EIR Economics

Mexico's physical economy enters meltdown phase

by Valerie Rush

The $50 billion international "rescue package" put together last January to try to contain Mexico's financial meltdown, coupled with a savage escalation of International Monetary Fund (IMF)-directed "shock therapy" austerity, has now yielded what *EIR* has repeatedly warned must happen if there is no turnaround in policy: the catastrophic collapse of Mexico's physical economy. Waves of bankruptcies in every sector of the economy, and accompanying mass layoffs, are setting the stage for unprecedented social upheaval, while a severe and unrelieved drought in northern Mexico is wiping out food crops and livestock herds and raising the specter of famine in this bankrupt nation.

A lawful consequence of this collapse of Mexico's real economy is the return of cholera in numerous parts of the country, at levels at least 40% higher than last year and with a higher mortality rate because of the lowered immunological resistance of the victims. Cholera cases are showing up in large urban centers such as Mexico City, Monterrey, León, and Tampico, while a record number of cases is being reported in the impoverished southern state of Chiapas, which is coherent with the economic devastation that region has suffered since the narco-terrorist Zapatistas began their offensive there in January 1994. Cholera outbreaks are being registered across the border in Guatemala as well.

As U.S. economist Lyndon LaRouche stated in a May 13 address, "The nature of the relationship between the financial bubble and the real economy, is such that the financial bubble can continue to exist only by destroying the real economy. But by destroying the real economy, the bubble is destroying the basis for its own perpetuation. Therefore, you have a system analogous to a cancer in the terminal phase, and, with respect to the host, if you don't remove the cancer, the host is going to die. And that's the case with the world economy. If we don't remove the cancer, which is the systemically destroyed international monetary and financial system, the world economy, and the nations with it, will be destroyed. And that will come very soon."

Resistance spreads

While the Conservative Revolution crew in the U.S. Congress focuses on blaming President Clinton for the Mexico crisis, 85 million Mexicans have come face to face with the immediate prospect of social and economic holocaust. In response, there has been growing political ferment, most notably among agricultural producers, to force the Ernesto Zedillo government to abandon its lunatic free-market dogma, and break with the IMF's genocidal policies while there is yet time.

In southern Sonora, Mexico's leading wheat-producing state, growers protested the low price of wheat on May 4 by dumping 15 tons of that product at the offices of the agriculture secretary in the state capital. "We want an end to the looting of national resources. Moratorium on the foreign debt!" they chanted. A few days later, 1,200 farmers joined forces with collective farm workers at a meeting called by Sonora's Permanent Forum of Rural Producers (FPPR), the Cajeme Agricultural Credit Union (UCAC), and the Northeast Farmers Alliance.

There, UCAC president and FPPR leader Jaime Miranda Peláez explained that this is a fight that cannot be won on local issues. Miranda pointed to the battle fought a half-century earlier, when the allied nations defeated fascism. Today, said Miranda, the international community must establish a new alliance to defeat the financial tyranny that is threatening the very existence of nations around the globe. He added that LaRouche had forecast the ongoing collapse of the world monetary system years earlier and offered a solution based on precisely such a unity of purpose, to forge a new world monetary system based on development, not usury. We must not sacrifice our population to a dying system, insisted Miranda (see interview, p. 66).

The use of debt moratorium as an instrument of political pressure on the government, and of sheer economic survival, is now spreading. Exemplary is the meeting held on May 24 by agricultural producers from the state of Sinaloa in Mexico's northwest, where a decision was made to suspend payments to their creditor banks, along with a work stoppage, to protest the government's agricultural policies. A few days earlier, 10,000 business and agricultural debtors of the state of Chiapas announced a debt moratorium over the next six years, or until the Mexican economy recovers from its present trauma.

Nor is the resistance limited to agriculture. The Industrialists Association of Guanajuato is sponsoring for its members a series of seminars around the state, entitled "Suspension of Payments as a Solution to the Economic Crisis." A local branch of the National Chamber of Transformation Industries (Canacintra) is sponsoring a seminar on Mexico's crisis in June, to be addressed by a speaker from *EIR*. The seminar invitations note that "the explosion of the debt bomb in Mexico is part of the absolute disintegration of the world financial system. As has been correctly stated by American economist Lyndon LaRouche, Mexico must protect its physical plant, which must not be sacrificed to the speculators."

Along with the bankruptcies of companies like the airline Aeromexico, and the huge losses posted by major department store chains like Sears, Liverpool, and Suburbia, furniture giants like Salinas y Rocha, and so on, townships and municipalities throughout Mexico are now declaring themselves insolvent as well. Such is the case, for example, in Tepic, Nayarit and Ciudad Victoria, Tamaulipas, whose mayors announced that servicing the municipal debts is costing as much as or more than their entire operating budgets.

Defending the banks

Banks have now begun auctioning off hundreds of farms, homes, businesses, hotels, and office buildings which were confiscated when their owners went bankrupt. Hundreds more are taking refuge behind the government's Law of Bankruptcies and Defaults—a kind of Mexican equivalent of the U.S. Chapter 11 bankruptcy code—which offers the possibility of a debt-restructuring program.

And yet, under pressure from its own international creditors, the desperate Zedillo government is now seeking to close off all such escape hatches. The government has announced that it is preparing a new law which would take bankruptcy proceedings out of the hands of the banks and place them under the political and law-enforcement control of the Interior Ministry. Every major municipality in the country would in effect have a ministry office installed to conduct case-by-case debt reorganizations.

While the publicly stated objective of the new law is to help the banks manage their arrears, in fact the law will put the coercive power of the state behind the banks' debt collecting, forcing debtors to accept onerous restructuring conditions demanded by the banks. While the intention of such a law may be to shatter the political unity of the "debtors movements" that have arisen around the country, such police-state actions are more likely to feed them.

On May 22, IMF Managing Director Michel Camdessus confidently told a Council of the Americas meeting that the Mexican crisis "was resolved, and I say resolved because I am confident enough that now this crisis has turned into a manageable problem. . . . The tough medicine seems to be working and the markets are taking notice. . . . Mexico's economy is headed toward recovery." One week later, it was announced that the IMF's sister institution, the World Bank, is expected to grant Mexico a $1 billion credit to shore up its banking system. This is on top of the nearly $8 billion the IMF has already handed over.

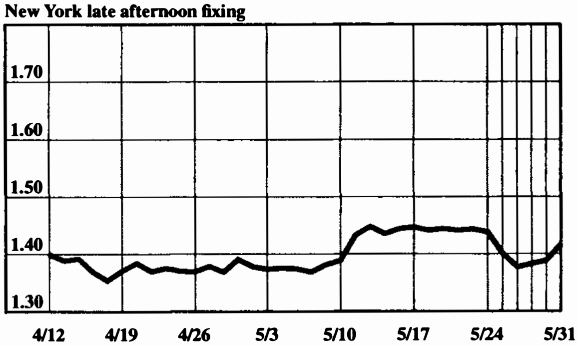
Less sanguine was the U.S. Federal Reserve, which responded to reports by Mexico's five top banks that they had posted profits in the first quarter of 1995 by accusing them of hiding a $25-50 billion hole with "accounting tricks and state subsidies." A Chemical Bank report on Mexico's banking system confirmed that at least 10 Mexican banks had suffered significant losses in the last fiscal quarter. That "hole" identified by the Fed is otherwise known as "related," or non-performing, debt, a reference to the more than $38 billion in bank-held debt which has not yet been defaulted on only because it has not yet come due. This $38 billion, combined with the $13 billion in acknowledged arrears currently held by Mexico's banks, represents a whopping 55% of the total bad debt of the national banking system's entire loan portfolio!

Mexico is not the only nation in Ibero-America facing a bank-debt crisis of catastrophic proportions. In Argentina, it has just been reported that 48 out of 200 national financial institutions have been wiped out in that country since the outbreak of the Mexico crisis last December. Some 61% of all deposits are now concentrated in just 15 banks, and nearly half of those are in just five banks. Flight capital since December has already surpassed $7 billion.

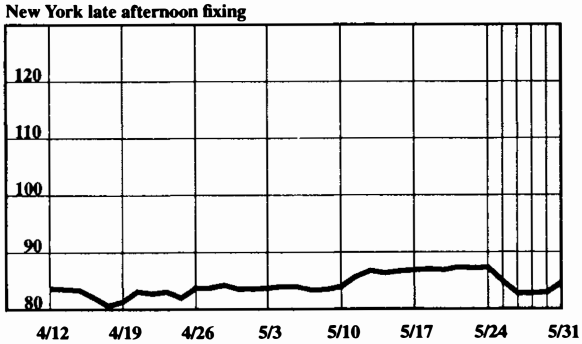
In Venezuela, which must hand over 40% of its 1996 budget to service its domestic and foreign debt, there is dramatic pressure by creditor banks to force the Caldera government to abandon exchange controls and allow a devaluation of the national currency, which some predict could be as high as 80%! The effect would be massive capital flight, and very possibly, the collapse of the government as well. In Colombia, which is under pressure by the IMF to slash public expenditures, it has been reported that the banking system's non-performing portfolio is 47% higher than it was one year earlier. And in Brazil, central banker Pérsio Arida has resigned amid rumors that things are not going as well as the Cardoso government would have its creditors believe.

Currency Rates

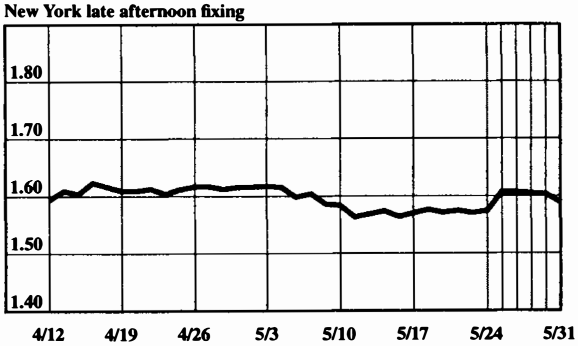
The dollar in deutschemarks
New York late afternoon fixing



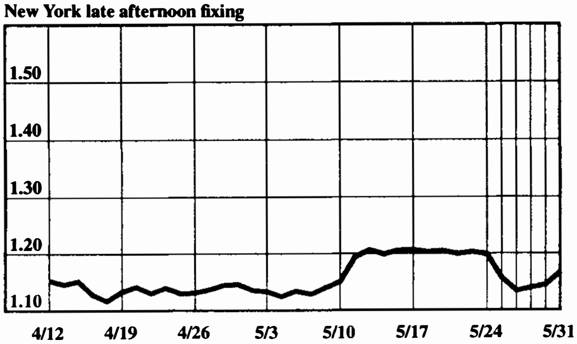
The dollar in yen
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



Interview: Jaime Miranda Peláez

The 'free market' is a mental disease

Miranda Peláez, president of the Cajeme Agricultural Credit Union (UCAC) and coordinator of the Permanent Forum of Rural Producers (FPPR) in Sonora, Mexico, replied in writing on May 25 to EIR*'s questions.*

EIR: The UCAC and the FPPR are leading a protest, proposing that the producers mobilize not only for a better price for wheat, but for a radical change in economic policy toward agriculture. What do you propose?

Miranda Peláez: Ever since Mexico joined GATT [General Agreement on Tariffs and Trade] in 1986, and launched an indiscriminate trade opening policy, the government has undertaken a series of measures that are dismantling the entire productive apparatus that sustained our agricultural activity. One of those measures is the abandonment of price guarantees, which we now know is a condition of the International Monetary Fund and World Bank. The fact is that, stemming from those measures, what we have seen is a constant collapse in prices for our products simultaneous with a constant rise in the cost of our inputs. This has been a fatal combination, which has led to decapitalization, indebtedness, and insolvency.

EIR: The U.N. Food and Agriculture Organization no longer has food reserves, and even the U.S. government is without reserves. How does this affect Mexico?

Miranda Peláez: This is very serious for our country, more so in the present period when we are threatened by a severe drought that has taken out of production more than 5 million hectares and which demands an increase in the volume of imports of grains and edible oils. This world shortage of food will cause an exponential increase in food prices, at a moment when the country finds itself in total financial bankruptcy which will make it practically impossible to import the necessary quantities of food to cover our growing domestic deficit. In sum, we are facing the immediate prospect of famine, which will endanger the lives of millions of Mexicans.

This reminds me of what we have been insisting upon in various meetings with producers and officials regarding the absurd theory of "comparative advantage," which argues that in a free-market economy, it is cheaper to import food than produce it in our own country. And now, just as we warned them, "the bargain is turning out to be very expensive." This convinces me that the so-called "free market" is not an