

## Economic and social crisis in Mexico

# President Zedillo slashes budget

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In a speech to the Mexican Congress on September 10, President Ernesto Zedillo called for the country to export itself out of its economic problems. Except for a brief period in 1997, Mexico has never fully recovered from the crash of 1994.

The world economic crisis that began in Asia a year ago is sweeping through Mexico. Increases in interest rates have not been able to stop the flight of capital from the country. Living standards for Mexican workers are dropping and unemployment is rising. This, plus a serious drought hitting the agricultural sector, a series of devastating storms and floods, and an acute banking scandal, is contributing to the destabilization of Mexico's major political parties.

The worldwide oil glut has led to a substantial drop in prices, from around \$16.50 dollars a barrel for Mexican crude last year to \$10.50. The prices of other raw materials that Mexico exports, such as copper, have also fallen.

The drop in oil revenues--which account for 40 percent of the federal budget--has had an immediate impact on the government budget. The government's revenues have fallen to \$29.15 billion for the first half of 1998, compared with \$42.11 billion for the first six months of 1997, notwithstanding the impact of the devaluation of the peso. Unwilling to increase taxes on the rich, the Zedillo government has instead proceeded to cut social spending and increase misery for the rest of the population.

Last December Zedillo cut \$4 billion from the 1998 budget and ended the agrarian reform program set up as a result of the Mexican Revolution. Zedillo has further cut the 1998 budget three times this year. The latest budget proposal outlined by Zedillo imposes yet another round of cuts. In addition, the state-owned oil industry, Pemex, will eliminate up to 6 percent of its work force, and carry out further privatizations of petrochemical plants. In order to begin the reconstruction of flood-devastated southern Chiapas, the Zedillo administration is contemplating further budget cuts in other areas.

After abandoning the national economic policies of import substitution and protection for domestic industries during the De La Madrid administration in 1982, the Mexican government has more and more openly tailored its economic policies to the needs of international investors and money markets by privatizing state-owned assets, lifting regulations on capital

flows and transforming the US-Mexican border into an export platform for multinational companies seeking cheap labor.

Yet the austerity policies have not been able to stop the pullout of international investment. Since the beginning of the year, the relatively free-floating Mexican peso has lost more than 30 percent of its value. Last week the Central Bank was forced to intervene when the peso dropped to 10.75 to the dollar. On September 21 the peso closed at 10.73. The flight of capital continues even though interest rates have been allowed to rise sharply, choking off domestic investment and consumer credit. Commercial interest rates are 50 percent. Credit card interest has reached 70 percent (5.85 percent per month). Commercial banks are no longer making mortgage or auto loans.

As borrowing becomes more expensive, domestic industries have been forced to close and lay off workers. Even though the peso devaluations help make Mexican exports cheaper to buy in other countries, they have the impact of making imported goods even more costly. At the same time budget cuts create more job losses and preclude relief for the unemployed. About the only relief that Zedillo could propose was to defend the right of workers to cross the border into the United States.

To make matters worse, the Mexican Congress is divided on how to handle a banking scandal, which threatens to cost the government some \$40 billion dollars. The government is about to assume the bank debts of FOBAPROA, an agency established as a deposit insurance corporation to be financed out of bank profits. This would place the burden of bank mismanagement and nonperforming loans on the backs of Mexico's poor.

Along with this economic storm, and the recent Chiapas flooding, the worst drought in 50 years in northern Mexico has contributed to the emergence of severe malnutrition in many agricultural areas. Mexico is being forced to import record amounts of grain and other foodstuffs at inflated prices.

In some states, particularly in the southern and mountainous rural regions, up to 68 percent of the children are malnourished and suffer from diseases associated with malnutrition.

From a nutritional standpoint, Mexicans were better off before 1981. Since 1982, when the De La Madrid administration eliminated food subsidies, large numbers of

Mexicans have been unable to get enough to eat. So far famines have been avoided. However, the insidious effects of low calorie and low vitamin diets have caused slow development among children, an increase in learning disabilities, low resistance to disease and the weakening of working adults.

The signing of the NAFTA treaty between Mexico, Canada and the United States has also undermined the country's agricultural sector. Canadian and US agribusinesses have replaced crops grown for domestic consumption with more profitable crops and meat products for export. This has further aggravated the domestic food deficit and created conditions where Mexicans are consuming less milk and meat.

In his September 10 speech, Zedillo limited his agricultural policy to calling for an increase in the vitamin content of tortilla flour.

In the cities conditions are virtually no better. Unemployment affects about 64 percent of the economically active population. Wages of Mexican workers had never recovered from the 1994 crash, the worse since 1929. Now the collapse of the peso has made Mexican workers' wages among the lowest in Latin America, comparable to those of impoverished Peru.

Politically, the 1994 crash resulted in a crisis among Mexico's parties, forcing the ruling Partido Revolucionario Institucional (PRI) to cede some political power to its rival bourgeois parties for the first time since 1929. Both the right-wing-clerical Partido Accion Nacional (PAN) and the bourgeois-populist Partido de la Revolucion Democratica (PRD) have made important electoral gains in several Mexican states and recently established a majority in the lower House of Congress. PRD leader Cuauhtemoc Cardenas is the first elected mayor of Mexico City, a post previously appointed by the president.

In his September 10 speech, Zedillo suggested a pact between the main parties to insure 'maximum growth' and social stability until the year 2000, when a new president takes power. The PRD and PAN took the occasion to propose discussion toward such a pact.

Such an agreement would help these parties resolve their internal crises. Factions within the PRI and the PAN threaten to split their parties over the continuation of the free-market policies of the present regime and are demanding protection for domestic industries that cannot compete in the world market.

Recent polls indicate that if the presidential elections were held today, the PRD would enjoy a narrow victory over the PRI. Because of its longtime corruption, political violence and open defense of big business, the PRI is held in contempt by masses of workers, middle class people and the poor. In the impoverished southern states of Chiapas and Guerrero peasant uprisings and guerrilla warfare have erupted against the PRI political bosses and landowners.

Under these conditions the PRD is being promoted by a wide array of forces as the alternative to the PRI. The PRD was formally established in 1989 by dissident PRI members who joined with members of the Partido Mexicano Socialista

(PMS)--itself an amalgam of Stalinist and neo-Stalinist forces, including the Mexican Communist Party. From the beginning this has been an uneasy alliance.

The PRD nationalist program evokes the memory of Cardenas's father, General Lazaro Cardenas, the most popular of Mexico's leaders. As president of Mexico between 1934-1940 he nationalized Mexico's oil industry and distributed land to the peasants. The PRD seeks to unite the social classes behind the banner of national resistance to the International Monetary Fund, anticorruption policies and law and order measures.

As mayor of Mexico City, Cardenas has been careful not to provoke the Zedillo government, on which it depends for funds. He has cut the city budget and courted business interests. As such, he has angered his leftist supporters.

The left parties are expected to support Cardenas and the PRD in the presidential elections of 2000. They justify their support by saying that the PRD is open to mass pressure and can be pushed in a revolutionary direction. Their implicit role is to convince the Mexican masses to put their trust in the PRD's nationalist program.

None of the capitalist parties have any progressive solution to the economic and social crisis afflicting Mexico. The political instability at the top of Mexican society portends the eruption of great social struggles.

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