Mexico faces unkindest cut of all

by Adam Newman

Mexican universities began charging tuition following a 36% budget cut in 1982. The cut was part of a larger Structural Adjustment Program (SAP) imposed by the International Monetary Fund (IMF) to help Mexico reclaim its place in the global economy.

Mexico had amassed an $86 billion (US) foreign debt through extensive borrowing and careless spending. A sudden rise in interest rates, accompanied by a drop in oil prices had rendered the country unable to pay.

The capitalist system had allowed Mexico to grow, and left it ill-prepared to deal with the consequences of fiscal mismanagement.

Mexicans are paying for that today. Reduced access to education and training has increased the ranks of the unskilled as population continues to grow. The implied threat of unemployment, and the government's domination of trade unions have combined to hold down wages in an attempt to reduce inflation, increase foreign investment, and promote further growth of the Mexican economy.

While inflation has fallen from 180% in 1988 to less than 20% today, real wages have fallen 50% in the past decade. Foreign investment has increased; the number of maquiladoras (low-wage assembly plants along the US/Mexico border) has skyrocketed, from 300 ten years ago to 2,000 today.

Employment in the maquiladoras, where living conditions are poor and workers are often exploited, grew by 262,000 between 1982 and 1988. At the same time over half a million people lost their jobs in the rest of Mexico. Seventy-five thousand small and medium-sized Mexican firms have gone bankrupt in the last eight years as big businesses continue to thrive. State firms have been sold to more efficient private enterprise and small land holdings have fallen prey to much larger agribusiness, further aggravating unemployment.

Harvard-Educated Pro-American

In an effort to continue these changes with the goal of furthering economic growth, a Harvard-educated economist, and the first pro-American president in Mexican history, Carlos Salinas de Gortari initiated free trade talks with George Bush in 1990. An important part of Salinas's strategy is to increase Mexican exports from the maquiladoras to the US.

Ninety percent of the maquiladoras are US-owned. Seventy cents of every American dollar invested in Mexico returns to the US, and America wants to "lock in" free market reforms which have created a favourable investment climate in Mexico, said Timothy Bennett, former Deputy Assistant US Trade Representative for Mexico, speaking at Dalhousie February 2. US exports to Mexico have grown 25% annually since 1986

The proposed North American Free Trade Agreement (NAFTA) follows free market reforms which followed a SAP in Mexico; all extend the ideology of the IMF. Capitalism requires constant growth, and free trade, or the opening up of markets, is one way to provide that. But it is wrong to assume that growth of the economy will automatically translate into equality of distribution according to need.

Growth First, Justice Later

In our capitalist system based on economic growth, one fifth of the world's population consumes four-fifths of its resources. Just 3% of the industrialized world's annual military budget is enough to eliminate serious malnutrition and provide primary education, primary health care, family planning, and safe water for all throughout the Third World.

Recent economic growth has also been distributed unequally. In the US in the 1980s, the growth of the economy was higher than it had been in the 1970s- yet 44-70% of the increase in income went to the richest 1% of all familes, as lower-middle-income families and the poor lost ground.

> *Real wages have fallen 50% in the past decade.*

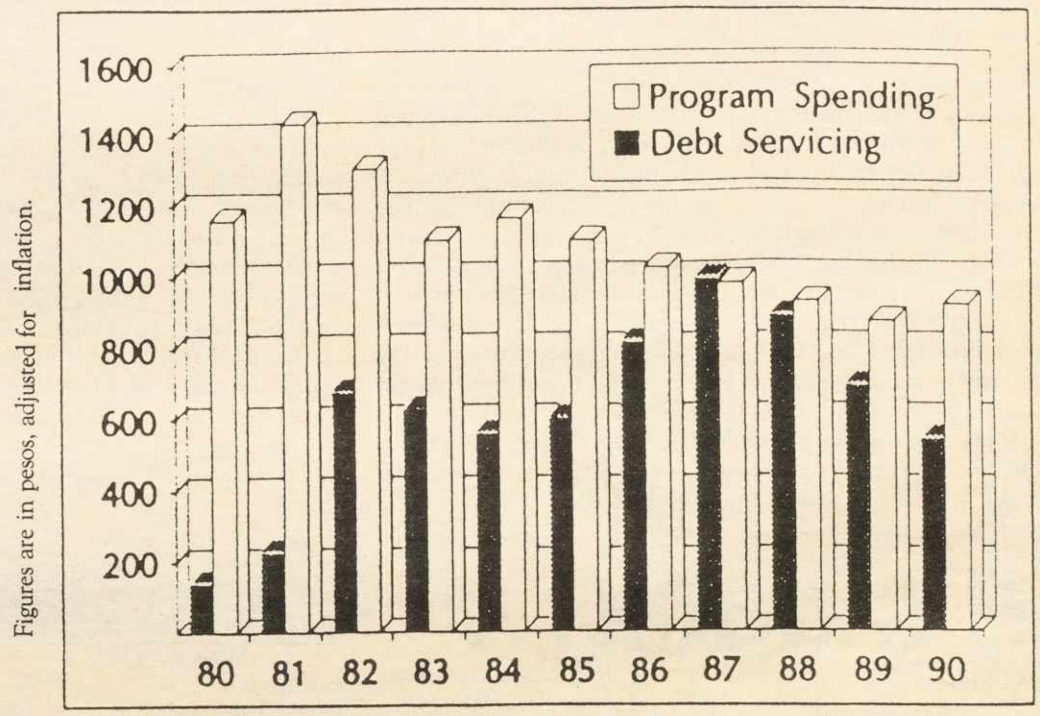
Those with average and less-than-average incomes are also losing ground in Mexico. Corporate tax rates have been lowered, establishing favourable conditions for the middle and upper classes. The government is padding the wallets of potential investors who it hopes will broaden the tax base, improve living conditions, and decrease Mexico's dependency on the IMF.

Countries with trade deficits would automatically receive financing, and pay interest on their loans. Countries with trade surpluses would be required to pay interest on their accounts above a certain level; they could lower their balance by importing more goods. The proposed *Union* would maintain a sort of global economic equilibrium.

Despite several modifications made to accomodate political interests, Keynes's plan did not become the basis for negotiations at Bretton Woods. Instead the plan for what became the IMF was based essentially on the US proposal as drafted by Assistant Secretary of the Treasury, Harry Dexter White.

Wynn Plumptre, member of the Canadian delegation to Bretton Woods, recalls that "the Canadians were at first attracted by the intellectual elegance of the Keynes plan...but reluctantly concluded that it would not be acceptable to the Americans."

Paying for it



SOURCE: CROSSING THE LINE, JIM SINCLAIR

The IMF was "designed to serve the international interests of the US." But its establishment and operation were not contrary to "Canadian interests as perceived at the time or subsequently by Canadian governments."

Oops!

The most important feature of the Bretton Woods system was the enshrinement of the US dollar as the world's strongest reserve currency, convertible into gold by the central banks of other countries. This key element was suggested haphazardly, and somehow managed to escape debate.

While Keynes was busy chairing the committee that worked on the establishment of the International Bank for Reconstruction and Development (better known as the World Bank), White chaired the committee that created the rules for the IMF. At the July 6 meeting of that committee, Professor Robertson, acting "against Keynes's instructions, but as the responsible British delegate, suggested that the words 'gold and gold-convertible currency' be replaced by 'net official holdings of gold and US dollars'...Using his authority as chairman, White referred the matter to a special committee, which took it out of any further discussion...The special committee was a group of technicians headed by White. It prepared for inclusion in the Final Act a number of provisions that were never discussed...

The change...was lost in the 96 page document...Keynes did not find out until later." (Armand van Dormael, Bretton Woods: Birth of a Monetary System, London, 1978, p.202-203)

The new system gave the US the unique privilege of paying its foreign debts and buying foreign assets simply by printing more dollars. Rather than raise domestic taxes, the US financed its war in Vietnam by expanding its money supply. Meanwhile, US gold reserves dwindled. Fearful that it would be unable to honour demands for additional gold, the US imposed its own solution. In 1971 President Nixon declared the US dollar would no longer be convertible into gold.

> *Seventy cents of every dollar invested in Mexico returns to the U.S.*

Risky Business

In 1974, the Organization of Petroleum Exporting Countries (OPEC) quadrupled the price of oil, and deposited money in the US and Europe; meanwhile the world economy sagged. In 1976 *Business Week* reported: *the stalled recovery in the US and overseas has delayed the return of quality borrowers- forcing the banks, awash in liquidity and desperately eager for higher earnings, to continue to rely on the profitable, but risky, business of lending to less developed countries (LDCs). "The...talk of caution is still there," says a vice-president at Chase Manhattan Bank, "but its only talk."*

Had it been accepted, Keynes's proposal would have forced bankers and countries to act cautiously. If a country like Mexico borrowed money, its trade surplus would have increased, and it would have been required to import or pay interest on its surplus. There would have been little incentive for Mexico to borrow, and had it not borrowed as extensively as it did, Mexico would have avoided becoming mired in debt. Economic growth would have been slow, but sustainable.

Instead, Mexico's government spent over 8% of the country's Gross National Product (GNP) paying for past sins in 1989. At the same time, the *Partido Revolucianario Institutional* (PRI) has also been busy shutting down protests, changing laws to favour investment, and courting foreigners in an attempt to spur new economic growth. Hopefully the PRI has learned its lesson and will be more prudent investing dollars sure to come if trade is further liberalized through the NAFTA. Even if it is, there are bound to be casualties. Half of Mexico's population is poor, and wary of trading its existing rights for vague promises of a better future.

(Sources: *The Atlantic Monthly*, December 1992, p.113-118, *Crossing the Line*, Jim Sinclair, 1992, p.28, *Debt Bondage or Self-Reliance- A Popular Perspective on the Global Debt Crisis*, GATT-Fly, 1985, p.8-19, *Mexico- Country Profile*, The Economist Intelligence Unit, 1991-92, p.14, 41, *The Pro-Canada Dossier*, January-February 1991, p.22, *The Shock of the Possible*, Canadian Council for International Cooperation, 1992, *US News and World Report*, July 27, 1992, p.45, *Z Magazine*, October 1992, p.25)

Next week: Mexican students march for justice