Mexican government has sold the rope with which it will be hanged

by Carlos Cota Meza and Carlos Méndez

President Carlos Salinas's determination to bring Mexico into a North American Common Market has put his neck in a noose. The United States is not giving what it had promised, and the Mexican beneficiaries of the plan are angry because they are not getting as much as they were promised. The privatization of state sector companies, a substantial part of Salinas's program, was conceived as an integrated package: The government would transfer them to private enterprise at the same time that it would assure them they could expand exports to the U.S. market, thanks to the signing of a Free Trade Treaty with the United States. But the scheme is not working; and it seems it never will.

U.S. Ambassador to Mexico John Negroponte startled the businessmen running Mexico's "economic globalization" at Mexico's World Trade Center on July 19. He warned them that negotiations for the Free Trade Treaty would not be easy, and even were an agreement reached, "I would be the first to say that an accord of this kind is not the panacea." He explained that, under the terms of the U.S.-Canada Free Trade Agreement, it will take 10 years before tariffs between the two countries are dismantled and 13 years before full free trade is in place. However, Negroponte tried to reassure the Mexicans, "The important thing is reaching the finish line, not setting a speed record."

For this class of Mexican businessmen, however, 13 years is too long. Even one year is too long, and they are not going to wait. The impatience of these "barons of industry" could drag the government into the abyss and sink the country into chaos.

Investment without development

The government has justified privatization of state companies with the line that private enterprise is more efficient. The Mexican Businessmen's Council likewise affirms, "The private sector has been the protagonist in the stabilization program and in economic recovery." But none of that is true.

At the beginning of July, the Private Sector Economic Studies Center (CEESP), run by the country's strongest business grouping, the Business Coordinating Center (CEE), issued a study boasting that more than 70% of investment in Mexico last year was private, while public investment had been reduced to less than 25%.

On July 27, the weekly *El Economista*—considered the voice of central bank head Miguel Mancera—projected that private investment in 1990 would grow far less than projected by the government. The government has been talking of 10.7% investment growth, while the most optimistic private sector projections are for 6-8%.

But private enterprise's "protagonist role" in the Mexican economy is nothing but a mirage; no new enterprises are being created by whatever increase in private investment is occurring; all the investors are doing is buying up, at bargain basement rates, companies that are already fully functioning.

Private investment in 1989 grew only in two lines. Machinery purchases—mostly to re-equip companies bought from the government—went up 18.4%. But the new machinery was not made in Mexico; importing it cost $4.769 billion. The other major growth line was electric generators; private companies were forced to put in their own, since the federal utility has been starved of the capital needed for adequate service.

The 34 big companies selected by their friends in the government for taking over state companies, however, are harvesting hefty profits. These companies have gross sales five times the budgets of several government departments and more than many state governments. They did very well in 1989, when the government let them buy for 4 trillion pesos 12 big state entities which had cost the taxpayers 14 trillion. They got a double bargain: They were given the factories and the market.

But the problem is that the "barons of industry" are not accustomed to managing long-term investments such as the state companies. They received them sanitized, with no debts and with manacled labor unions. But their lack of competency in administrating and operating industries has caused the destatization program to stagnate. They only bought companies in sectors where they were already operating.

Export growth is slowing down. Last year, exports rose 10.7%, while imports went up 24%. In the first half of this year, exports went up only 8%, while imports grew 20%.

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It is no secret that the Mexican "export boom" during recent years was clearly linked to: big devaluations of the peso; exports from the 1,200 sweatshops on the U.S. border, which employ 412,000 workers; and export-oriented investments coming on line in the automobile sector and in the privatized state companies.

Export expansion is limited by three principal factors: 1) there have been no big devaluations since December 1987; 2) the last round of industrial investments (which began in 1984-85) is already in full use; and 3) the slowdown of the U.S. economy, which buys 75% of Mexico's exports.

Capital flight and corruption

The barons of industry are only interested in saving their finances, not in solving the real problems of the national economy, nor even of their companies. Some of them are encouraging capital flight in order to force the government to make a major devaluation. That would rescue their export-oriented investments, at the expense of the rest of the economy. They blame inflation for the capital flight. Some charge that the current policy of freezing the exchange rate (along with wages and prices) is foolishly pegged to "an inflation rate which is false, unreal and which sooner or later will bring a bigger devaluation."

Mexican interest rates are set at 33%, while inflation is projected at above 30%. Thus, according to the sacred "laws of the market," it would be bad business to leave one's money in Mexican banks.

On top of everything, the inefficiency and corruption of some top officials have been "privatized." The classic case of this kind of corruption was the famous bankruptcy of the Monterrey Group, which was rescued in 1982 by the José López Portillo administration, with a gift "loan" from the National Public Works Bank. More recently, the government took possession of the La Caridad copper mine in payment for a $1.3 billion debt, and then returned it to its owner, Jorge Larrea, in dubious fashion.

Banker Eduardo Legorreta Chauvet went to jail—briefly—under pressure from the hundreds of investors he defrauded during the October 1987 stock market crash. He is now out on probation and barred from acting as a broker. But, the investors never got their money back.

In what could be the harbinger of the future of state companies, the state airline Aeroméxico was privatized in April 1988, after going bankrupt. The Icaro Group bought 55% of the shares and won control; Bancomer bank got 20%. The pilots' association, which owns 25% of the stock, is charging that the company's 1989 annual report covered up misuse of funds and inefficiency. Two years after privatization, Aeroméxico could go under at any moment.

And while this is going on, business and government remain in agreement that wages should remain frozen, ignoring warnings that this could cause social conflicts from a work force that is plunging deeper and deeper into poverty.

Brazil's Collor nears impasse

by Lorenzo Carrasco Bazúa

As of mid-May when inflation threatened to break out of bounds, the government of Fernando Collor de Mello in Brazil stood at a crossroads, its choices twofold. On the one hand, it could extend its monetary reform, which at that point implied the direct intervention of the central bank into the financial and banking system, forcing a restoration of credit flows. On the other hand, it could cede to the powerful Brazilian financial oligarchy—with which President Collor has strong family ties—and use the tremendous powers acquired by the Central Bank to direct all the weight of the "economic adjustment" against wages, employment, and industrial activity in the country.

President Collor and his economic team commanded by Finance Minister Zelia Cardoso de Mello opted for the second, and elected to lead the country into the abyss of an economic depression, based on wage reduction, liberalization of prices, high interest rates, a cutback of public investments by some 39%, and a "trade opening" that will redound against the productive sectors of the economy. The government fed the illusion that these measures would provoke merely a "temporary recession" in the economy. But reality is otherwise.

A decade of stagnation

Brazil has been living through economic stagnation for the past decade, starting in 1981 when then Planning Minister Antônio Delfim Netto took measures virtually identical to those adopted by the economic czarina Cardoso de Mello today. There is a significant difference between the two economic "shocks," though: That of 1981 was carried out after a decade of impressive economic growth, with 10% rates based on gigantic physical infrastructure projects. Today's "adjustments" are preceded by a decade in which such works have been largely abandoned, and the economy has been losing productivity.

The electricity grid is on the brink of collapse, communications and transport networks are growing less efficient by the day, public services in the major cities are crumbling. To set off a "temporary recession" under such conditions would trigger an economic collapse from which it would take years to recover.

The bulletin of the Economic and Social Planning Institute (IPEA), under the Economics Ministry, projects at least a 4.7% fall in economic growth during 1990—larger than 1981's 3.1% drop. The National Industrial Confederation