

Zedillo puts Mexico on IMF path to suicide

by Carlos Cota Meza and Carlos Méndez

In the face of the Mexican economy's severe recession in 1995, indicated by the worst collapse of the Gross National Product in decades, bankruptcies right and left, a collapse of agricultural and industrial production, and so forth, President Ernesto Zedillo has opted to follow the suicidal line ordered by Wall Street and the City of London: a total halt to any productive investment.

This line was delivered on March 17 by U.S. Treasury Undersecretary Lawrence Summers, at a meeting of Mexican bankers gathered in Cancún, Mexico for their annual conference. In Cancún, Summers exhorted Mexico to "rely ever more on market forces," and to speed up its privatization program. He also warned the Zedillo government against

"overprotecting" the country's failing banking system.

One week later, at the annual assembly of the National Federation of Industrial Chambers (Concamín), President Zedillo duly toed the line with pledges of more austerity, and strict enforcement of "fiscal and monetary discipline" to "fight inflation." The country's desperate industrialists, who had been hopeful that the government was finally going to do something to avoid total catastrophe, received Zedillo's announcement "like a bath of cold water," according to the Mexican press.

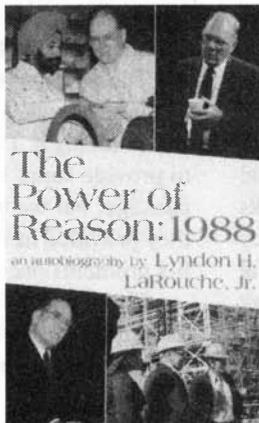
But Zedillo's announcement also triggered a virtual rebellion within the ranks of Mexico's business class which, while hardly classifiable as an opponent of free-trade neoliberalism, is nonetheless determined to survive. Concamín President Víctor Manuel Díaz Romero demanded of President Zedillo that the central bank lower the cost of money "because restricting the money supply and keeping interest rates high is unacceptable." He added that an industrial recovery program was urgent to prevent irreversible damage to the nation's industrial plant. Specifically, he urged a program which involved investment in infrastructure, set goals for growth, and educational, scientific, and technological assistance.

According to the daily *El Financiero* on April 1, the private sector think-tank CEESP has also called on the gov-

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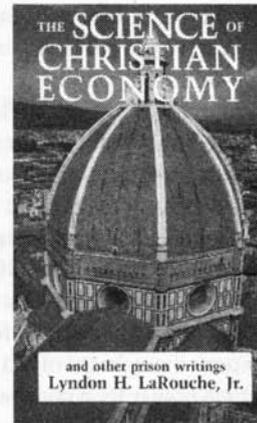


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ernment "to not put off the reactivation of the economy any further, because the accumulated negative developments in the first quarter of this year represent a reversal of advances already achieved and tend to aggravate social tensions." Similarly, the president of the Business Coordinating Council (CCE), Héctor Larios Santillán, said that economic reactivation cannot be delayed because the atmosphere of social crisis is intensifying. He said that the central bank policy of keeping a tight rein on credit to "fight inflation" was insane, because the country's most pressing problem is massive unemployment. Larios Santillán added that "100% of sales are being channeled into paying debts to the private banks. Today, more than ever, a new debt-restructuring scheme is required, with longer grade periods and tax breaks, to break the repeating cycle of non-performing debt leading to recession."

From the country to the city

With President Zedillo's decision to slam on the credit brakes, what will occur in short order is a physical collapse of industry similar to that suffered last year in the countryside, which has now gone from misery to outright starvation, the combined result of a devastating four-year drought and equally devastating "fiscal and monetary restraints" imposed by the international creditor banks. Mexico's central bank has already confirmed that net domestic credit for the first quarter of 1996 will be reduced by approximately \$30 million, meaning that the country's industrial plant, already experiencing severe liquidity problems, will simply begin to shut down.

As *EIR* has repeatedly warned, the measures already taken, and accepted by Mexico's businessmen, were, in the best of cases, the equivalent of giving aspirin to cancer victims. The ADE and Udi debt-restructuring schemes concocted by the government back in September 1995, were little more than elaborate shell games, the equivalent of moving billions of dollars worth of IOUs from one pocket to another, and then back again.

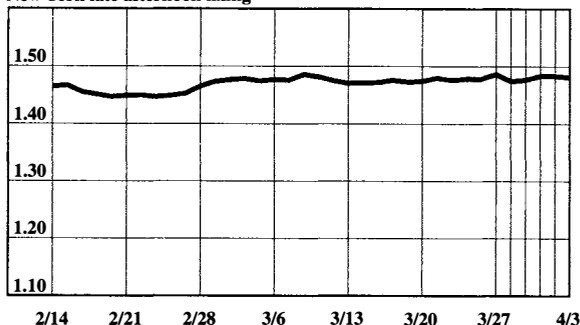
The most dramatic proof of this is the high incidence of "recidivism" being registered by the country's bankrupt economic sectors. According to circulating reports, 25-50% of restructured debts have already gone back into the "non-performing" category, once more threatening to blow out a banking system being held together with band-aids and rubberbands.

It is calculated that by September of this year, when the Zedillo government's "subsidized interest" schemes expire, there will be a new explosion of generalized insolvency. Analysts say that only interest rates of approximately 20% or less could forestall such an explosion, but *only on condition that all of the country's debtors are making their payments regularly and no more loans are sought*. It is true that corporates cannot ask for credit, but it is also true that neither can they pay their debts.

Currency Rates

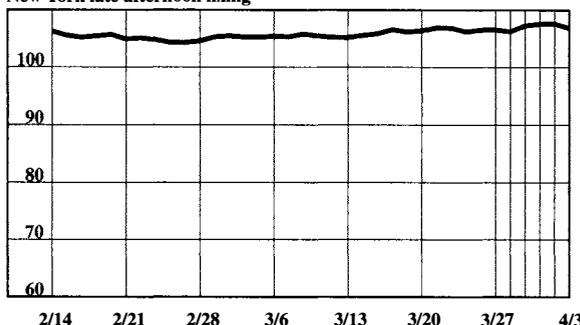
The dollar in deutschemarks

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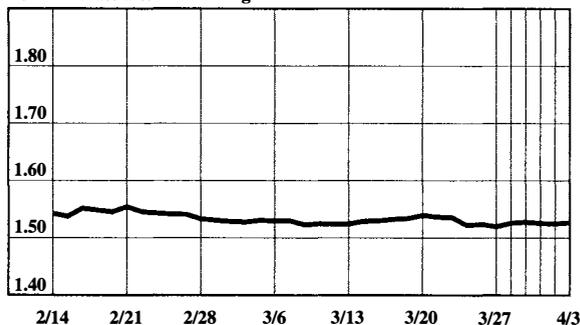
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