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Mexico's House of Cards

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By Steve Hellinger

MEXICO CITY-- Talking with people in the streets of this increasingly impoverished and dangerous city, it is impossible to find anyone who believes the claims of the Mexican and U.S. governments that things are getting better here.

With a population suffering escalating hardships, Mexico is a time-bomb that the Clinton Administration hopes will not explode before the November elections. Already, the surge in migration and drugs into the United States and the exodus of U.S. companies and jobs to Mexico in pursuit of ever-declining wages have become significant campaign issues. Mexico is literally living on borrowed time. The question is not whether, but rather when, the day of reckoning will arrive.

Deteriorating Situation

Today, the core of the Mexican economy is disappearing, and the impact on the Mexican people of this economic disaster is unmistakable. Faced with interest rates that have ranged from 40 to over 100 percent, close to one half of Mexico's businesses have gone belly up in the past year. With two million Mexicans having lost their jobs, two thirds of the country's economically active population of 34 million are now without sufficient work and earn incomes that are below the poverty line. Contributing to this crisis is a substantial decline in wages. Since the crash of the peso in December 1994, the minimum wage has lost 30 percent of its purchasing power. It now buys only a quarter of what it did 20 years ago.

The unraveling of the Mexican economy has been devastating for virtually everyone who does not have financial ties with the corrupt ruling party or the international community. Poor urban neighborhoods have been particularly hard hit, especially by the collapse of the construction trade. In rural areas, thousands of small farmers are having to sell their land -- often to foreign companies supplying a foreign market -- in order to survive. Those farmers who are defaulting on their bank loans have been joined by large segments of the urban middle class that are unable to make payments on their homes, cars and businesses to form a potent, million-strong debt-ors' movement. Were it not for the billions of dollars already pumped in by the Mexican government, the World Bank and other international agencies, the country's newly privatized banking system would have already collapsed.

This rapid deterioration in the circumstances of the vast majority of Mexicans is leading many to desperate actions. Street crime has skyrocketed in all the urban centers. Visitors are regularly warned to remove all articles of value before venturing outdoors. To hail one of Mexico City's omnipresent Volkswagen-bug taxis is to put oneself at risk of a short ride and a quick mugging. Parents watch their young children more closely than ever, as the number of kidnappings has risen sharply. Prostitution and the drug trade are expanding as outlets for many economically pressed Mexicans. So is illegal emigration to the United States, providing at least a temporary safety valve for a decom-posing economic, social and political system.

Deeper in Debt

There is no doubt, however, that this system would have collapsed by now had the Mexican government not mortgaged the country's future with its recent round of extraordinary borrowing. In the past year, it has taken on $43 billion in international obligations to public and private lenders, effectively converting short-term debts on which it had been on the verge of defaulting into a massive medium-term debt that must be paid over the next five years.

More specifically, having bailed out Wall Street investors holding Mexican bonds with the $30 billion lent so far by the U.S. Treasury and the International Monetary Fund for that purpose, the government has had to sell more bonds in private markets and offer unusually high returns and guarantees in order to make payments due the Treasury and the Fund. Even then, it has been able to meet these obligations only by rescheduling payment a number of times. The result is that the Mexican government is now in the perilous position of having a foreign debt of some $100 billion (and the private sector an additional $75 billion), while holding $16 billion in foreign reserves, 95 percent of which, according to the IMF, is borrowed money.

Even in a strong economy, this would constitute a house of cards on the verge of caving in on itself. But in Mexico this impending disaster is compounded by the fact that the domestic economy is disintegrating, leaving the country with little productive capacity with which to generate new resources. For all the assurances by U.S. and Mexican officials, foreign investors remain wary about putting their money in the country. The international financial community knows that there is no recovery about to break out in Mexico and that it is only a matter of time before there is another serious run on the peso.

For 14 years, Mexico, with the encouragement of the Bank, Fund and U.S. Treasury under three U.S. presidents, has placed its fortunes increasingly in the hands of outsiders. Instead of building its economy from the bottom up, it adopted "structural adjustment" policies -- wage suppression, high interest rates, deregulation, privatization, export promotion and austerity -- designed to attract the capital and technology of foreign corporations. Along with NAFTA's removal of trade barriers, these policies have facilitated the movement of U.S. firms to Mexico and of their production back into the United States. Today, more than half of all trade between the two countries actually consists of intra- firm transactions that take place among the branches of U.S. corporations.

Carlos Heredia, a former Finance Ministry official and a leading advocate for a new economic policy in Mexico, points out that, as a result of these measures, Mexico is becoming an increasingly less developed country. Buying an ever-growing percentage of its productive inputs abroad, it is severing the linkages within the domestic economy. At the same time, it has been the precipitous decline in local incomes and purchasing power, as much as incentives to export and the devaluation of the peso, that has redirected production to a non-Mexican market. This disintegration of the national economy can be seen most vividly in the *maquiladora* sector along the U.S. border which, with its assembling of foreign components and minimal ties to the local economy, is the only part of the Mexican economy that is now growing.

Democratic Option

Heredia's organization, Equipo PUEBLO, works in Mexico's poor rural and urban communities. Steeped in this experience, it warned during 1994 of an impending economic crisis. The realities that it documented in its report on the polarization of Mexican society were known to millions of ordinary Mexicans but were studiously ignored by U.S. and Mexican governments catering to the interests of their corporate constituencies. This is hardly surprising or novel. What is remarkable and, indeed, dismaying, is that the official response to the economic and social crisis has been to impose an even more egregious version of the adjustment program that has brought the economy to the point of ruin.

The Mexico crisis and bailout provided the Clinton Administration an opportunity to change course, to reassess and redesign a failed policy. That it did not seize that opportunity, that it has not since wavered from its economic hard line in the face of mounting instability on our southern border, is the clearest indication yet of where foreign policy is being made in this Administration and for whose short- term benefit. It is a policy that is short-sighted to the point of being irresponsible.

The Mexican people are offering a different vision. Equipo PUEBLO is one of dozens of civic organizations that have joined forces to develop a detailed, alternative economic strategy for their country, a plan that in one month was endorsed by more than 428,000 Mexicans. Geared to building a strong and well-integrated national economy, the proposed strategy calls for an investment in the Mexican people and their productive capabilities. It entails a reduction in interest rates and a rechanneling of credit in order to stimulate domestic production. It emphasizes an increase in wages so as to generate both demand for those products and a higher level of internal savings. It also calls for a suspension of the current privatization process until measures that will prevent the further concentration of wealth are in place. And it encourages the use of tariffs and other policy tools to promote important sectors and industries, as well as new rules that ensure that foreign investments are compatible with national priorities.

To open the economic policy-making process to make room for such democratic options makes good economic and political sense. It engages the Mexican people in the task of rebuilding their economy and gives them a stake in their country's future. As a way out of the current morass it contrasts sharply with the ugly, present reality of the behind-the-scenes micro-management by the U.S. Treasury of a failed and debilitating economic policy on behalf of a discredited Mexican government and special, elite interests in both countries.

Without a change of course, the downward spiraling of Mexican living standards will only accelerate and pull those of Americans down with them. The political repercussions will be felt from Chiapas to Washington.

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