Lies of Salinas fail to hide Mexican economic disaster

by Carlos Cota Meza and Peter Rush

The desperation of Mexican President Carlos Salinas de Gortari at the true state of the Mexican economy was nowhere better displayed than in his Nov. 1 speech, the Mexican equivalent of a State of the Union address, where he apparently couldn't find any statistics showing genuine improvement of the economy. Summing up nearly three years of his administration, Salinas instead served up three whoppers, lies so transparent that his own government's figures easily refute them: to wit, that employment is increasing; that the balance of foreign trade is healthy; and that agriculture is improving.

On top of this, only days after delivering his speech, Salinas's plan for a free trade treaty with the United States—the North American Free Trade Agreement (NAFTA)—was suddenly jeopardized by the weakening of his partner George Bush with the Nov. 5 defeat of Republican Richard Thornburgh in the race for senator of Pennsylvania, in which voters resoundingly voiced their opposition to such a treaty. The reality that free trade with Mexico means a loss of hundreds of thousands, and potentially millions, of U.S. jobs, sank in so profoundly that despite public denials, the Bush administration is reported to have privately decided not to push for it until after the 1992 presidential election. According to the Nov. 20 *Journal of Commerce*, however, Salinas will meet with Bush in Washington on Dec. 14 to try to convince him to complete the NAFTA talks by March 1992. The Mexican President will reportedly warn Bush that any delay in the agreement "could slow the pace of economic reform in his country" and unleash social strife.

The three reforms Salinas announced in his Nov. 1 speech will unleash a worsening political crisis and guaranteed social conflict. He announced a sweeping decentralization of education, which will pass the financial burden of education on to families and students who can hardly afford it; he decreed dramatic changes in the country's existing agrarian structure, in place since 1917, which will open up agriculture to purchase and domination by foreign food cartels; and he proposed a reform of church-state relations.

Lie #1: The foreign trade picture is healthy

All but admitting that the foreign trade picture is out of kilter, Salinas commented that the balance of foreign trade presents "a new situation that requires an adequate explanation." He was referring to the fact that Mexico is presently running an unprecedented trade deficit that hit $6.5 billion in the first eight months of the year, and is expected to top $10 billion by year's end. The deficit is caused by the flood of imports which free trade has already brought about—Mexico already has virtual free trade with the United States in most categories of manufactured goods. He said that the growth of imports "is the result of an increase in private investment that has been financed by the flow of foreign investment," and that "the main motors of the economic expansion have been, at present, exports and new investment."

The reality is quite different. Behind the trade deficit lies a grim picture for Mexican industry. There is no evidence to support the thesis that foreign capital is responsible for large-scale import of capital goods for investment in Mexican industry, as Salinas claimed. Rather, the imports are primarily products that compete with domestic industries, which are, as a result, going out of business in record numbers, as confirmed by official figures showing declines in employment in a majority of manufacturing sectors. Many analysts agree that the vast bulk of the billions of dollars that have entered the country in the last year or so have gone directly into either the stock market or bank assets—i.e., purely speculative investments that do not result in any economic activity in the physical economy.

This is further shown by official statistics showing that invested imported capital goods in 1990 were barely 50% the level they were in 1980—measured in current dollars—and closer to one-third the 1980 level measured in deflated dollars. Mexico's import of machine tools, a very good measure of whether an economy is investing in genuine expansion and modernization of its industrial equipment, remain at record lows, around $200 million in 1990, down from over $300 million in 1989 and $1.4 billion in 1980.

As for exports, the President neglected to differentiate between exports of the so-called *maquiladoras*—the border region runaway shops that import all inputs from, and export all output to, the United States under special, duty-free tariff arrangements—and the rest of Mexican industry. Exports from the *maquiladoras* have zoomed, while exports from the rest of the economy have been much more modest. But the growth of *maquiladora* exports should be little comfort: They hardly engage the rest of the Mexican economy at all, neither selling nor buying industrial output from the rest of the country. Almost their entire benefit is in the jobs they provide—generally at wages lower than industrial wages elsewhere in Mexico—and even here, much of that income is spent across the border in the United States, while the majority of the wage-earners live in shantytowns of incredible squalor. The growth of the *maquiladoras* does bring foreign exchange into the coffers of the central bank, whence it is used to pay debt service on nearly $100 billion in foreign debt, but it is scant benefit to 85 million Mexicans earning less than half what they earned in 1982.

In sum, Mexico is losing from free trade: Its imports of manufactured items, among which consumer goods is the fasting-growing category, have far outpaced its exports of manufactured goods, and this disparity will only increase with the final elimination of all tariffs.

Lie #2: Employment is increasing

"Economic growth, which hit a 5% annual rate in the first half of 1991, is the highest it has been in the last ten years," Salinas said in his speech, adding that "the economic recovery is reflected directly in levels of employment." Even if true, and sustained through the end of the year, the economic growth figure would still be well below the annual rates of economic growth of the 1970s through 1981.

Moreover, it is likely that most, or even all, of the reported growth has been financed by the $10 billion in capital that has so far entered the country, most of it hot money flowing into speculative financial instruments, and which has financed the trade deficit. Were this money to flee as rapidly as it came, that 5% growth could very quickly become negative again.

As for employment, the true picture can only be described as bleak. It is no accident that Salinas neglected to offer a single figure in support of his claim for improving employment, because there are none. The latest official employment figures released by the Labor Ministry for 1990, show an absolute stagnation in total employment in medium- and large-scale manufacturing, at 972,133, up a negligible 364 from 1989. And even in the *maquiladora* industries, the only manufacturing sector which has been growing, employment growth has plummeted, from 155,420 new jobs in 1987, to 60,236 in 1989, to 30,568 in 1990.

But this marginal total growth contrasts with the estimated 1 million new entrants in the job market in 1990. And with tens of thousands of peasants being forced to leave the land and seek employment in cities annually, it is no surprise that unemployment is now officially 15%, or 5.1 million workers, with an additional 40% of the labor force, 14 million workers, estimated to be in the "informal economy," or to be otherwise underemployed. With more than 50% of the labor force without decent employment, and unemployment increasing at the rate of nearly 1 million a year, Salinas is sitting on top of an economic time bomb.

A possible detonator could be Salinas's agrarian reform proposal, also announced in his speech. Among other changes to the country's land tenure system, inherited from the 1910-17 revolution, the semi-communal property arrangement known as the *ejido*, where the land was protected from purchase by absentee landlords, is being junked in favor of permitting land to be purchased by anybody, including foreigners.

Coupled to free trade with the United States in agricultural commodities, this could force upwards of 3.5 million peasant farm households—20 million people altogether—off the land, according to Prof. José Luis Calva of the National Autonomous University of Mexico, speaking at the Trinational Meeting on Agriculture, the Environment and the Free Trade Treaty held in Mexico City Nov. 18-19. The calculation is based on the fact that Mexican costs of agricultural production are two to three times higher than the costs of highly mechanized U.S. agricultural and cattle production. Eliminating the current restrictions on agricultural imports, which limit imports to what the government decides is needed to compensate for insufficient Mexican production, would lead to the virtual replacement of Mexican agriculture with cheap U.S. imports.

Other speakers pointed out that free trade merely helps "the interests of the large transnationals that control the production of food at a world level." And with the land reform, the food cartels would soon buy up huge tracts of formerly peasant land inside Mexico.

Lie #3: Agriculture is improving

Salinas stated in his speech that "agricultural production has recovered . . . it grew 3% in 1991, and the surplus of agricultural exports over imports grew from $186 million to $334 million from January to August 1991 compared to the same period in 1990."

Since agricultural output fluctuates much more than 3%, up or down, in any given year, based on weather, the 3% increase by itself signifies nothing about the state of agriculture. More telling is the fact that the total output of grains in each of the last three years has been well below the average for the past decade, and in per capita terms, is more than 20% below the 1980-85 average. More than 1 million farmers have become insolvent and hundreds of thousands of peasants have left the land.

Other measures show the crisis more fully: The number of tractors now in use is 170,723 fewer than in 1983; fertilizer use is down 15% from 1985 levels; pesticide use is down 20%; the use of beneficial insects for pest control is down more than 50%; and the use of high-quality seeds is down almost 30%. Irrigated land has shrunk from 5.5 million hectares to 4.3 million.