MEXICO

THE MICRO-ECONOMIC IMPACT OF IMF STRUCTURAL ADJUSTMENT POLICIES IN MEXICO

EXECUTIVE SUMMARY

As a result of a series of agreements reached between the Mexican government and the IMF since the mid-1980s, a set of policies aimed at trade liberalization, large-scale privatization and general economic deregulation was implemented. As a result, the Mexican economy became increasingly dependent on capital inflows (particularly short-term portfolio investments) to finance its growing current-account deficit. These inflows contributed to the overvaluation of the peso in the early 1990s, and, when the international community judged that deficit to be unsustainable, US$5 billion in capital fled the country. The value of the peso plummeted, interest rates soared, and by early 1995 the Mexican economy was plunged into its worst economic depression in 60 years, the effects of which are still being felt by the large majority of Mexicans -- despite claims of recovery by the IMF and U.S. and Mexican policymakers. Furthermore, Mexico's financial infrastructure remains precariously unstable.

As a result of the conditionalities in its 1982, 1986 and 1989 agreements with the Fund, the Mexican government implemented a program of rapid trade liberalization and a deregulation of its capital account (including direct and portfolio investment, as well as the removal of controls on the repatriation of profits), which led to rapid capital inflows. These policies, however, were not accompanied by any long-term strategy to develop the country's competitiveness, so they simply opened the door to increased financial vulnerability. In fact, just as these open-economy policies were launched, investments in education, research and development and infrastructure were cut.

A key element of the adjustment program carried out in Mexico was the establishment of "Pactos" among representatives of government, businesses and the official labor federation, through which incomes policies were imposed on the economy. The IMF demands for wage restraint were effected through the Pactos, as wage increases were indexed to "expected" levels of inflation. Between the implementation of the first Pacto in December 1987 and May 1994, the minimum wage increased by 136 percent,

while the cost of a basic basket of consumer goods rose by 371 percent. The hourly wage in the manufacturing sector decreased from US$2.10 in 1993 to US$1.45 in 1997.

Mexican agricultural producers were expected to respond to new economic signals coming from the liberalized agricultural markets. The same adjustment program that liberalized trade, however, required cuts in credit, technical assistance and subsidized inputs. Particularly hard hit have been corn producers, as imports from the United States have brought the retail price down, turning commercial production into an unprofitable venture. As a result, millions of farmers, particularly poor farmers producing food for the local economy, have been pushed out of agriculture altogether.

The 1995 adjustment program imposed by the IMF and the U.S. Treasury as a condition of the bailout of those who had invested in Mexico, required, among other things, the maintenance of high interest rates. Large interest payments, along with cheap imports, the economic slowdown and a severe drop in demand resulting from the cuts in real wages, forced over 12,000 of Mexico's businesses to file for bankruptcy that year. As economic activity came to a standstill and demand was cut, orders were canceled and plants operated at less than minimum levels. Idle capacity in many branches of the manufacturing sector increased to 70 percent; to date, the large majority of these companies have not recovered.

Open unemployment doubled in the wake of the crash, increasing from 3.7 percent to 6.3 percent of the labor force, but, if one adds people who ceased actively searching for a job, the percentage actually increased to 8.6 percent. Unemployment is not receding, and half of the Mexican population now lives in poverty. And in almost every social sector -- health, nutrition, housing, education -- virtually all of the key indicators show serious deterioration over the past 15 years.

This state of affairs has rocked Mexico's financial sector. The ratio of past-due loans to the total loan portfolio has increased steadily from 16.4 percent in 1995 to 21.4 percent in 1996 and 29.8 percent in 1997. With the banking sector teetering, the government, with the help of the international financial institutions, has implemented a massive bank bailout that has reached 55 billion dollars as of 1998. The government's intervention was tantamount to a direct handout to the bankers that is equivalent to nearly five times the amount paid by the banks' owners when the institutions were privatized in 1990-1992.

The Fund's diagnosis of Mexico's economic ailments -- which has only addressed macroeconomic imbalances -- has been wrong from the beginning. So it is not surprising that the medicine prescribed has not worked. The IMF's short-term obsessions -- controlling inflation and fiscal and current-account deficits -- as well as the standard policy response of market liberalization, privatization and a reduced role for the state, have only exacerbated the situation through the years.

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I. Introduction

As a result of the agreements reached between the Mexican government and the International Monetary Fund (IMF) since the mid-1980s, a set of policies aimed at trade liberalization, large-scale privatization and general economic deregulation was implemented These policies were accompanied by massive cuts in public spending and by a diminished role for state intervention in economic life. Mexico also participated in the Brady Plan and renegotiated its external public debt in 1989, easing the pressure on its external accounts. This policy package was capped by an anti-inflationary policy that relied crucially on maintaining the exchange rate as the nominal anchor for relative prices.

For a short period, the policy mix seemed to work well. Inflation was brought down, and some economic growth resulted. And, as the government approached the NAFTA negotiations with the United States and Canada in 1991, the package was presented by its supporters as a model for other countries to follow.

But soon the model began to show signs of generating mediocre performance. Growth rates declined and macroeconomic distortions were amplified. The benefits of the debt renegotiation also started to fade, the dynamics of the economy became sluggish, and, in 1993, growth in real terms disappeared. In addition, as a result of the abrupt reduction in import tariffs under NAFTA, the trade and current-account balances started to exhibit serious signs of disequilibria.

The Mexican economy came to rely more and more on capital inflows to finance the current-account deficit. Increasingly, these flows took the form of short-term portfolio investments. These capital inflows also contributed to an appreciation of the Mexican peso, fueling imports and slowing down exports. As the external deficit expanded, more capital flows were required and higher rewards had to be offered. In 1993, Mexico's current-account deficit surpassed US$23 billion and then increased to US$28 billion in 1994. With the benefit of hindsight, it is obvious that the deficit was judged unsustainable by the international financial community and investors feared an adjustment via a devaluation. Capital flight took the form of a reversal of capital flows.

Exchange-rate guarantees were issued to holders of Mexican Treasury Bonds (Tesobonos), but even this could not stem the tide.

First, there was a relative price adjustment via the massive devaluation. Then, the Mexican government implemented a harsh contractionary package of monetary, fiscal and income policies. Finally, the government was unable to meet its short-term financial obligations and having begun, de facto, a technical moratorium on payments on its external debt, appealed to the IMF and the U.S. Treasury for help

Mexico plunged into its worst economic depression in 60 years. In a few weeks, the so-called peso crisis had annihilated the modest successes of the Salinas Administration, revealing their fragility. The economic model had been unable to reconcile the objectives of the external adjustment (essentially the abrupt trade liberalization) with those of internal stability, sustainable growth and improvement in the population's well-being.

The IMF and the World Bank, as well as the United States and the community of industrialized countries, had applauded Mexico's economic reforms. To the IMF, this was a truly textbook model that should be implemented elsewhere. Mexico was, in effect, following each and every one of the recipes handed down by the Fund. When the crisis finally came, the IMF blamed human error and claimed that there had been serious mismanagement of the financial variables by high government officials. It also maintained that Mexican authorities had withheld critical information from IMF officials, thus evading serious and impartial supervision of the real fiscal and financial situation.

Subsequently, the IMF requested from the G-7 countries that financing for its emergency borrowing programs (the General Arrangement to Borrow and the New Arrangement to Borrow) be doubled so that in the future it could face the challenge of Mexican-caliber financial crises on two different fronts at the same time. Members of the G-7 endorsed this petition in principle at its 1995 meeting in Halifax. The IMF also insisted that it needed timely access to information in order of fulfill its supervisory functions.

Today, it is clear that Mexico is not edging its way toward sustained export-led growth, but rather is teetering on the brink of a new crisis. The forces that will propel the economy into a new process of sustained growth that improves the well-being of Mexico's population will not emerge from the current policy framework. The banking sector continues on the brink of insolvency. Unemployment is not receding. Half of the population now lives in poverty. And in almost every social sector -- health, nutrition, housing, education -- virtually all of the key indicators show serious deterioration over the past 15 years. In areas that are crucial for the enhancement of economic competitiveness, such as scientific and technological development, current expenditures and long-term investment have stagnated. Environmental degradation is severe. It is no exaggeration to say that these negative trends threaten the long-term sustainability of the Mexican economy, as well as its prospects for meaningful development.

The analysis that follows shows that the IMF policy prescriptions for Mexico have been unsustainable in the short-to-medium term and have increased the country's external financial vulnerability. In the final analysis, it is clear that the Fund's policies create unacceptable costs to the lives of men and women who are the unfortunate citizens of a country submitting to IMF dictates.

II. IMF Intervention in Mexico: Two Decades of Social and Economic Deterioration

Since 1976, the Mexican Government has submitted seven Letters of Intent to the IMF and signed two additional Interim Agreements with the Fund. These accords include guidelines and limitations on the use of the most important instruments of macroeconomic policy (i.e., monetary and fiscal policy), and they cover both internal issues and the management of external accounts.

There are three distinct periods in the history of the agreements between the Mexican government and the IMF. The first phase, from 1982 to 1987, is known as the period of orthodox adjustment, because contractionary policies dominated the policy mix. A second stage of "unorthodox" adjustment starts in 1988 and is based on the premise that anti-inflationary policies could be implemented without producing a recession in the economy. Prior to the crash of the peso in December 1994, the international financial institutions (IFIs) had lauded Mexico's compliance with the adjustment program and cited the government as the "model student" for other Latin American countries to follow. It was only when the "peso crisis" hit, that the Fund argued that the government had not fully followed its prescriptions. Regardless of the IMF's assertions, the failure of the adjustment program became brutally evident with the peso crisis, which issued in the third phase of the deepening relationship between Mexico and the Fund.

A. Orthodox Adjustment and the IMF Policy Mix: 1982-1987

Large fiscal deficits and current-account imbalances were typical of the period preceding the debt crisis of 1982, when Mexico requested a three-month moratorium from its main creditors and the formation of a special committee to begin negotiations on repayment of the debt. By 1982, Mexico had accumulated a US$8 billion backlog in payments on its external public debt and faced the prospect of another US$14 billion accumulating over the next three years. Concerns about stagnation were subordinated to the predominant view, which devoted much more attention to the question of the external disequilibrium associated with the fiscal imbalances. As a result, contraction of the economy was deemed the best way to correct the external imbalances.

Early in 1983, President De la Madrid's Administration launched a program designed to redress the fiscal imbalance, slashing public expenditures and increasing prices of goods and services supplied by the public sector. Redressing the external imbalance proved a much more difficult task, as the economy oscillated between an overvalued currency (which aided in the anti-inflation strategy but reduced competitiveness) and an undervalued currency (which prompted export growth but fueled inflationary pressures). Finally, domestic demand was reduced as a result of the sharp drop in real wages: between 1982 and 1987, minimum and contractual wages were reduced by 45 and 40 percent, respectively, in real terms. The decline in international oil prices in 1986 and the collapse of the Mexican stock market in 1987 wiped out all hopes of recovery, and the government began its quest for a new adjustment program.

This forced Mexican authorities to request IMF assistance, which was granted on a strict quid-pro-quo basis. The IMF would require commitments in terms of policy responses. The policy commitments were related to changes in financial indicators, as well as in the foreign-trade sector, in the role of the private sector and in that of the state.

1) Letter of Intent, November 1982

The 1982 Mexican economic crisis was the consequence of an external shock caused by the drop in international oil prices and the rise of interest rates in international financial markets, combined with an internal fiscal disequilibrium. As the current-account deficit soared, the fiscal deficit that year reached 16.5 percent of GDP. The entire picture was accompanied by huge flows of capital flight in the midst of the most violent financial turbulence the country had experienced in years.

The Mexican government appealed to the IMF for assistance. After consultations, an Enhanced Fund Facility totaling US$3.9 billion, equivalent to 450 percent of Mexico's IMF quota, was approved. The stated objectives of the three-year package were to assist in reducing the external deficit, control inflation, restart the growth process, increase employment and lower the fiscal deficit. A restrictive monetary policy was to be adopted in order to maintain price stability. The exchange rate would be adjusted and exchange controls were to be replaced by a dual-exchange-rate system. In addition, the fiscal deficit would have to be cut from 8.5 to 5.5 percent of GDP. This would be achieved through the increase of direct and indirect taxes, as well as hikes in prices for goods and services supplied by the public sector. Another crucial commitment was the reduction of protectionism, reducing tariffs and eliminating quotas. This decision was to have major implications down the road.

The IMF corresponded by supporting the renegotiation of US$23 billion of Mexico's foreign debt, the extension of amortization terms from six to ten years, and the reduction of interest rates from 2.25 points to 1.5 over the London Inter-bank Offer Rate (Libor), and from 2.2 to 1.2 points over the U.S. prime rate.

During the second year of application of the 1982 agreement, the Extended Fund Facility further specified these objectives and explicitly announced the objective of a one-percent growth rate. Reducing inflation continued to be a central objective, employment generation was emphasized and, in order to limit the erosion in real wages, increases in workers' compensation was indexed to expected inflation. In practice, as expected inflation more often than not was below actual inflation, this set the scene for a managed deterioration of real wages.

Efforts to reduce the fiscal deficit were pursued, including cutting current expenditures by 1.6 percent of GDP, while public investment was to be increased by 0.2 percent of GDP. A contingency fund amounting to one percent of GDP was to be established with the first results of the projected operational fiscal surplus. Trade liberalization continued and external debt renegotiations proceeded. The objective of those policies was to guarantee the repayment of principal and to reschedule payments over 14 years. The renegotiation focused on rescheduling and aimed at guaranteeing a normal flow of payments. It involved both public debt (US$48.7 billion) and private debt (US$12 billion). The bleak prospects for the Mexican economy forced the government to set an extremely modest annual growth objective of one percent.

In 1985, the third year of the agreement, the fall in oil prices translated into renewed difficulties and additional pressure on Mexico's balance-of-payments position. The Mexico City earthquake further aggravated the economic situation. The Extended Fund Facility signed by the Mexican government reconfirmed the objective to recuperate growth and employment, combat inflation and further reduce the fiscal deficit. The growth objective was three-to-four percent, but it proved to be unattainable. Wages continued to be indexed to expected inflation, and monetary and credit contraction remained the main elements of the adjustment process.

At this stage, reducing the fiscal deficit was reconfirmed as a top priority. The massive privatization program became part of the effort to reduce the operational deficit from 6.2 percent to 4.1 percent of GDP. Trade liberalization proceeded, as import quotas were transformed into tariffs, the number of tariff categories was cut from ten to seven, and many tariff items were set between 10 and 50 percent. More importantly, the Mexican government initiated negotiations in earnest to join the General Agreement on Tariffs and Trade (GATT).

2) Compensatory and Contingency Financing Facility Agreement, July1986

During 1986, the Mexican economy was subjected to another serious external shock as oil prices plummeted. Foregone income due to the depressed prices amounted to more than US$11 billion or six percent of GDP. The government once again appealed to the IMF, and an agreement was signed providing emergency support for an amount equivalent to 1.4 billion in Special Drawing Rights (SDRs). The central objectives of this agreement were to recover stability, growth and employment, on the one hand, and reestablish the external equilibria, on the other. Additional breathing space was to be afforded by postponing the repayment of US$950 million in debt and through the promise of a special credit line of US$2.5 billion if the international price of oil dropped below nine dollars per barrel.

On the part of the Mexican government, the commitments included the pursuit of policies aimed at structural adjustment. Monetary and credit policies were geared towards contracting economic activity in order to reduce imports and achieve price stability. Fiscal balance was to be attained through tax reform (aimed at expanding the base of taxpayers) and through drastic cuts in non-financial expenditures to compensate for the drop in oil revenues.

Privatizations were to be accelerated, as economic deregulation and trade liberalization proceeded. Special attention was given to eliminating restrictions in the area of foreign direct investment, where 100-percent foreign ownership was to be authorized. In the realm of trade liberalization, perhaps the most important commitment was to accelerate negotiations and wrap up Mexico's accession to the GATT. Mexico also agreed to substitute tariffs for the vast majority of its quotas in less than 30 months and to reduce tariff levels on most goods.

B. Unorthodox Adjustment and the IMF's Role: 1987-1994

As the debt crisis evolved and the international community recognized that the stagnation that engulfed the debtor countries was a serious liability, the Brady Plan was launched and Mexico was the first country to try it out. This gave way to a series of new agreements between the Mexican government and the IMF in which unorthodox adjustment was inaugurated. Here, concerns about growth materialized in a series of measures designed to administer the main macroeconomic aggregates, especially income and demand, in order to attempt to reactivate the economy and set it on a growth trajectory once again. In Mexico, this phase was exemplified by the *"Pactos"* or social pacts among government, business and the official labor federation, through which incomes policies were imposed on the economy. Also, as part of the new adjustment program, it was agreed that significant international reserves, as well as a current-account surplus and a fiscal surplus, were needed.

1) Extended Facility, April 1989

The debt burden had already been recognized as the country's most pressing problem, and, with the beginning of a new Administration, a serious renegotiation process was initiated. A new agreement was reached with the IMF for credits of 2.7 billion SDRs (equivalent to US$3.6 billion), to be used in part for the servicing of rescheduled external debt. Once again, the objective of the agreement was to attempt to restart growth and generate employment, as well as to reduce inflation to 18 percent. In order to achieve this last objective, monetary and credit policies were to retain their contractionary bias to maintain stability in macroeconomic aggregates. At this stage, plans for a new and thorough reform of the financial system were begun. And, in order to meet export goals, while at the same time reducing "imported inflation" resulting from high levels of imports, the exchange rate was to maintain a one-percent devaluation rate per month.

The agreement also contained provisions by which Mexico would further deregulate the components of its capital account related to direct and portfolio investment, as well as the repatriation of profits, thereby launching the country down the road to rapid deregulation of financial and capital flows. This was to be accompanied by fewer restrictions on foreign investment, as well as a further liberalization of trade.

These provisions constituted one of the most momentous policy decisions in Mexico's recent economic history. By deregulating the items in its capital account, Mexico in fact opened the door to the short-term capital flows it would require in order to support the deficit in the current account. This was the institutional and legal framework that accompanied the strategic decisions that increased Mexico's dependence on foreign savings. Because Mexico lacked a long-term strategy to develop its competitiveness, this simply opened the door to increased financial vulnerability.

It was in the area of public finance that the impact of this Extended Fund Facility agreement was strongest. A primary surplus equivalent to 6.7-to-7.3 percent of GDP was to be attained. After interest payments were factored in, the intent was to reduce the operational deficit to 2.5 percent of GDP. The agreement also aimed at rescheduling US$60 billion of debt, and reducing the burden of transfers from six percent to two percent of GDP.

As a result of these policy commitments, spending was reduced and growth was maintained only in the most critical sectors and at modest rates in real terms. These cuts were one of the main contradictions in the entire model, since, just as Mexico was embarking on a concerted effort to restructure its productive system in order to become an open economy, investments in education, research and development, and infrastructure were being curtailed. It proved to be an obvious way to limit Mexico's competitiveness in the international arena. The productivity of its labor force was also condemned to lag behind due to cuts in health services and in investments in housing and transportation systems.

2) Additional agreement, January 1990

The 1989 Extended Fund Facility was revised and its goals reformulated in early 1990. Sustained growth rates of six percent per annum were the main ingredient in an ambitious list of objectives. Inflation was to be reduced further in an attempt to align the evolution of prices with changes in Mexico's most important trading partners, while domestic savings were to increase by two percent of GDP. Spending on social welfare was to increase, as were expenditures on infrastructure, energy and communications, as well as for the improvement of the environment. All of these goals were to be attained in the context of a strategy that would permit the government to end 1990 with a fiscal surplus of 6.5-to-7 percent of GDP. The fiscal surplus would be achieved through the expansion of the tax base, as well as through increases in prices and tariffs of public goods and services and a more intense privatization process. The current-account deficit was to drop to just one percent of GDP, and the efforts to reduce external debt service were to continue.

As a result, an important tax-reform package was implemented during the Salinas Administration: corporate tax rates were brought down from 42 to 35 percent; and the highest personal tax rate was cut from 60 to 35 percent. The tax base was substantially broadened and non-oil revenues increased during the 1990-1994 period. Social expenditures increased in real terms (discounting for inflation), although at extremely modest rates. In many instances and in per-capita terms, these increases were either obliterated or negligible. In the end, public spending cuts were seen as a priority, as it was decided that dynamism had to come from the private sector.

C. The 1994 Crisis and the Financial Rescue Package

Between 1990 and 1994, Mexico increasingly relied on short-term capital inflows to finance its current-account deficit, and there was no need for other agreements with the IMF. Problems steadily mounted, however. The trade deficit was responsible for 65 percent of the current-account imbalance (US$28.7 billion). Capital flows ceased after the first quarter of 1994, reserves rapidly evaporated, and expectations of an impending devaluation gained force. High interest rates were offered as a risk premium, but when portfolio investments failed to materialize, protection was added against exchange-rate changes by dollar-denominating US$28 billion in Treasury bills (*Tesobonos*). Even this move did not stem the tide and, because this was short-term debt, the Mexican economy ended the year in a state of virtual default on its outstanding debt.

By mid-1994 the markets had reached the conclusion that the current-account deficit was unsustainable. Reserves were nearly exhausted as the year drew to an end, and by 22 December 1994 they were equivalent to less than two months of imports (about US$6 billion). A devaluation was followed by a stabilization program based on reductions in public expenditure, hikes in taxes and prices of public-sector goods and services, a stringent monetary policy and wage controls. An international financial rescue package was used to meet the dollar-denominated short-term debt accumulated during 1994.

In 1995, Mexico was forced to request urgent assistance from the Fund. The policy prescriptions handed down by the institution had failed, but the country was in the hands of IMF officials once again. Worse, Mexico's macroeconomic policy program for the next few years would emerge from the same IMF cast that had contributed so much to the generation of the 1994 crisis.

Letter of Intent, January 1995

In January 1995 the Mexican government submitted a Letter of Intent to the IMF and a new agreement was reached with two basic objectives: adjustment of external accounts and stabilization of the main macroeconomic aggregates. The government was granted a contingency credit for 5.25 billion SDRs (equivalent to US$7.75 billion dollars) in order to help Mexico redress the negative trends in its balance of payments. This agreement was part of a larger financial rescue package involving the U.S. Treasury Department's Exchange Stabilization Fund (US$18 billion) and the Bank of International Settlements. The rescue package was designed primarily to pay the short-term debt and forestall a default on Mexico's outstanding debt.

The new agreement with the Fund included a goal of limited growth for Mexico (1.4 percent in 1995 and four percent in 1996) and a contraction of demand designed to bring down inflation to 19 percent. Wage hikes were to be limited to a direct seven-percent increment, plus another three

percent through tax exemptions. A new round of privatizations was prescribed as part of so-called structural reform: transportation, telecommunications, banking and finance, railways and petrochemical industries were among the key sectors targeted by the new agreement. In all, privatization was intended to generate US$6 billion dollars in 1995 and between US$6 and 8 billion in 1996. Thus, structural reform responded more to short-term objectives rather than to the need for a more robust economic base.

III. Macroeconomic Performance

The main achievement of the most recent IMF program was a rapid reduction of the current-account deficit from US$28 billion in 1994 to approximately US$3.5 billion in early 1998. Financial and exchange markets, however, have yet to regain their pre-crisis stability, and interest rates soared. Inflation reached 53 percent in 1995, and open unemployment doubled. More than 12,000 firms filed for bankruptcy, the purchasing power of wages fell by 30 percent, and tax revenues dropped 21 percent that year. The proportion of the non-performing portfolio to the total portfolio of the Mexican banking system increased from 9.02 percent in December 1994 to 17.22 percent in September 1995. As a result of this combination of policies, GDP dropped by 6.9 percent in 1995, ushering in Mexico's worst depression since the 1930s.

Since then, some of the macroeconomic indicators have shown signs of recovery, but the economy continues to suffer from a severe payments crisis, and the banking system remains on the brink of collapse. GDP grew by 5.2 percent in 1996 and seven percent in 1997, although on a per capita basis, these increases were just 3.4 and 5.2 percent, respectively. The government achieved a US$6.9 billion budget surplus as of June 1998. These indicators, however, mask a continuing crisis for the Mexican people. Government spending was cut drastically to achieve the fiscal surplus, in good part because the government was forced to spend over US$55 billion to bail out the banking sector. In 1998, oil prices dropped by 30 percent, leading to further cuts in social spending and public investment. Mexico's trade surplus dropped from US$7.7 billion in 1995 to US$1.4 billion in 1997. Average real wages continued to fall in 1996 and

1997, and un- and underemployment levels remained high.

Looking at the decade of unorthodox adjustment (1987-96) as a whole, annual macroeconomic growth was a meager 1.6 percent, while per capita GDP actually decreased, as population growth averaged 2.5 percent during this period. GDP per capita remained stagnant in 1992 and actually dropped by 1.6 percent in 1993 and 1995. This compares rather poorly with performance during the 1955-1975 period, when it rose at an annual average of three percent. Furthermore, between 1982, when the new round of IMF agreements was started, and 1996, as the crisis continued, real wages dropped by an estimated 80 percent, bringing down consumption levels for the entire population.

During the period of quasi-stagnation, inflation rose rapidly, particularly leading up to 1988, and was then controlled through a policy mix that included wage controls and the use of the exchange rate as a nominal anchor for relative prices. Between 1990 and 1994, inflation was kept at one-digit levels, but the adjustment was carried out without an adequate solution to the external constraint. With the 1994 crisis, the fragility of results in the anti-inflation front became evident. In 1995, inflation reached 60 percent, despite a severe contraction of economic activity. By the end of 1996, inflation had been reduced to 28 percent, and it fell to 18 percent in 1997. No one expects single-digit levels to be attained again this century.

Alleviating the pressures of Mexico's foreign debt was another important policy objective of the series of agreements signed with the IMF. However, 16 years after the 1982 debt crisis, the problem remains unsolved. In 1982, the total foreign debt amounted to US$78 billion, of which US$57 was public debt. In 1993, at the height of the Salinas Administration, the debt had surpassed US$118 billion, of which US$80 billion was the result of public borrowing abroad. And, at the beginning of 1997, Mexico's total foreign debt amounted to approximately US$170 billion, of which US$99 billion was public debt. The average annual growth rate of foreign debt during this period, achieved under macroeconomic policy promoted and approved by the International Monetary Fund, was 5.7 percent, while the economy maintained a mediocre average rate of growth during the same period of 1.8 percent.

At the same time, the impact of the IMF-approved policies on the real lives of Mexicans of all ages has been traumatic. The fall in real wages and the rise in interest rates, inflation, unemployment and bankruptcies, as well as the sharp cuts in social expenditures, have all left a deep mark on Mexico's populace. The following section is devoted to the effects on the everyday lives of the women and men of Mexico.

IV. The Microeconomic Impact of IMF Intervention

As workers, consumers, producers and providers, the people of Mexico have been victimized by a set of economic policies effectively imposed in the country in no small part by the IMF. The severity of the economic and social crisis grew sharply with the peso and stock-market crash nearly four years ago, but the very policies that generated the economic collapse and that have subsequently served to intensify the human suffering that it caused had already helped to impoverish increasing numbers of Mexicans for over a decade. Below we take a cursory look at the impact of the IMF's policies on the people of Mexico in their various economic and social roles, with particular emphasis on the effects of the post-1994 economic program.

A. Growing Unemployment

During the period leading up to the peso crisis, unemployment in Mexico remained at apparently low levels. In 1993, official figures show just 2.9 percent unemployment. This figure, however, covers only urban unemployment, when rural unemployment rates are likely much higher. It is also based on an inadequate definition of unemployment - anyone who had worked just one hour in the previous week period is counted as employed. According to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), while Mexico did receive large inflows of foreign investment during the early 1990s, job creation during that period actually fell.[(1)]

As indicated above, open unemployment doubled in 1995, increasing from 3.7 percent to 6.3 percent of the labor force, but, if one adds people who ceased actively searching for a job, the percentage actually increased to 8.6 percent. The contraction of the economy was devastating, as the deteriorating employment situation affected workers in all sectors, including manufacturing and services.

The People Speak

In 1995, a group of civic organizations in Mexico launched a unique effort to open a civilized national debate on economic policy alternatives. This effort resulted in a set of economic-policy proposals called the Liberty Referendum, which proposed a different approach to the current-account and structural crises suffered by the Mexican economy than that taken by the government in its stabilization program. The proposals that constituted the Referendum were submitted to the public for endorsement. Organizers were able to collect 428,325 signatures of concerned citizens approving the alternative economic strategy.

A year later, the same group of civic organizations organized a different kind of exercise, seeking to compile the testimony of Mexicans on the direct effects of the government's macroeconomic policies, which were derived from the agreements with the IMF. On 8 September 1996, in 1,917 special booths and stands in many cities and villages across Mexico, 182,386 people inscribed their testimonies on the effects of these economic policies on their lives and the well-being of their families. The summary of responses is presented in Table I, and some representative statements appear on the following pages.

The data set does not stem from a survey drawn from a representative sample. The importance of these depositions cannot be overestimated, however, as these men and women, of their own free will, went forth and recounted their experiences, putting in writing things that, in Mexico, are normally not publicly admitted for reasons of social prestige or personal pride. The testimonies are a severe rejoinder to the government's policies and its statements about the recovery of the Mexican economy, statements that continue to be repeated by the international financial community despite the severe recession that still wracks the country. They can be seen as the official affidavit of civil society regarding the economic policies, which were implemented without the Mexican people ever having which been consulted.

My husband used to work in a bank, where cuts in personnel were initiated at the end of 1994 as the crisis approached. Since then, he has taken odd jobs here and there, but nothing stable. We have no resources to keep on surviving like this, not even for minimum medical services for the children if that becomes necessary. They are the ones that lose as they get used to life in poverty.

-- María Olivia, 28, housewife, Sonora

As these figures deteriorated, Mexicans found themselves in a crossfire. On one front, they were losing their jobs, while, on another, they felt the pressure of inflation and high interest rates. Before the crisis, most families already had two members working in order to bring in the money required to meet the household's needs, but, in many instances, households experienced two layoffs at the same time.

We both lost our jobs. My wife became unemployed after the devaluation (December 1994), and I lost my job later, in April. Now we are about to lose the only thing we have left, our house. We please ask the government to change its policies before it's too late for us.

--Francisco Javier, 32, teacher, Queretaro

B. Sharply Declining Wages

Even those lucky enough to enjoy full-time, formal-sector jobs found it increasingly difficult to make ends meet under structural adjustment in Mexico, as the purchasing power of wages dropped sharply throughout the adjustment period. Between the initiation of the first Pact among the government, the official unions and businesses in December 1987 and May 1994, the minimum wage increased by 136 percent, while the cost of a Basket of Basic Goods rose by 371 percent. [(2)] An increasing number of workers do not even receive that meager income. Since 1993, 34 percent of the work force has earned less than even this meager income that constitutes the legally prescribed minimum wage.

One of the most revealing indicators of what "incomes policy" is all about in Mexico is the evolution of workers' compensation in manufacturing industries. Between 1993 and 1996, wages in this sector, as well as total compensation (including benefits), decreased by an appalling 30 percent. In addition, between 1993 and 1995, the percentage of wage earners not receiving benefits increased from 21 to 24 percent of the labor force. Even in the 40 percent of the households that still have two family members working, these wages are often not enough to meet the household's needs. Rising prices and declining wages have had dangerous consequences for domestic consumption, which had already reached depressed levels before the most recent crisis.

My income has suffered greatly from the current situation. I have seven persons depending on my income. But this income is the same as it was three years ago and all prices have increased. I think that the problems which affect us now, especially since the last year of the Salinas presidency (1994), have generated a depressing atmosphere in our families, where anguish is with us every day because we cannot satisfy our primary needs. In my case, two younger brothers have been forced to stop studying and are doing all kinds of odd jobs to help the family.

-- Ernesto Ramirez, 26, certified public accountant, Coahuila

This trend has continued since the crisis. The average hourly wage in the manufacturing sector was US$2.10 in 1993; by 1997 it had dropped to US$1.45 per hour. This means that, while in 1993 a Mexican manufacturing worker had to work 5.5 hours to earn what a U.S. industrial worker made in one hour, in 1997 this ratio had deteriorated even further, so that he or she had to work almost nine times longer(8.97 hours) that his or her counterpart in the United States to earn the equivalent income.[(3)]

C. Declining Family Consumption

Falling domestic consumption is a direct consequence of the contraction of the economy imposed by the government- and IMF-designed adjustment programs. Private consumption decreased from 60 to 55 percent of aggregate demand between 1993 and 1996, but indicators of trends in retail sales convey in even more dramatic terms the disastrous effects of the IMF's program. In 1995, as the new austerity program went into effect, retail sales in Mexico dropped by 19 percent. Among the most affected sectors were cars (down 54 percent). But even essentials, such as food and beverages (a fall of 16 percent) and clothes and shoes (down 14percent), have been severely affected. Pharmaceutical sales fell marginally that year, but in 1996 retail medicine sales continued to decline by an astonishing six percent.

Table I

Relative Importance of Typical Testimonies on the Effects

I have experienced serious cuts in income	115,284
I have no stable employment	52,676
I cannot find a job	49,299
I lost my job	31,168
Family members below 16 years have to work	52,964
I cannot carry out production activities[a]	48,299
I lost the means of production required in my profession[b]	30,501
My family lacks a healthy and sufficient food intake	97,527
Quality and availability of health services seriously curtailed	81,973
I have no home, cannot obtain/repair my home	62,500

[a] The causes for this were high input prices, high interest rates, contraction of sales.

[b] Land, tools, buildings.

Source: Alianza Cívica, 1996

The long period of falling real wages has translated into a backsliding in the general quality of life for the vast majority of Mexicans. Food intake, medicines and medical treatment, as well as housing and clothing, are among the main consumption items that have suffered cuts. Food prices have increased so much that many have had to change their basic daily diet. This is extraordinary evidence of the severity of the crisis, taking into account that food consumption is rather inelastic to changes in relative prices.

I cannot eat well because my salary is too low. I earn 20 pesos, and I cannot buy meat because the price of meat is too high, more than 32 pesos per kilogram. I drink a lot of sweet soft drinks. I know I am not eating healthy.

-- Jacinto, Quintana Roo

I know my food intake is not very healthy or balanced. I seldom eat any milk or dairy products anymore. My family and myself rely a lot on cheap pasta, and even beans have become more rare in our house as its price has increased a lot. It is almost an article of basic necessity, as well as a luxury.

-- Carolina, Aguascalientes

In my house, the roof is falling apart. When it rains, water gets in from all sides and I have no money to buy materials with which to repair the roof. My daughter's breakfast consists of dark coffee and tortillas with salt. When she goes out I begin to wash clothes, run errands, and clean floors, and I get paid 20 pesos a week, which doesn't help much.

-- Rosa María, domestic worker, Tabasco

The result has been the destruction of household economies, collapsing living standards, and the placing of entire families in peril, with grave social and political implications. Family structure is destroyed and the prospects for family reunification under some semblance of economic security are grim.

We lost our small house because we could not find jobs. Now the entire family has disintegrated. My husband migrated to the United States and my children and myself, we all had to work. My eldest son, 12 years, works and is trying to study. My daughter is 14 and she is also working and studying. I work as a domestic worker, and we are barely surviving.

-- Martha Inés, 33, Michoacán

My husband had to migrate (to the United States) to look for a job. I have no money to repair the house. The wooden roof is falling apart; we have termites all over the place and I have no money to fix the house. In the rainy season, water penetrates from all sides. My daughters have to work carrying water buckets from the well, and we have very little money for food.

-- Guadalupe Martínez, housewife, Michoacán

D. The Decline of the Small Farmer

In agriculture, millions of *campesinos* are expected to adjust under the economic-reform program to new economic signals coming from the liberalized agricultural markets. Initiated in the late 1980s, the agricultural adjustment program slashed credit for production basic grains and in regions considered to be less productive. In the state of Chihuahua, for example, the total land area covered by Banrural, the government agricultural bank, fell by 75 percent and total financing was cut 37 percent between 1989 and 1992, while production costs increased significantly. At the same time, subsidies on fertilizers, seeds and other inputs were also reduced, further eroding the productive capacity of small-scale producers.[4]

As the North American Free Trade Agreement (NAFTA) entered its fifth year, credit and technical assistance had practically disappeared from Mexico's agricultural system. Particularly hard hit have been corn producers, as imports from the United States have brought the retail price down, turning commercial production into an unprofitable venture. With farm income not covering the cost of feeding the family, many now only sell their corn when there is a dire necessity to do so, preferring to use it as a family staple. Today, the price mechanism is effectively working to push people, particularly poor *campesinos*, out of agriculture.

The milpa used to be our only support. Now...[w]e eat tortillas made from our corn until the next (harvest) season. We eat from our milpa, squash and beans, but this is not enough.

-- Hermenegildo, campesino, Tabasco

E. Business Bankruptcies

Cuts in credit have affected other productive sectors, as well. As a result of financial-sector reforms carried out in the late 1980s and early 1990s, credit came to be channeled almost exclusively through commercial banks at commercial interest rates, with priority given to endeavors oriented to export. This greatly undermined the medium and small-scale enterprises producing for the domestic market - and, through them, the employment of 80 percent of the country's labor force.[5] These companies also had to struggle in an uphill battle against foreign imports when trade liberalization was accelerated and as the *peso* remained overvalued as part of the anti-inflationary policies of the Salinas Administration.

A critical feature of the 1994-1995 economic crisis is that its effects have dealt a blow to every sector of the Mexican economy and society. Not only workers, *campesinos* and households, but also entrepreneurs, large and small, have suffered from the virulence of this economic depression. The smaller firms, in particular, have found themselves in an even more desperate situation than before the crisis.

I rented a big area in a market where I had my store and we sold hats, shoes and sundry goods. The store was valued at more than 100,000 pesos. But high interest *rates, hikes in the rental fees and problems with suppliers forced us to reduce operations, and sales plummeted. Then I decided to go to the local moneylender, and I borrowed the equivalent of 14 months of rent. The owner of the space we rented announced we had to pay more rent and when I told him this was impossible, he took in compensation our inventory of shoes, the telephone and even part of the furniture. Now I just sell hats and owe more than 25,000 pesos.*

-- Francisco Salazar, Guadalajara, state of Jalisco

In 1995 and 1996, with the new policy commitments embodied in the most recent IMF agreement carried out by the Mexican government, the firms also had to deal with a sharp cut in demand, as well as high interest rates on their outstanding debts. As real wages dropped and economic activity slowed down, the largest component in the cost structure of these firms became the high financial charges paid to the banks. While this also explains the explosion of the non-performing portfolio's share in banking activity, the inability to repay bank loans is only one part of the debt problem. During 1995, many medium-sized and large-scale firms that had previously been healthy found themselves unable to collect debts from their clients, thus becoming part of a huge domino effect of bankruptcies.

The firm was a healthy and competitive firm and we cornered a large part of the domestic market. Even the elimination of import tariffs could not hurt us, as we had a very competitive technology which allowed us to build a well respected network of clients. Our technology of steel rods, which had been subjected to stress by torsion, is cutting-edge technology and we can compete with anyone. But we never thought things would get this bad. Our clients started to fall back on their payments. We had to wait for them in order to avoid putting unnecessary pressure on them. And our suppliers also had their own problems. But, for us the crisis came as the pyramid of defaults on payments for old contracts reached the large firms. We waited until we had to choose between laying off workers or seizing the collateral on the credits we had given to our clients. Cutting personnel was like shooting ourselves in the foot; taking the collateral was absurd as an economic decision, for then we would end up selling scrap metal and construction machinery from other firms. In the end, we implemented drastic cuts in our personnel, had to take some collateral, and activity dwindled to a minimum. Our cost structure then exploded; of course interest rates also weighed heavily, but our inability to clear even our fixed costs started to hurt us. We had to close the firm. My father built this firm in the 1940s, we were proud of his achievements. Now it's gone.

-- Julieta Gimenez, steel-rod manufacturer, Mexico City

The combination of factors that leads to an otherwise healthy and robust company's demise includes not only the high interest rates, but also the distortions in the relative weight of different items in the company's cost structure. As economic activity comes to a standstill and demand is cut down, orders are canceled and the plant starts operating at less than minimum levels. Increasing idle capacity temporarily is the survival strategy for industrial firms, but this is only a way to weather the storm. Idle capacity in many branches of the manufacturing sector increased to 70 percent as companies tried to weather the storm. Many did not make it back from this battle. Their employees and workers, sometimes highly trained professionals, became additions to the unemployment statistics.

F. Payments Crisis

Domestic industries have been particularly hurt during the adjustment period by the government's reliance on high interest rates to attract foreign investment and prevent capital flight. This policy created a vicious cycle in the economy -- interest rates could not be reduced because it would encourage capital flight, but high interest rates led to economic stagnation, which in turn further reduced investment.[(6)]

After the peso crisis, the government's macroeconomic policy continued to rely heavily on the contraction of the money supply. Net domestic credit expanded by only 17.5 percent of the existing money supply in 1995. In fact, in real terms, the money supply was reduced during that year. Interest rates soared and, during the months of April and May, peaked at over 100 percent, dramatically aggravating the already severe payback problems for debtors. As part of the macroeconomic policy package, disbursements by the national development banks were downsized to a level equivalent to 2.1 percent of GDP, which meant effectively cutting loans by more than 50 percent.

I obtained loans against a mortgage on the house with an original interest rate of 19%, and after the (1994) devaluation I have been paying interest rates of 93% and more. I have reached a limit and will have to sell the shop.

-- *Alfonso Martinez, retail salesman, Michoacán*

Individual debtors were burdened with penalty interests which that later capitalized as part of principal. Debtors who had entered into contracts with commercial banks in good faith and saw their debt multiply as a result of such penalties have been pressured by the banks to make good on their payments. In many cases, however, debtors simply had their debt increase beyond their capacity to repay and even above the real price of the property that was used as mortgage.

I signed a mortgage for 95,000 pesos three years ago (in 1993), but my debt with the bank increased to 300,000 pesos in less than two years due to penalty interests. Lately, I have been the object of a lot of pressure and threats from the bank's people. But I cannot pay and feed my children at the same time!

-- *Blanca Aurora, teacher, San Luis Potosi*

In December 1994 I owed the bank 165,000 pesos for a loan on the house. Today I owe 450,000 pesos, much more than the value of my house. If this is not changed, I will not be able to pay and will lose the mortgaged house.

-- Gonzalo Rivas, San Luis Potosi

The problem led to a generalized payments crisis in the Mexican economy. The ratio of past-due loans to the total loan portfolio has increased steadily from 16.4 percent in 1995 to 21.4 percent in 1996 and 29.8 percent in 1997. Part of the increase was due to the government's use of a new set of accounting standards starting in 1997, which brings them in line with international standards -- thus providing a more accurate picture of the magnitude of the problem. The situation has continued to deteriorate in 1998.

Only the massive bailout program implemented by the government allowed the banks to continue to operate. In 1995, a special government fund (FOBAPROA) purchased the non-performing notes from private banks for an astonishing US$11 billion, and this sum increased to more than $55 billion by 1998. These notes include loans that the banks are unable to collect, debtors are incapable of servicing, and do not appear as losses in the banks' accounts. The government's intervention was tantamount to a direct handout to the bankers that is equivalent to nearly five times the amount paid by the banks' owners when the institutions were privatized in 1990-1992

The Mexican government is attempting to convert this expense to public debt, an idea that was overwhelmingly rejected in a Mexico City referendum held in August 1998. Members of the Mexican Congress are currently engaged in a heated debate on the issue. Mexican officials committed several serious legal violations in the administration of the FOBAPROA, including issuing promissory notes that exceeded the upper bounds of indebtedness allowed by law, as well as violations of a series of key Federal banking system laws. Many Mexican legislators are insisting that a thorough investigation be carried out on fraudulent loans before the Congress considers converting this private debt to a public burden.

G. Austerity and the Social Crisis

The federal budget for 1995, which had already been approved by the Mexican Congress before the crisis hit, was reworked to yield a primary surplus of 4.4 percent of GDP by, in part, reducing public expenditures by more than nine percent in real terms. Further cuts were made in 1998 to respond to the precipitous drop in international oil prices, a major source of revenue for the Mexican government. One victim has been health care, already a casualty under the long-standing adjustment program. Health service has become a luxury item in Mexico today. Public hospitals lack enough medicines, the number of beds per capita has diminished, and the quality of services leaves much to be desired. At the income levels of the vast majority of Mexico's population, adequate medical services are unattainable.

My husband works in a warehouse, making 50 pesos a week. But there are weeks when he cannot bring this kind of money home. We have three children, and one of them has meningi-encephalitis or hydrocephalia, and the treatment for this is rather expensive. I always have to sell something to be able to buy these medicines. The last time it was the kitchen blender.

-- Ligia Eugenia, 25, housewife, Yucatán

I work as a domestic worker, and I earn very little. I do not always have a job. My husband is a worker in a farm and he earns 160 pesos a week. We have two kids, and when they get sick, we usually do not money for their medicines.

-- Carmen, 24, housewife, Yucatán

In the IMSS (social security) clinic, nurses tell you there are no medicines and you have to wait for weeks. I have been through this. I am treated with tyranny by the clinic's personnel. The price of medicines is unaffordable. My retirement pension gives me 700 pesos per month, after contributing to the social security for 22 years when I was a teacher in private schools.

-- Elsa, 61, retired teacher, Coahuila

H. Poverty and the Next Generation

A poignant testimony of the stark realities of the extreme poverty of today's Mexico is provided by Francisco Ramírez, a young man from the state of Mexico:

We have lived in the most complete poverty, without having a place of our own. We always went barefoot and were badly dressed. When I wanted to be by myself, it was not possible. I cannot find a job, sometimes I'm told it is because I have no education. But when I wanted to study it was not possible. I sometimes found odd jobs, washing clothes or cleaning dishes. Now not even that is possible.

Worse, the economic policies have wiped out the expectations of a whole generation of young people. The 1980s have been frequently described as the lost decade, but, in the end, the 1990s are not going to be any better. In fact, this decade may have even more negative implications for the lives of the younger generations in Mexico. Mauricio, a young peasant from Quintana Roo has this to say:

I have not been able to study because my family is poor. My father works in the fields, and I work with him sowing maize, a little bit of beans and some citrus trees. I am a *peasant and I would like to study, but the prices of books and notebooks are too high. We cannot buy them.*

V. Conclusion

The colossal social costs of the macroeconomic policies imposed through the various agreements entered into by the Mexican Government with the IMF between 1982 and 1996 have no justification. Had these policies resulted in rapid and sustained growth, as well as excellent performance in the realm of anti-inflationary policy, together with satisfactory results in the external accounts, and had all this been accompanied by a just and economically rational distribution of income, the policy mix could be judged to be adequate. Independent analyses during the 1990s of Mexico's macroeconomic scorecard points to the persistence of major problems and to the fact that the most important macroeconomic indicators have not reached stability over a significantly long period of time (Atkeson and RRos 1995; Cline, 1991; Dornbusch and Werner, 1994). Today, after 16 years of adjustment policies, Mexico's economic situation has deteriorated.

Has the IMF been pushing the wrong policy prescription? The answer is an unequivocal "yes". The Fund's diagnosis of Mexico's economic ailments -- which only addressed macroeconomic imbalances -- has been wrong from the beginning. So it is not surprising that the medicine prescribed has not worked. The IMF's short-term obsessions -- controlling inflation and fiscal and current-account deficits -- as well as the standard policy response of market liberalization, privatization, and a reduced role for the state, have only exacerbated the situation through the years.

The 1994 Mexican *peso* crisis was poorly diagnosed by the Fund. It could have been avoided through a combination of measures affecting relative prices via an accelerated rate of exchange-rate adjustment, as well as by resorting to emergency measures designed to forestall the drop in international reserves. These emergency measures consist of tariff surcharges, as well as other price-related measures that restrict imports on an exceptional and temporary basis. They would allow a country experiencing a balance-of-payments crisis to redress the situation without resorting to greater dependence on short-term capital flows and without relying on catastrophic macro-devaluations of the exchange rate.

In theory, flows in the capital account should lead to automatic adjustment processes in a world of deregulated financial markets and open economies. But capital flows can be suddenly reversed, leading to episodes of financial turbulence and exchange-rate volatility (Calvo, et al, 1993). When current-account imbalances are due primarily to trade deficits, emergency import restrictions retain their relevance as instruments for reducing exposure to financial volatility.

A dominant theme in the recent economic literature is the reversal of capital flows in the context of deregulated financial markets and the financing of deficits through greater capital-account liberalization. In such a context, vulnerability is heightened by the fact that speculative motives often underlie capital flows, especially where it is possible to take advantage of differences in high nominal rates of return on various financial assets. If these factors are modified, the reversal of the inflows takes place and may lead to the collapse of international reserves, with devastating consequences. But the use of emergency measures has been banned by IMF official doctrine over the past years, viewed as a remedy that is worse than the malady.

The IMF analysis seems to ignore the fact that, when exchange-rate stability is the nominal anchor of anti-inflationary policy, reluctance to devalue is understandable. In such cases, the crawling-exchange regime is analytically equivalent to a fixed rate (Cline, 1991), and adjustment

through changes in relative prices becomes difficult. In addition, when capital flows take the form of short-term portfolio investments, exchange-rate policy must weigh the effects of a devaluation on the commodities markets, as well as on financial markets. The emergency measures banned by the IMF are in fact a relevant set of policies when a country wishes to reduce financial vulnerability through transitory import restrictions.

This example of IMF bias and rigidity reveals a fundamental flaw in its orthodox analysis of the international economy. It is arguable that, with the application of the traditional IMF recipe, which calls for an almost total deregulation of the elements composing the capital account, a country's financial vulnerability is actually increased. Its economy can experience rapidly eroding reserves, and the macro- devaluations and the resulting financial crises that follow can, among other effects, significantly distort trade patterns.

The Mexican case is not an isolated example, and our analysis points to the need for a thorough review and critique of the IMF's policy mix as contradictory to the Fund's mandate as spelled out in Article I of the Articles of Agreement. According to the Articles, the correction of balance-of-payments problems should not resort to measures "destructive of national or international prosperity". Only after the main tenets of the policy package imposed by the Fund on Mexico and dozens of other countries around the globe through its conditionality arrangements are revised to reflect the institution's stated purpose will it be possible to ensure a constructive role for the International Monetary Fund in the management of the monetary system for the next century.[(7)]

Endnotes

1. ECLAC figures from Elvia Gutiérrez, "En punto crítico el empleo manufacturero," El Financiero, 22 May 1994, p. 29. Cited in The Polarization of Mexican Society: A Grassroots View of World Bank Economic Adjustment Policies, prepared by Carlos Heredia and Mary Purcell, Equipo PUEBLO, December 1994.

2. Study by the Faculty of Economics of the National Autonomous University of Mexico, cited in Heredia and Purcell.

3. NEGI monthly Industrial Survey. Cited in "La Política Salarial Neoliberal, su Fracaso y Alternativas Viables," by Alberto Arroyo, 24 January 1998, p. 4.

4. El Heraldo de Chihuahua, 24 November 1992, cited in Heredia and Purcell.

5. Heredia and Purcell, p. 6.

6. Ibid., p. 7.

7. For an analysis of the salient problems that the monetary system of the twenty-first century must face, see Eichengreen (1994).

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Return to The All-Too-Visible Hand:
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