Creditors plan the Chile treatment after Mexico's presidential elections

by Timothy Rush

Mexico's economic cabinet on June 9 met and decided to cancel the current bidding for 2400 MWe of nuclear power, a contract worth several billion dollars. The next evening, representatives of the seven bidding companies were called to the offices of the Mexican Electricity Commission (CFE) and their sealed financial bids returned to them, unopened. The cancellation was due to the "economic situation the country faces," a short explanation stated. One of the world's most avidly sought deals, which had begun when bidding opened on Oct. 4, 1981, and was due to conclude with the awarding of contracts in August 1982, had evaporated.

The cancellation marks a transition point from trimming administrative expenses to axing vital capital investment projects, as Mexico's austerity programs unfold. The name given to this process by Manuel Espinoza Yglesias, one of Mexico's most powerful bankers, is the Chile model. And he heartily approves of it.

In a featured address to the Mexican Bankers Association annual meeting in Acapulco June 1, Espinoza Yglesias, the president of Bancomer, extolled the Chilean regime of Augusto Pinochet as the paradigm for countering inflation by slashing government expenditures.

In Mexico "Chile" has a very specific meaning: implement "free-market" policies which wipe out large sections of industry in an orgy of finished-goods imports; shoot unemployment through the ceiling, and approximately halve the living standards of the country—all in an atmosphere of severe repression.

Clearly this is not the model looked to by a majority in the government, nor indeed in private enterprise. However, unemployment following on four months of soaring inflation, new pressure on the peso, and weekly threat of a credit cut-off from international lenders, had "softened up" many sectors in the country for Espinoza Yglesias's shocking demand.

Many in the government want to believe the deep concessions already made to the Chile model are a necessary but temporary ploy to get through the period before the July 4 national elections without another blow-out of the peso. Indeed, Espinoza Yglesias announced a truce in the peso warfare against the Mexican economy, stating that the peso was undervalued.

But there should be no illusions inside or outside Mexico about the severity of collapse the controllers of international banking are planning for the post-election period. "They're going to have to take some drastic steps on July 5," stated one gloating West Coast banker. "It will be an interesting three or four months, watching the misery unfold."

Mexico's crushing month-to-month refinancing needs on its $70 billion public and private debt represent one of the bankers' weapons. To roll over principal and meet interest payments, Mexico must go into the credit markets for $1.7 to $2.0 billion each month. In June, it sought a single $2.5 billion "jumbo" credit, which was successfully picked up by 27 lead underwriting banks, but has run into trouble in the sell-down to smaller banks. The strategists organizing the credit cut-off of Mexico have made it their business to spread news of the delays to ensure that no repeat of a syndication of that nature will be possible in the July-August period. Mexico will "have to go to the IMF" at that point, the West Coast banker said.

President López Portillo, in a press conference June 9, bitterly criticized the "Big Seven" for not taking the necessary measures to reactivate the world economy at the Versailles summit. "The decisions by the Big Seven nations not to lower interest rates" will continue to hurt Mexico, he said. Unlike some of these countries, "Mexico will not fight inflation at the expense of brutal unemployment." Contradicting Finance Minister Silva Herzog, who had said May 18 that Mexican growth in 1982 would not surpass 2.0-2.5 percent, the President asserted that Mexico's goal was 4 percent—"higher than population growth but not as high as we would like."

As *EIR* founder Lyndon LaRouche emphasized in Mexico at the end of May, the biggest problem Mexico faces in maintaining some forward momentum in its economy despite the outside conditions of economic collapse is a *subjective problem,* not an objective one. But the fact that as vital a program as the nuclear contract was interred with hardly a murmur is a sign of the low level of economic morale in the country.