Mexico under the IMF: case-study in forced deindustrialization

by Tim Rush

On Jan. 3, Mexicans woke up to find that a broad range of goods in their local stores had jumped 25 percent in price overnight. On that day an average 18 percent increase in the Value Added Tax (VAT) had gone into effect on all but a handful of basic necessities, combined with decontrol of prices on 90 percent of the goods that had previously been regulated. An average pack of cigarettes, which had cost 34 pesos, now rang up for 43 pesos, a 30 percent increase.

Just two weeks before, on Dec. 20, Mexicans had been traumatized by seeing a "free market" peso exchange re-established for most commercial purposes, and the value plummet to 150 to the dollar. A year before the rate had stood at 25 to the dollar. The reality of the new situation hit home as Mexicans watched tourists and other foreigners come into the country to buy everything movable—and unmovable, in the case of real estate—for a song. The flight capitalists whose work had produced the collapse of the peso starting a year ago were now waltzing back with a cool 600 percent speculative killing.

These experiences are the popular impression of what Mexico's new life under the dictates of the International Monetary Fund mean. The final accord for a three-year, $3.95 billion package was inked Dec. 23.

But behind it lies a much more profound shift in the Mexican economy, a process of savage deindustrialization which is only beginning to be put into action but is fully elaborated on paper.

Trade reversal

Even before the IMF accord went into effect, Mexican import and export patterns showed one of the most phenomenal reversals in trade in history. Just-released Commerce Ministry statistics show that for the first 11 months of 1982, as against the same period of 1981, imports fell from $21.2 billion to $13.9 billion, a 35 percent drop. Exports rose from $17.7 billion to $18.8 billion, a 5.5 percent increase. *The balance of trade moved from $3.5 billion deficit to $5.0 billion surplus,* a net swing of $8.5 billion.

For 1983, the shift from imports into debt payment will be even more extreme. The Finance Ministry projects total exports will be $20 billion ($16 billion public, $4 billion private), and that net new foreign borrowing, as specified by the IMF accord, will be limited to $5 billion. The total of $25 billion disposable cash will be divided between $14 billion for interest payments on the $87 billion foreign debt, and $11 billion for all imports, says the government. *The 1983 outflow for debt interest payments will exceed tangible goods imports by more than 30 percent.*

The new drop in the reduction of the peso so exorbitantly undervalues the Mexican currency that some stimulus for private exports can be expected. At such a "steal", a recent $1 million deal for export of wine glasses, hardly an established Mexican export, is a sign of the times.

At the same time, oil prices are likely to weaken. And Mexico's state sector petrochemical exports, such as ammonia, are running into protectionist barriers in the natural market, the United States. The $20 billion total export figure for 1982 can be taken as the upper limit of what will actually come in.

The 1983 budget

The premier water project for the northern semi-deserts of Mexico is the Water Plan of the Northwest, the PHLINO. High-level sources have informed EIR that the government will announce within a month, and with great fanfare, that this mammoth canal and irrigation project for the states of Sinaloa and Sonora will be continued—with one difference. ***All heavy earth-moving equipment is to be withdrawn, to be substituted by issuing picks and shovels to the workforce.*** Such a plan shows how the slashing of imports and

1983 Mexican budget
(in trillions of current pesos[1])

	1982	1983	% increase
Federal government (excluding state sector industry)	1.6	2.3	43.7
State enterprises and decentralized agencies	1.5	1.9	29.7
Debt	1.4	2.8	100.0
Total	4.5	7.0	55.6

[1] Government planners assume an inflation rate of 50 percent.
[2] Includes Pemex, Federal Electricity Commission, Fertimex (fertilizers) and Sidermex (steel).

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government policy built into the 1983 budget interact.

The budget verges on being a systematic transfer of financial resources out of productive areas and into debt and social expenditures, the latter of which take on more and more the appearance of slush funds to stave off mass unrest.

The premise of the budget, as expressed in a special message sent by President de la Madrid to the congress Dec. 8, is that "the principal causes of the [economic] crisis are internal." The message asserts that of these internal causes, the most important is insufficient savings by public and private sectors to finance investment without "excessive" dependence on foreign borrowing.

The entire budget hangs from this premise. The budget calls for a 51 percent jump in revenue, in real terms, and just 1.4 percent real increase in expenditure, if interest payments are factored out. If interest payments are included, real expenditure increases 10.3 percent.

The greatest part of the increase in government revenues is slated to come from the drastic boosting of the Value Added Tax (VAT), and from sharply raising government taxation of Pemex products (to be passed on to the consumer at the pump). The budget projection is that VAT and Pemex taxes together will account for 60.7 percent of total revenue in 1983, up from 42.5 percent in 1982.

The internal composition of the expenditures side of the budget demonstrates the stripping of support to the industrial component of the economy (see Figure 1). Overall, the budget is to rise to 7.0 trillion pesos, a 55.6 percent increase slated to nearly match a projected 50-60 percent inflation level. There is no increase in real terms.

However, outlays for debt payments increase 100 percent in nominal terms, or, a 50 percent leap in real terms. Expenditures for state sector enterprises (oil, petrochemicals, electricity, steel, fertilizers, ports and railroads, etc.) show an increase of only 30 percent in nominal terms, that is, a real decline of 40 percent.

President de la Madrid's message to Congress was explicit on the shift: "The budget priorities for 1983 will be education, health and social security, the agricultural sector, and communications infrastructure. . . . The spending reorientation changes the pattern of outlays of the past years, principally in regard to the lesser emphasis placed on the energy and industrial sectors."

The move away from industrial outlays is even greater if capital investment is examined separately. Total public investment for 1983 is slated to drop 6.5 percent in real terms in relation to 1982. Investment by the Federal Government (as distinct from the Parastate Enterprises, which represent state sector industry) is to increase 20.4 percent, while investment in the Parastate Enterprises drops 24.8 percent.

The growth in Federal Government investment is largely due to funding for special employment programs to create between 500,000 and 700,000 jobs. These are to come from the "expansion and reorientation of the public programs which are the most labor-intensive, principally in rural zones. . . . Just the program of road infrastructure will create more than 350,000 jobs." If the funds destined for pick and shovel jobs (this is the derivation of the new PHLINO orientation) are subtracted, along with transfer payments to other sectors, direct government investment plummets 33.4 percent over already slashed levels of 1982.

Principal cuts include oil (39.2 percent); railroads (35.9); electricity (11.6); fertilizers (18.1); and steel (27.4).

Overall, the outlays for energy, industry, and agriculture in the budget (after interest payments are factored out) drop from 75.8 percent in 1982 to 66.7 percent in 1983.

To this bias in the budget must be added the effect of IMF-dictated credit policy, which is to boost interest rates back up to "competitive" levels, and return banks to profit-making rather than government-directed productive purposes. This had been partially accomplished with passage of the Dec. 29 law returning 34 percent of bank stock to private hands.

An import level of $11 billion, (a good chunk of it going to finance between 7 and 11 million tons of grain imports, up from 3 million last year) cannot sustain Mexico's current industrial plant. Essential government import needs run $5.9 billion, in official estimation; *EIR* estimates minimal private sector needs at $12 billion. But the official exchange budget is $7 billion below this combined $18 billion requirement. Hence the IMF's prediction of only a 3 percent drop in GDP in 1983 is a farce from the word go. The picks and shovels being readied for the rural work gangs will not just put idled agricultural operatives to work; they will go into the hands of tens of thousands of skilled industrial workers.

Second, the inflation rate will be well over the 50-60 percent assumed in the budget projections—based solely on policies intrinsic to the budget, and forgetting world inflation trends. This is due to the combination of lifting price controls on all but 17 essential categories of household purchase, doubling the VAT tax, and returning the peso to "free market" rates. A new gasoline hike of up to 100 percent is rumored to be imminent, only one month after a December 100 percent hike.

What will happen as inflation continues to soar, throwing the budget calculations into the scrap heap? Labor, which accepted a markedly restrained 25 percent increase in minimum wage for the new year, did take the precaution of extracting in return the government's agreement to new adjustments "whenever justified," and not just at the time of the traditional once-a-year catchup.

The foreign exchange and budget calculations are likely to last no longer than calculations for the jerry-rigged international financial system as a whole. Perhaps the IMF-aligned "tecnicos" in Mexico's cabinet will last no longer either.

Upcoming: The results of a new run of the LaRouche-Riemann model, which show how Mexico's industrial infrastructure can be maintained, despite credit cut-off, and strengthened through corrections of previous skews toward production of consumer items with high import-content.