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Mexico no longer to be model debtor

by Mark Sonnenblick

Mexico will not fulfill its foreign creditors' expectations, even if Carlos Salinas de Gortari were made President through vote fraud. The bankers are nervous, although they console themselves that the Mexican regime will once again be able to buy off the opposition to its austerity and denationalization policies. But, the anger of workers, whose buying power has been more than halved by the policies crafted by Salinas as planning minister, cannot be bargained away in a back room.

In 1982, it was Mexico which almost triggered a continental debtors' cartel. And, if opposition candidate Cuauhtémoc Cárdenas rallies the majority of the electorate which actually voted for him, Mexico could again take unilateral action to stop payment on its $103 billion foreign debt.

Since becoming President at the end of 1982, Miguel de la Madrid has done everything in his power to assure foreign creditors that Mexico would never again "misbehave." He implemented what the *Wall Street Journal* calls his "versions of *perestroika* and *glasnost*. A painful restructuring of the economy is under way." De la Madrid subordinated all productive government spending to paying the debt, and he began dismantling the state sector of the economy by selling or shutting down 750 of the 1,200 government-owned companies.

From the bankers' perspective, he has been a complete success. In 1987, Mexico spent 39% of its exports paying $9 billion in interest on the foreign debt and a total of 60% of its exports on debt service, including amortization. That is 6% of the gross national product.

The transfer of income from productive uses to the bankers is accelerating. Pedro Aspe, Salinas's replacement as budget and planning secretary, announced May 29 that 65.8% of the federal budget went to foreign and domestic debt service in the first quarter. In real terms, Mexico spent 10.7% more for debt service than in the same period last year. The wage bill for state workers was sharply cut by means of drastic wage-gouging to only 8.8% of the budget. Public capital investment is the biggest victim of the debt service orgy; it is only budgeted at 1.33% of expenses. Mexico is spending 49 times more for debt service than for investment.

The foreign creditors were elated when de la Madrid hand-picked his planning minister, Salinas, as his successor. Both of them, after all, were carefully trained at the Harvard University economics department in how to ruin economies. Before the elections, Salinas assured the world he would continue the painful transition of Mexico into a model debtor. He swore, "We have to look beyond [a single presidency] if we expect these programs to bear fruit. I am not at all inclined to reinvent Mexico during my six-year term." Chase Manhatten Bank political strategist Riordan Roett exalted this "12-year continuum in terms of monetary and fiscal policy. And that's never happened before in Mexico."

The Harvard dynasty's plan is to "de-Mexicanize Mexico." In June, they gave foreign bankers one of the world's biggest copper mines, Cananea, in return for $910 million in nearly worthless debt paper. London's *Financial Times* reported that Salinas "has declared his intention to take divestitures further than could be imagined even a year ago. . . . Salinas will—his advisers say privately—almost certainly also privatize the Sidermex steel concerns, the bulk of petrochemicals production, and the remainder of the state mining industry." The London oracle fears, however, that Cárdenas's mass movement "could short-circuit Mr. Salinas' radical strategy to modernize the economy."

The debt cannot be paid

Several economic factors will add to the political pressures to abandon the bankrupt Harvard strategy:

- **Oil prices:** The record trade surpluses used to pay debt are shrinking. The government's austerity budget is calculated on the basis of receiving an average of $16 per barrel of oil exports. But average Mexican oil prices fell from $15.30 in 1987 to $11.72 in May 1988. Exports of manufactures have been falling during the past few months from their record high levels. This is due to devaluation policies and to the shrinkage of the U.S. market.
- **Interest rates:** U.S. and Eurodollar rates have risen by more than 1.5% in the past few months, double the interest rate reductions "won" by Mexico when it renegotiated its debts to banks last year.
- **Drought:** Northern Mexico has been in a drought cycle since 1986 and is suffering more than any part of the United States. Most rainfed crops are gone. Plantings in irrigated areas have been cut in accordance with the 40% drop in water available. The government investment budget for irrigation is zero pesos; many projects were abandoned, half-built, in 1982; 30,000 head of cattle have died in Sonora this year alone. Despite the losses, the government is not importing more than the planned 7.5 million tons of grain for the year—if it can buy even that.

"There is no food supply problem," the agriculture minister assured everyone last month, since "Mexico is prepared for failures." The massive vote against the Harvard candidate, however, shows most Mexicans are fed up with failures.

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