contracted by 7.3%. And due to this lowering in production volume, the level of imports suffered a catastrophic drop, by some 47%, descending to a magnitude comparable to that of 1978 in absolute terms, but no more than 1973 in real terms.

The combined effect of the small increase in non-petroleum exports and the decrease in imports was reflected for the second consecutive year in a positive foreign trade balance for Mexico, $13.68 billion against $6.79 billion in 1982, which, added to the positive balance in service account, created a total surplus of $15.4 billion. This surplus was mainly destined to pay interest on debt, which went up to $9.86 billion, leaving inclusively a remainder of $5.54 billion which was used in the payment of the debt principal and the increase in national currency reserves.

In this manner, the national economy was converted into a conduit for channeling resources out of the country, at the cost of the standard of living of the population and the growth potential of the country's productive apparatus. The total goods channeled abroad in 1983 in the form of net exports represent about 10% of the national production of tangible goods.

New collapse ahead?

The prospects for 1984 are as desolate as in 1983, since the same premises and policies that provoked the productive collapse of last year continue to be followed. Wage levels and investments have again been predetermined based on the "goal" of reducing inflation to 40% during the year, fixing wages at an increase of 30%—which besides being much lower than the inflation registered last year, is very low vis-á-vis the "forecasts" for this year.

The evolution of the economy in the first three months of the year clearly shows that the contractive trajectory of 1983 has not been shifted, despite government promises to begin to ease up. We are seeing a low index of productive activity, reduced import volumes, and levels of inflation of 17%—much higher than the "forecasts." The first two months of 1984 saw import levels of $700 million per month, exactly the same as the disastrous average of 1983.

This highlights the urgency of moving on the perspective for an integrated Latin American "economic-security pact" outlined on the Mexican president's recent Latin American tour. If the government of Miguel de la Madrid does not overthrow the economic program of Salinas de Gortari and the IMF, and take urgent measures directed at increasing wage and investment levels and reducing interest rates, we will not see anything but a new collapse in the levels of consumption and production. Such an economic disaster could very well have severe political repercussions for Mexico, a result which the sponsors of the current economic program cannot have overlooked.