Mexico in the Eighties: Crisis and Conflict

by Richard L. Harris

Mexico finds itself today in an even deeper economic crisis than it experienced during the late seventies. But this time it is unlikely that the country's vast petroleum reserves can provide even a partial solution to this crisis. The current economic difficulties are the product of a combination of factors: the country's escalating external indebtedness, the declining demand for oil in the world economy, a rapidly increasing rate of domestic inflation, the massive flight of private capital out of the country, and the recent drastic devaluation of the Mexican peso in relation to the US dollar. The political and social consequences of this crisis have only begun to manifest themselves. So far, these have included the government's nationalization of the major commercial banking institutions, the launching of an intensive propaganda campaign to restore public confidence in the 'Mexican Revolution', a drastic reduction of government expenditures, and widespread popular discontent stemming from the rising cost of living and the declining real income of the popular classes.

No ready solution to the current crisis is in sight. The measures taken recently by the Mexican government should have been taken much earlier. Now there is hardly any capital left in the country to increase production and finance basic services. The nationalization of the banks and the imposition of strict foreign exchange controls have all come too late to stop the flight of private capital out of the country. By the end of 1982, the Mexican economy will register a negative rate of growth and the country's external debt will exceed 90 billion dollars (the largest debt of any country in the world).

In order to keep the country from going bankrupt, the Mexican government has been forced to call upon Washington and the major international banks for a massive infusion of financial assistance. Negotiations with the International Monetary Fund and Mexico's major lendors (primarily U.S. and West European Banks) have produced a long-term plan for dealing with the country's huge debt payments and extensive credit needs. However, in view of Mexico's present predicament, the government has an extremely weak bargaining position. As a result, it appears that the IMF, Washington and the international banks have imposed very unfavorable terms on Mexico. This will include forcing Mexico to sell its high grade oil and natural gas at low prices as well as imposing internal austerity measures (e.g., the elimination of government subsidies on essential food products), which will have a severe impact on the standard of living of the Mexican people.

Under the presidency of Lopez Portillo (1976-82), Mexico experienced what some refer to as the 'petrolization' and 'dollarization' of its economy. The strategy followed by the government for dealing with the economic crisis of the late seventies emphasized the production and export of the country's major national resource, petroleum. It also allowed the value of the Mexico peso to 'float' in relation to the US dollar. As a result, the government based its budgetary expenditures and investment policies on the expected earnings from future oil exports, and the peso was allowed to drop in value relative to the dollar. However, as the demand for oil on the world market began to drop, Mexico found it increasingly difficult to sell its oil at the expected price level upon which its budgetary and investment policies were based. As oil revenues declined, the government found itself with insufficient funds and a shortage of foreign exchange. Under the circumstances, it could not continue to finance its ambitious public investment projects, the existing level of public services, the country's increasing import costs, and the interest payments on Mexico's enormous and rapidly increasing external debt (equivalent to more than one thousand dollars *per capita*). And as the economy declined, Mexicans with capital began to change their money for US dollars, driving down the value of the peso.

The increasing cost of imports and the high interest rates of the major foreign banks providing loans and credits to Mexico have caused consumer prices to rise rapidly (the rate of inflation was around 60% per annum by mid-1982). Due to government constraints on wage increases, wages have lagged far behind the rise in consumer prices. Consequently, discontent has grown

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among the wage-earning population, including the workers in the government-controlled unions. This, along with the massive transfer of Mexican capital to dollars and the flight of private capital out of the country, forced the government to take measures aimed at both deflating the rising level of popular discontent and halting the capital drain.

In a surprising move, the outgoing administration of Lopez Portillo decided to nationalize the country's commercial banks (foreign banks were not affected), and institute strict foreign exchange controls. The nationalization of the banks, however, was more of a political move than a measure designed to stop the flow of capital out of the country. It was calculated to deflate the growing popular discontent over the economic situation, and to make the government appear as though it is acting against the country's venal capitalists and on behalf of the nation. Indeed, this is the way it has been successfully presented to the Mexican people by the government. This, of course, is not the first time that the Mexican regime has preserved its legitimacy by manipulating public opinion with its 'revolutionary nationalist' demagoguery. In fact, by nationalizing the banks (with full compensation for the owners), the government has also nationalized a sizeable proportion of the private sector's share of the external debt. The outcry from certain sectors of private capital has served to reinforce the image that the government is trying to project, i.e., that it is defending the nation against those who are trying to take advantage of the country's economic difficulties.

Most of the Mexican Left appears to have been caught off-balance by the regime's nationalization of the banks and its propaganda campaign to restore public confidence in the system. The campaign waged by the opposition parties to expose the irregularities in the July 1982 elections has been completely upstaged by the nationalization measures. Moreover, the Left opposition parties have found it necessary to support the government's nationalization policy, even though they realize that this measure was taken primarily to restore public support for the regime at a time when popular discontent was reaching alarming levels. Since the government has been successful in winning widespread popular support for the bank nationalization, the Left has not been able to benefit from the situation—despite the socialist overtones of this kind of state intervention in the economy.

The nationalization of the banks will have little or no effect on the conditions responsible for the country's economic crisis. The nationalization will not reduce the country's enormous external debt or its increased financial dependence on foreign capital and Washington. The multi-billion dollar bail-out package put together by the US to help Mexico with its immediate cash problem, and the long-term credit and loan package being negotiated with the IMF by the Mexican government, have kept Mexico from going bankrupt. They will not solve, however, the problems which produced the current crisis, such as the country's declining export earnings, the rising costs of its essential imports, the staggering payments on its growing external debt, the flight of private capital, and the corruption, waste, and mismanagement which characterize Mexico's many state and para-state institutions.

If the IMF succeeds in pressuring the Mexican government to reduce state subsidies and institute other austerity measures in addition to the major cutbacks in public employment and social services which the government has already been forced to make, popular discontent and active opposition to the regime will almost certainly increase. Since the regime's ability to co-opt and appease the opposition will be greatly reduced by its austerity measures and lack of funds, it will have to use repression on an increasing basis in order to control the rising discontent. This could well result in the reversal of the slow progress of democratization which the Left and other democratic forces has been fomenting in Mexico during the last decade.

In view of the present crisis, the prospects for progressive change in Mexico are not very hopeful. The country's economy is now more dependent than previously on international capital. The petrolization and dollarization of the economy have accentuated the structural defects and vulnerability of Mexico's capitalist development. If major structural changes are not made in the near future, the Mexican economy will undoubtedly go deeper into debt and the state will have to rely increasingly on repression to force public compliance with the austerity measures instituted to satisfy the IMF and the international banks. The new presidential administration of Miguel de la Madrid (1983-88) will most likely seek to assure the private sector that the nationalization of the banks will not be followed by further nationalizations in other sectors, and it is quite possible that the new administration may retreat somewhat in the actual implementation of the nationalization of the banks.

It remains to be seen if Mexico's foreign policy toward Central America, particularly its support of Nicaragua and its opposition to US policy in El Salvador, will change as a result of the country's economic difficulties and its increased financial dependence on the United States. President Lopez Portillo has given public assurances that this will not happen, but this will not hinder the new presidential administration from softening Mexico's position. On the other hand, in order to maintain the regime's renewed 'revolutionary' legitimacy, it is not impossible that the new administration will maintain or even accentuate its foreign policy differences with the US over Central America. This might divert attention away from the country's increased financial dependence on the US and its likely softening on other critical issues, such as the increased sale of cheap oil and natural gas to the US.

The progressive forces in Mexico will be in a difficult position during the eighties, both in terms of countering the repressive tendencies of the regime as well as in terms of trying to promote the democratization of Mexican society under conditions of economic crisis. However, there would appear to be considerable potential for capitalizing on the rising popular discontent and for turning this discontent into progressive channels. If this is *not* done skillfully and carefully, it could reinforce the

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[1] M. K. Dziewanowski: The Communist Party of Poland (Hoover 1978), o.p. cit. p. 167.
[2] Dziewanowski, pp. 171 and 173.
[3] Z. K. Brzezinski: The Soviet Bloc. p. 10.
[4] International Affairs, January 1951; Bedrich Bruegel article, Soviet Methods.
[5] Z. K. Brzezinski: The Soviet Bloc, p. 25.
[6] Foreign Affairs: October 1949, The Fate of Polish Socialism.
[7] Ibid., p. 134, Dziewanowski.
[8] K. Secomski: Premises of the Five-Year Plan in Poland 1956-1960.
[9] G. Dimitroff: The United Front, p. 16.
[10] Osteuropa-Handbuch: Polen (Poland), pp. 73 and 101-102.
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[15] J. M. Montias: Central Planning in Poland, p. 53.
[16] UNRRA operational analysis paper No. 45, The Impact of UNRRA on the Polish Economy.
[17] Jean Malara and Lucienne Rey: Poland: Occupation and Struggle, 158-60.
[18] M. K. Dziewanowski: op. cit. p. 213.
[19] Ibid., p. 230.
[20] J. M. Montias: Central Planning in Poland, pp. 61-62.
[21] S. Jedrychowski: Fundamental Principles of Economic Policy in Polish Industry, p. 26.
[22] W. J. Stankiewicz and J. M. Montias: Institutional Change in the Postwar Economy of Poland, p. 20.
[23] K. Secomski: Premise of the Six-Year Plan in Poland, pp. 16-17.
[24] K. Secomski: op. cit. pp. 37-38.
[25] O. Lange: Fundamental Principles of the Six-Year Plan in Poland, Economic Bulletin for Europe, 19 February 1967.
[26] The Polish Economy since 1950: Economic Bulletin for Europe, 1950, Vol. 9 No. 3, p. 15.
[27] P. Costello, quoted in Theoretical Review, Nov.-Dec. 1980.

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repressive tendencies of the regime. On the other hand, if done successfully, this could prevent the regime from becoming more repressive and could promote a further democratization of Mexican society.

The next few years will probably see an increasing loss of popular support for the regime. There will be rising popular demands for social equality and democracy. Moreover, there will probably be increasing demands for greater state control over the country's resources and productive process, and for the protection of Mexico's national sovereignty in the face of its increasing financial dependence on international capital and the United States. Unless these demands are translated into an effective mass movement capable of imposing major changes on the system, they will not be realized. The unity and commitment of the progressive forces in the country will be a decisive factor in determining whether this happens or not.