U.S. Mortgage Crisis: Demise of an 'Importer Of Last Resort'

by Dennis Small

The announcement by the Mexican Central Bank went largely unnoticed internationally, and even inside Mexico, it barely caused a ripple. But it was a marker of the greatest significance for the Mexican and U.S. economies, and in fact for the entire, imploding world system of globalization and free trade.

According to official figures, remittances sent home by the 13 million Mexicans currently in the United States *fell* by 2% in the second quarter of 2007. This is the first year-on-year quarterly drop in such remittances *ever*, in what some had foolishly come to believe was a perpetual recycling machine of cheap foreign labor generating a growing dollar income stream which, after passing through Mexico, ends up as payments to Mexico's international financial creditors.

That illusion has now been thoroughly shattered. The second quarter 2007 numbers cannot be dismissed as a mere blip on the screen: The remittance figures for the last five quarters have been heading steadily south. And the worst is yet to come. What we are actually witnessing is what Lyndon LaRouche has described as "the demise of an importer of last resort." As LaRouche foresaw almost seven years ago, in a Dec. 23, 2000 article carrying that title:

"What is collapsing today, is not an economy, but a vast financial bubble, a bubble whose chief economic expression is the U.S. financial system's role as 'The Importer of Last Resort' for the world at large. . . .

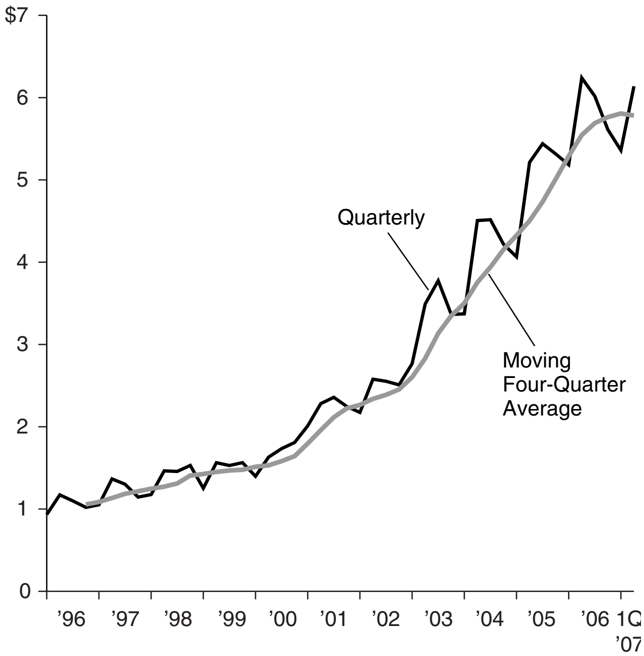
"Look at the resort to virtual slave-labor operations, abroad, to export productive employment from the United States (and also western Europe) into regions where the price of labor is relatively the cheapest, and relative skills most marginal. Look at the U.S. industrial corporations, so-called; what portion of the total income of those entities has been a reflection of pure financial speculation, such as that associated with City of London-pivoted mergers and acquisitions?

"In effect, the world has been supporting, until about now, a vast U.S. dollar-denominated financial bubble, all largely for the purpose of propping up an inflated, intrinsically bankrupt U.S. economy's role as 'importer of last resort' for much of the world.

"What happens, when that financial bubble moves into its inevitable chain-reaction-collapse phase?"

What LaRouche warned about *then*, seven years ago, is happening *now*—and the current explosion of the U.S. housing bubble will have a direct impact on Mexico's ability to simply survive. The immediate background is as follows.

FIGURE 1
Mexico: Workers' Remittances
($ Billions per Quarter)



Source: Banxico (Mexico).

The Free-Trade Fiasco

With the destruction of Mexican manufacturing, which accelerated with the onset of NAFTA in 1994, millions of Mexicans fled to the United States in a desperate effort for survival for themselves and their families. Mexico today not only exports goods to the U.S.A.; it exports its *labor force*, which cannot survive inside the country under the policies of British "globalization." Nearly 13 million Mexicans—over 10% of the population—have emigrated to the United States.

As a result, remittances sent home by these economic refugees grew by nearly 20% per year, between 1994 and 2006, reaching a staggering $23 billion last year. That is more than Mexico earns from any other source of foreign exchange, other than its oil exports. Without it, Mexico can't pay for its imports, or pay its large foreign debt.

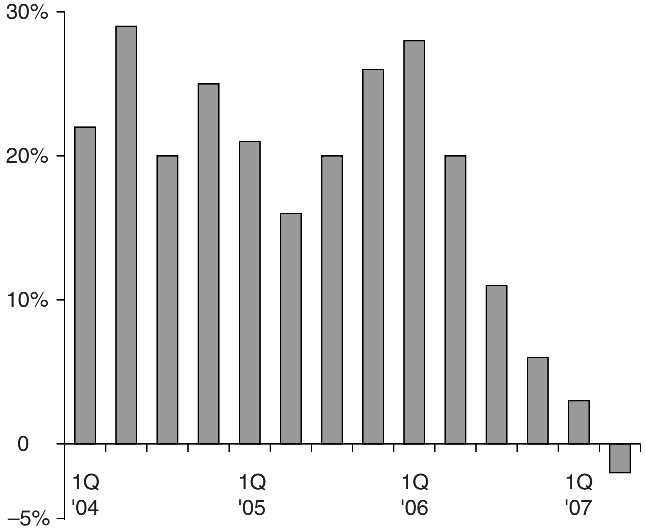
Although total quarterly remittances have grown—until this last quarter's drop—the *rate of growth* of remittances has been declining steadily since the beginning of 2006, as the collapse of the U.S. economy translates into a loss of jobs for even cheap-labor immigrants. This is shown in **Figure 1**: the levelling off can be seen most clearly in the curve showing a four-quarter moving average over the last decade.

When we focus in on the period since January 2004 (as we

FIGURE 2

Mexico: Growth of Workers' Remittances

(% per Quarter)

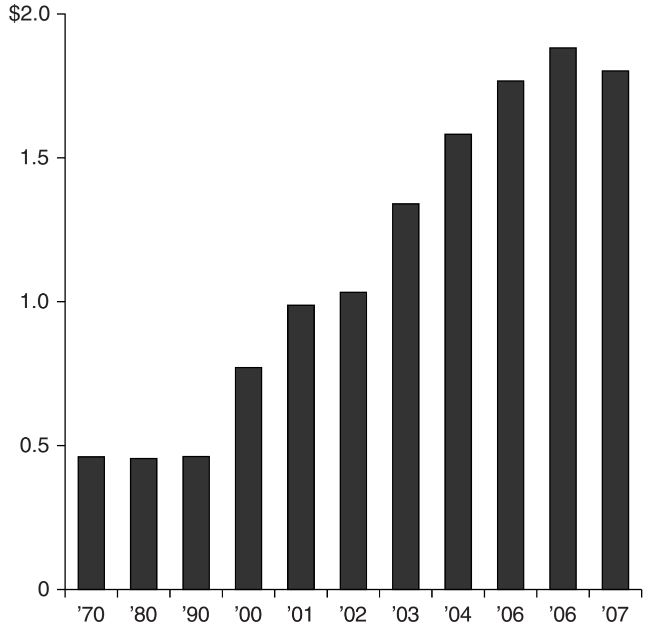


Source: Banxico (Mexico).

FIGURE 3

Mexico: Workers' Remittances per Emigrant

($ Thousands)



Sources: Banxico (Mexico), Pew Hispanic Center.

do in **Figure 2**), the sharp drop in the rate of growth is even more evident—down to negative growth in the second quarter of 2007.

This is a mere taste of things to come. The current blowout of the U.S. housing market is going to wreak havoc in this layer: The single largest sector of employment for workers who send remittances, is *construction*, with 18.6% of total migrant employment. Even agricultural labor, which has historically been migrants' main activity, is now only 16.5% of the total. Factory workers are in a distant third, with 6.3%.

USDA/Ken Hammond

A steep decline in remittances to Mexico from immigrants working in the United States, as the U.S. housing bubble bursts, is already wreaking havoc with Mexico's economy; here, Mexican migrant workers pick tobacco near Danville, Va.

The numbers for foreign-born Hispanics who arrived in the United States after 2000, are even more dramatic: 30% of them were working in construction as of 2006.

Another significant indicator of the impact of the U.S. collapse is the average remittances sent per emigrant (see **Figure 3**). Not only has the number of emigrants risen steadily since the 1970s, but the amount remitted per emigrant also rose dramatically, from 1990 through 2006. This was due to the growing dependence of the migrants' families back in Mexico on the remittances they received, to meet their most basic needs. In fact, 86% of all the money sent back home is used for basic "sustenance"—read food—according to a recent Bank of Mexico study.

But as **Figure 3** shows, the average amount sent per emigrant has begun to decline, which will have serious economic and social consequences back in Mexico. All the more so, as things get worse, since the brunt of the housing collapse has not yet really hit the migrant worker layer. According to a Pew Hispanic Center study of March 2007, "construction jobs expanded for Latinos, despite the slump in the housing market" from 2004 to 2006, because this layer has so far gotten a growing share of the shrinking pie of construction jobs.

For example, in 2006, total U.S. housing starts fell steadily from 2.1 million in the first quarter to 1.6 million in the fourth quarter—a nearly 25% decline. During this period, Hispanic construction employment didn't fall proportionately, only because two out of three new construction jobs went to Hispanics (Mexicans and others). This process clearly cannot continue for long.

With the demise of the "importer of last resort," the total number of Mexicans emigrating to the United States has also started to decline. According to the Pew Hispanic Center, there have been about 500,000 emigrants per year over the past four-to-five years, but in the first two quarters of 2007, that rate has dropped off to a little over half, about 290,000 per year.

Besides the underlying economic trend, there is a nasty, anti-immigrant campaign being waged by circles loyal to Vice President Dick Cheney, which has also contributed to this decline. LaRouche commented on this aspect in a recent discussion, noting: "What you do, sometimes, when you run an operation, is you use a trend. The trend gives you leverage; then you augment the effect of that leverage. The best way to cover a dirty operation is to cover it under something that's already going on for other reasons,"

Food, Too

Under the system of globalization which is now hitting a brick wall, Mexico's ability to export its labor force to the United States had served as a safety valve of sorts, to relieve the pressure from the contraction inside Mexico of job opportunities, of manufacturing output, and especially of food production. But now, just as that safety valve is shutting down and the climate of expulsions grows in the U.S.A., food production in Mexico is hitting new lows.

As a result of NAFTA and related policies of globalization, Mexico, which was largely food self-sufficient 30 years ago, now imports about 30% of its basic grains. In fact, Mexico is now the world's largest importer of such staples as corn, rice, sorghum, and powdered milk. The situation is particularly dangerous with regard to corn, from which tortillas are made—the main element of the Mexican diet. At the beginning of 2007, when corn prices increased 50% in two weeks, President Felipe Calderón said that he would import corn from anywhere and everywhere, to try to drive prices down and alleviate the shortage. On that, at least, he was good to his word: In the nine months since he took office, imports of corn have increased by 119%. But domestic production is being wiped out by lack of credit, and lack of water and other infrastructure projects needs throughout the economy.

With the safety valve of emigration closing down; with remittances falling, leaving less money available in Mexico to buy what little food there is; and with domestic food production shrinking, relative to imports—the demise of the "importer of last resort," long forecast by Lyndon LaRouche, and now becoming a reality with the U.S. housing crisis, does not augur well for Mexico's economic and social stability under the current system.