

In December, with its foreign reserves virtually depleted, the house of cards that had been Mexico's economy came tumbling down along with its overvalued peso, alerting the world to what most Mexicans had known for a long time. In response, the US Treasury stepped in to engineer a mega-bailout package to protect investors, and it turned to its principal co-funder, the IMF, to design and oversee the accompanying economic program. Meanwhile, the Mexican people braced themselves for the inevitable tightening of what was for a great many of them an already unforgiving economy.

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In May, four months after the crash of the Mexican peso, *BankCheck* contributing editor Steve Hellinger interviewed Carlos about the economic situation in Mexico and the consequences of the economic measures being implemented by the Zedillo Administration.

INTERVIEW

CARLOS Heredia

BC: The US media is generally attributing Mexico's present economic crisis to government mismanagement and corruption. How is it seen in Mexico?

CH: To some extent, people believe that at the root of the crisis there has been corruption and economic mismanagement. But when you look more deeply at what has been happening in Mexico in the last 12-13 years you see an economic policy that has exacerbated inequality and has generated a greater concentration of wealth and a greater monopolization of the economy. When you go into a deeper analysis, people trace the roots of the crisis to the model of structural adjustment policies promoted by the Bretton Woods institutions.

BC: What do you see as the cause of the crisis?

CH: I think the crisis has to do with the model, the economic strategy that has been implemented in Mexico since 1982, which has relied very heavily on external capital inflows. The whole model is geared to make economic activity in Mexico dependent on foreign investment and foreign capital flows. So it is associated with a liberalization of the economic activity, the opening of our foreign trade and a much bigger role of foreign interests in our economy. Now, when that foreign capital flees Mexico for whatever reason – that may be the US Federal Reserve jacking up interest rates, or political factors in Mexico – then the economy suffers because it's hooked on that capital and it cannot finance the very large current account deficit that the model itself generates.

BC: And this then necessitated the bailout. How have most Mexicans fared under the bailout package that has been de-

signed by the US Treasury and the IMF?

CH: I would say that 99 percent of Mexicans are doing very badly. Only those investors that held Mexican government securities have been bailed out. But everybody is having a very hard time, especially the productive side of the economy. The devaluation happened on the 19th of December. The numbers show us that sales have plummeted by 40 percent. We have about a million people who have been put out of work since; in other words, eight percent of all those who were working have already lost their jobs. It's a massive disaster. Even the banks and large businesses are suffering.

BC: Weren't people and businesses suffering before the peso crisis?

CH: Yes, but to a more limited extent. The problem is that after the peso crisis interest rates have skyrocketed to a ridiculous level. If a businessman goes to the bank and says he wants to earn interest, he will get about a 40-45 percent return on his money. If he then goes to the next window and asks for a loan, he will have to borrow that money at above a 100 percent rate. So the gap between the active and the passive interest rates is just unbearable. There's no productive activity that is profitable at these interest rates. Overall, women are certainly the hardest hit by this "shock therapy", as they find it increasingly difficult to make ends meet at home. This "feminization" of poverty has been met by a high degree of mobilization by women from all social strata against the adjustment package.

BC: What are the actual elements of the economic program that has accompanied the bailout and how are they different –

if they are different – from the adjustment programs in effect since '82?

CH: I don't think it differs from the adjustment program that was being implemented prior to the devaluation. It's actually more of the same. It's the prescription that the Secretary of the Treasury, Robert Rubin, is enforcing for Mexico: cut public spending; raise taxes; achieve a surplus in public finance which means squeeze consumers; restrain aggregate demand; hold inflation down; and freeze the economy. So the government is not spending anything. We have trimmed imports to almost zero. Imports are not growing at all; in fact, they have gone down in a very dramatic way and so far what we see is that they are succeeding in their attempt to freeze the economy. The question is what the cost of that is right now and what comes after, and who will survive this depression. It's no longer a recession but it's a very severe depression of economic activity.

BC: You noted in your polarization study that small farmers were already suffering badly. What's likely to happen in the small-scale agricultural food-producing sector now?

CH: Well, the World Bank is again pushing for a further liberalization of imports of basic grains, so I can see that we're going to have greater migration of growers of maize and of corn, who no longer can afford to produce because they not only do not make money, but lose money doing it. They cannot compete with massive imports of corn from Iowa. So, the consequence is that they can no longer farm their land. We're looking at a massive exodus to the cities, to the border and to the US as the consequence of this. The paradox is, of course, that the US gov-

ernment has said that both NAFTA and the adjustment program will help in keeping Mexicans employed at home, and what's happening is exactly the opposite.

BC: Let's get to the bailout itself. Of the \$50 billion promised to Mexico, how much has been disbursed so far and how much do you think will be disbursed?

CH: The Central Bank has told us that up to today the total amount disbursed has been \$13 billion. The problem is that the package has all but fallen apart. The \$10 billion that was promised by the US government on behalf of the

deficit and with our oil revenues being practically confiscated by the Federal Reserve of the US we would be able to finance that shortfall. In fact, I do predict that come September, Mexico is again going to need a further injection of money.

BC: And private investors have not responded to the bailout by re-investing in Mexico?

CH: No. You do have some so-called "stock market sharks" looking for rock-bottom prices to buy bargains now that the large Mexican conglomerates' stock has hit the bottom, but you don't see the flow of capital to-

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Basel-based Bank for International Settlements (BIS) doesn't seem to be coming through. The \$3 billion that JP Morgan was trying to raise from the commercial banks on behalf of the Mexican government is not coming through. The \$1 billion that was supposed to come from the Central Banks of Argentina, Chile, Brazil and Colombia is not coming through. So, in the best of all cases, we're going to be looking at \$37 billion – \$20 billion from the Exchange Stabilization Fund of the US Treasury and the \$17 billion from the IMF, leveraged by the US government. There's definitely not going to be enough money for Mexico to meet its external financial obligations for '95. Even Secretary Rubin has said that Mexico has external obligations for '95 in the amount of \$80 billion. There's no way, there's no possibility that with our economy still having a trade

ward Mexico that we experienced in '92 and '93. The fact of the matter now is that we have creditors before us, not investors.

BC: Do people in Mexico believe that this bailout was essentially a bailout of foreign investors?

CH: Yes. The general feeling of people here is that this is a bailout to save the rich from experiencing losses on their investments in Mexico: wealthy Mexicans, US mutual funds and US investors who put their money into Mexican stock and Mexican securities. Right after the bailout a survey showed that 72 percent of Mexicans opposed the bailout, because they thought that it wouldn't be beneficial to the country. And the Mexican people know, from the long experience we have of the foreign debt, that it is always the poor and the middle-class consumers

continued over

who end up bearing the burden of repayment. From their gut feelings, Mexicans know the country has no ability to service its current debt, so we should not be contracting new loans. Instead, we need to get to the moment of reckoning – telling Mexico's creditors we will honor that debt, but later on. We definitely cannot pay it now, we need to reschedule it, and we need a massive renegotiation of the whole of Mexico's debt to extend it to 3, 5, 10 years' time, instead of killing the economy to try and pay up to the last cent right now.

BC: For years you were warning against the dangers of this neo-liberal model in Mexico and against the overvaluation of the peso. What now? If these adjustment policies aren't changed and if the debt isn't rescheduled, what's your prognosis?

CH: Well, my prognosis is bleak. President Zedillo says that orthodoxy works because it has to work. We're looking at extremely ideological people who do not want to admit that the model has failed. They don't want to admit that the emperor has no clothes.

BC: What do you see happening to the Mexican banking system?

CH: It is on the brink of collapse. Of the banks that were privatized in 1991, half of their stock is now in the hands of the Central Bank. If the banks had not been partially rescued by the Central Bank, they would have gone bankrupt overnight because nobody is paying their debts in Mexico. And the banks also owe money in dollars to foreign creditors.

BC: People who are losing their jobs, losing their businesses, losing their farms or are in danger of losing their homes, what are the consequences for them? What's happening at the local

level in Mexico?

CH: What is happening is that people are leaving not only a job, but they're leaving the work force. They don't see any hope of getting back to their job or any other job any time soon. And, they are becoming part of an informal economy that is also being squeezed. Even the government acknowledges that we're going to have a long, hot summer with over one million people on the street being kicked out of their jobs and most of them are not even being given severance payments because a lot of businesses are going bankrupt and the bankruptcy law does not obligate them to pay severance.

BC: Do you see any change in the attitudes of the US Treasury and the international financial institutions as things continue to deteriorate in Mexico?

CH: No, I don't. In fact, what we have seen from the World Bank and the IMF is a lot of finger pointing. You know, saying that the Mexican government has either not implemented their recommendations or outright hidden information from them. That for them builds up a case of Mexico needing more of the same, except with much more strict observance of their recommendations and a much more severe monitoring of how the structural adjustment package is implemented. The effect that this has had in most Latin American countries is pretty much the same in the sense of polarizing their societies and making the economy pretty much geared towards speculative activities. We're going through a stage in which the governments have tightened up their policies, but we still haven't seen the predicted outcome, the result of that tightening up. In Mexico, we may be in for yet another wave of social unrest. That is not a good climate

to make the model last.

BC: To get to that point, speculative capital does not seem to be flowing now into Latin America or to the South generally. I take it that the social unrest you mention is certainly not going to encourage direct investment either, despite the even lower real wages in effect now in Mexico.

CH: Of course not. And it also has to do with the lack of democracy, the political unrest – not necessarily because of Chiapas – but it has much more to do with the fact that the Mexican political system is coming to an end as a regime that was started in 1929. And it's not coming to an end defeated by the opposition, but by itself. We see the top PRI politicians now killing each other. We see drug traffickers in business with the army, with civilian authorities. So the political system now is in disarray and it does not guarantee the kind of climate that you would need for productive investment. But I think the greatest tragedy in Mexico is illustrated by the conflict in Chiapas. Here you have an armed insurrection, an uprising of the poorest of the poor, saying "we want to use our uprising to call attention to the plight of the indigenous peoples of this country, and we want economic and political reforms that will make our weapons unnecessary." But their call is not being heeded. They are being dealt with by the Zedillo Administration as if the Zapatistas were just saying "we need a hospital here, we need a road here, we need a water well here," etc.

BC: Because the US Treasury and the IMF have pushed for an acceleration of privatizations under the bailout package and the fact that oil has been required as collateral, do Mexicans see this whole package promot-

ing US self-interest?

CH: Sure. I mean, the push to privatize the national oil company, Pemex, and the electricity company, the Federal Electricity Commission, is widely seen as yet another opportunity to fill the pockets of investors rather than being anything that will benefit the Mexican public. A very good example of this is what happened to Telmex, our phone company. It was a public company that had very poor service. But now that it has been privatized, the service is even worse, the rates are much higher, and it is the Mexican public, the Mexican consumers who are paying for the privatization of this company that went from being a public monopoly to a private monopoly.

BC: Mexico was being hailed by the US and the IFIs as a new entrant among the modern economies. It doesn't appear to be the case any longer. Was it ever the case?

CH: No. Of course, when you look at a small fringe of the population – the upper one-to-five percent of the population – you find sophisticated businessmen and politicians who were educated at US universities and talk like US investors and academics. If US officials only talk to those people, they may be led to believe that the rest of the population has the same profile. The reality is that the so-called modernization of Mexico has left most Mexicans behind, with little chance to improve their lives. Even the World Bank acknowledges that half of the total population of 90 million live under the poverty line, and 17 million barely survive on an income equivalent to US\$1 per day or even less. The poor have gotten poorer and the middle class, far from expanding, has seen a great many of its numbers slipping into poverty themselves.