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Mexican economy heads into new IMF nightmare of collapse

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On July 23, the Mexican government of President Miguel de la Madrid imposed a dramatic austerity package, which included firing over 50,000 government employees, devaluing the currency by 40%, and opening up the country to speculative foreign investment, especially in the area of tourism. The package, introduced just three years after the Mexican crash of 1982 first opened the door to wrenching, foreign-dictated contraction of the productive economy, places Mexico's national sovereignty and political stability in jeopardy.

On July 25, the *New York Times* published a full-page ad, placed by the Mexican tourism secretary, describing the advantages which the 40% devaluation of the peso will bring to Mexico's tourist industry, promising foreign visitors: "Your dollar will stretch beyond your wildest dreams."

The "new 1982" blow-out of the economy first took shape in the early months of 1985. Just prior to the July 7 elections in Mexico, economic warfare by foreign userers intensified in the form of oil price manipulations, speculation on the peso, and a great increase in capital flight. George Shultz's State Department had allied with the fascist PAN party, encouraging PAN plans to use the elections as a pretext for civil violence aimed at overthrowing Mexico's republican institutions and imposing the new round of International Monetary Fund (IMF) austerity. The PAN's "Plan Madero" was at least temporarily aborted, however, by the ruling PRI's resounding electoral victory.

But instead of taking advantage of the victory to defend Mexican sovereignty, the de la Madrid government did exactly what the IMF wanted. The result of the austerity program could be the very chaos and upheaval which the PRI's electoral success temporarily averted.

The program

Government spokesmen described the measures as a means of "cleansing" Mexico's financial system. This phrase, with its companion phrase, "adjustment program," are grotesque euphemisms in light of the actual measures:

- A 40% devaluation of the "free market" peso, 20% on the "protected" peso used for priority government transactions. The "free market" peso is being referred to popularly as a "super-free" peso, because the government had been controlling all exchange rates, even the "free" one, on a fixed daily slide of 21 centavos, but the super-free peso now fluctuates entirely on a supply-and-demand basis, and it can be obtained from new currency exchange windows in all major banks—virtually eliminating the exchange controls first established in 1982. The controlled peso, approximately 240 to the dollar on July 23, dropped 20% at a single shot at the end of July, and as of Aug. 5, will resume a downward float at rates varying daily.
- A large breach in nationalist foreign investment laws which have outlawed majority foreign ownership of Mexican firms for the past 12 years. The government made a humiliating about-face on a celebrated IBM "test-the-waters" case. In the first quarter of the year, the government rejected IBM's request to set up a wholly-owned micro-computer plant in Guadalajara. On July 23, it reversed the decision, and announced that IBM would be included in a package of $500 million in new foreign investments that would be exempt from the existing laws. A Canadian-led consortium was granted permission for a $250 million tourist complex near Mazatlán. Other projects under 100% foreign control were approved in oil equipment and pharmaceuticals.
- Elimination of 15 undersecretary positions and 50 "general directory" offices in the federal government. This leaves 51,000 people unemployed. The government will reportedly re-employ 23,000, although it has not said where. The other 28,000 have been left with no jobs. This layer is one of the most highly trained manpower pools in the country.
- Planning and Budget Secretary Carlos Salinas de Gortari, a rabid Malthusian, announced that there have also been "cutbacks in investment and current expenditure programs, in the amount of 700 billion pesos" (roughly $1.75 billion at the new super-free rate of 400 pesos to the dollar).
- Sale of 34% of the stock of the nationalized banking system back into private hands, with as yet undetermined powers of decision also returned to private hands.

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• Other cuts in government operating expenses averaging 20%, and a cut in the salaries of top officials, including the President, of 10%.

Mexico is now under pressure to concede ground on its long-standing refusal to join the General Agreement on Trade and Tariffs (GATT) because of the dumping of foreign goods it would entail, and its 50-year-old ban on casino gambling.

On July 29 Commerce Minister Hector Hernández convened a secret meeting of top government and private-sector officials "to review the GATT question."

The casino question, pushed by an alliance of drug mafiosi and foreign bankers anxious to get Mexico's debt paid with tourism and drug earnings instead of industrialization—has been put on the national agenda by Tourism Minister Antonio Enríquez Savignac. Its promoters inside and outside the country are putting immense pressure on President de la Madrid to announce the legalization of casino gambling in his annual State of the Union message (*Informe*) Sept. 1.

State Department happy

George Shultz descended upon Mexico two days after President de la Madrid announced the new package. Shultz arrived on July 25 in the company of the incoming assistant secretary of state for inter-American affairs, Elliot Abrams, whose "human rights country reports" earlier this year demanded that Mexico "prove" its human rights record by permitting the communist-backed Nazis of the PAN party to win major posts.

Shultz told the press that the austerity measures are "important and of great significance, and I believe that they will have good effects in the short and long term." Mexico is "an example for other countries through its intelligent and disciplined effort to restore its economy." He "laughingly" added, according to the next day's newspapers, that his arrival just two days after the program's announcement was "just an accident." Over the next few months, the United States and Mexico will begin talks on establishing a "special trade relationship." The United States will be asking for greater access to Mexican markets and fewer restrictions on investments. Shultz stated that the debt problem for Third World countries "has not worsened."

Shultz was in the footsteps of U.S. Federal Reserve Chairman Paul Volcker, who made a sudden, unscheduled trip to Mexico the first week of May to promote the IMF's debt and austerity policies. At the time, the first round of international oil price declines, together with diminishing Mexican non-oil exports and a surge in flight capital, had led some in the Mexican government to renew interest in an economic defense pact with other Ibero-American debtors.

Treason at the Bank of Mexico

Senior Mexican political commentator José Luis Mejías of *Excélsior,* on July 22, the day before the new measures were unveiled, wrote that one man bore special responsibility for facilitating the new collapse: Miguel Mancera of the Bank of Mexico. "It has been unrestrained speculation, aided and encouraged by the Bank of Mexico, added to other measures of the same institution . . . which have in the end turned public opinion against the [Mexican political] system—with more effectiveness than all the treason of the PAN." He called for the government to "dispense with the services of the notorious individuals responsible for the failures—not to speak of sabotage."

The new surge of capital flight—estimated at $4-5 billion in 1985—intersected international targetting of Mexico to "crack" its oil prices. At a press conference on July 24, Planning Minister Salinas de Gortari revealed that the fall in Mexico's oil exports during June—as buyers simply stopped purchases—"was notably greater than what had been anticipated." Insiders estimate that only half of Mexico's standard 150,000 bpd of exports was actually being lifted that month.

Salinas de Gortari made another admission at the same press conference, highly damning to himself, Finance Minister Silva Herzog, and Mancera. He announced that even more important than the decline in oil revenues in forcing the government's hand, was "greater internal interest payments." Mancera was referring to the government's treasury certificates, or CETES, which have become the basis of most government deficit financing. The use of CETES has grown so dramatically—a result of depressive IMF measures undercutting other sources of financing—that it has crowded out what little financing was available to the productive economy. Several days before the July 23 package, the Bank of Mexico and the finance ministry announced that the reserve requirements on deposits in the banking system were *being doubled,* rising to 90%, in order to back up the gigantic debt bubble created by the CETES. This means that for every peso deposited in the banking system, 90 centavos are used by the government to back up its credit, while 10 centavos are available to the bank for general lending.

For all their scope and intensity, the new measures are unlikely to hold for long. A new decline of just one dollar per barrel in international oil prices, government analysts warn, would unglue the package.

Similarly, the social effects are just beginning to be felt. Silva Herzog announced that wage adjustments will be considered once the devaluation-spurred surge in inflation has worked its way out into consumer prices. But there is no question that a hefty new chunk of purchasing power for the working population—already slashed 40% in the first three-year round of austerity—is about to evaporate.

The combination of social and political discontent, new pressures on oil prices, and the example of what Alan García's new government in Peru is doing (see p. 4), may spark a resurgence of the nationalist factions in Mexico—the factions clobbered on July 23.