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The Case of Mexico II:
Globalization and Destitution

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From time to time TJSGA will issue essays on topics relevant to The Living Wages North and South Initiative (TLWNSI). This paper is the Thirteenth in the series "The Neo-Capitalist Assault" –a collection in development about Neoliberalism.

The essay's purpose is to show how autocracy and corruption combined with economic neoliberalisation to deliver the worst collapse in the history of modern Mexico. The author begins by explaining that, after the 1982 collapse, things were going to be much different for the majority of Mexicans. From an era of stability and marginal improvement in the welfare of the people, a new era of pauperization of the masses, the shrinking of the middle class and the substantial loss of sovereignty gradually took hold.

Summary

- Structural Adjustment and Neoliberalisation
- Laissez-Faire Imposition
- Consolidation and Pledge of Allegiance
- Crony Deregulation and Privatization
- The Worst Collapse

From the 1982 collapse and thereafter, things were going to be much different for the majority of Mexicans. From an era of stability and marginal improvement in the welfare of people, a new era of pauperization of the masses, shrinking of the middle class and substantial loss of sovereignty would gradually take its place for the remainder of the century. The most tragic aspect was the complete lack of accountability for the deeds and misdeeds of the PRI administrations. The lack of democracy became evident when President de la Madrid won the election in July of 1982, four months after the first devaluation of the year, with 72% of the votes. As ridiculous as it may seem, this was the lowest return the PRI had ever obtained in its entire history.[1] Undoubtedly, this was only possible as a result of systematic and massive fraud and a large, coerced, but also conformist, electoral mass. An incipiently but mature Civil Society was just beginning to make its presence felt.

Structural Adjustment and Neoliberalisation

The first steps taken by the new administration, after the economic debacle of 1982, were absolutely necessary. The government needed the immediate assistance of the IMF or it would be forced to declare an effective moratorium on its debt, and, with it, drop out from the international financial system. But, to secure a bail out from the IMF, a rigid set of structural adjustments [also-known-as globalization] needed to be accepted by the government. The conditions demanded by the IMF were the same as those prescribed in 1977: the elimination of budget deficits through spending restraints, subsidies' elimination and tax increases; the reduction of trade deficits by currency devaluations and increased exports; and the fight of inflation through tight monetary policy, competitive devaluations, fiscal austerity, real interest rates above inflation, and limits to wage increases below inflation [which were in sync with the interests of the industrial class]. The only difference was that this time these measures were going to be applied. Clearly, a rigid and restrictive monetary policy to contract aggregate demand was to be immediately applied, for, with or without the IMF, it was necessary, due to the excessive fiscal deficit of 17%. The other measures, while some of them certainly needed to be considered and weighed against their social impact, were also mandatory. The control of wage increases below inflation was only going to have a regressive effect, effectively transferring a portion of labour's income to the owners of capital as we have previously seen. This meant that it was labour that was going to pay the cost of the crisis, whilst capital would be free to protect its profit margins and even increase them. Despite the evident social cost, the government announced that the only solution was to apply shock therapy to the economy and demanded a "temporary" sacrifice from the population.

It is important to comment on the international context under which the shock therapy was going to be applied. Although the U.S. was recovering from its recession, this was not going to help to the recovery of Mexico. In 1980, Reagan came into power and moved to energize the U.S. economy. As explained in essay VI, while his administration pushed for neoliberal economics abroad, it unilaterally applied a protectionist program at home. Tight monetary and fiscal policies were applied, with high interest rates, to fight inflation, but the effect of an overvalued dollar on the world was disregarded. Moreover, Reagan's cuts in social spending, to fight inflation and the deficit, were weakened by his increased militaristic expenditures. This did not help to reduce inflation in the U.S. immediately, and the systematic refusal to devalue the dollar increased the cost of U.S. imports, further adding inflationary pressures abroad. For Mexico, the high interest rates exacerbated the flight of capital, and U.S. inflation fuelled Mexico's prices further. This made it all the more difficult for Mexico to fight inflation, when 70% of its imports traditionally came from the U.S. Concurrently, the U.S. increased its protectionism against Third World manufacturers to protect ailing domestic industries in which Third World nations were becoming highly competitive. Lastly, the U.S. and many developed countries reduced the consumption of commodities, further depressing their prices and directly hurting Third World exporters. With the drop in oil prices and other commodities, the terms of trade for Mexico and the rest of the Third World rapidly deteriorated. Throughout the 1980s, the terms of trade for Mexico and Iberian America remained depressed. Using 1980 as the base year, the ECLAC reported terms of trade indices of between 87 and 78 for the region and as low as 64 for the oil exporting countries due to low oil prices for most of the decade.[2]

The recessionary climate in the First World, and especially in the U.S., made it much more difficult for Mexico to rebuild its economy. The central aspect in controlling the crisis was the foreign debt. Just the public debt at the end of 1982 was more than 56 billion, and it jumped to more than $73 billion in 1983.[3] This made Mexico, along with Brazil, Argentina and Venezuela win the honour of being at the top of the list of the so-called Highly-Indebted-Countries or HICs. With this turn of events, Mexico began to experience a negative transfer of capital. Indeed, after 1982 Mexico experienced a de-capitalization for the rest of the decade. In 1983 alone, its capital accounts balance already had a loss of $2.4 billion.[4]

In the renegotiation of the debt, the IMF sought to form a bank cartel with the majority of the banks that had loan portfolios in Mexico and in the rest of Iberian America. This is a factor of enormous significance relative to the course that it would take in the handling of the economic crisis in the Third World by the governments of the developed world. The great significance lies in the fact that the governments did not allow the banks to find themselves with a huge portfolio of non-collectible debt. Eighteen of the largest banks had such a high exposure in Iberian America that it was considered that their own viability was at risk. In August of 1982, the loans-to-assets ratio in the region was above 100% in sixteen of eighteen U.S. and Canadian banks. These eighteen banks had lent over $70 billion in the region, and Citicorp had lent over $10 billion.[5] The collapse of the banks threatened the stability of the international financial system. Thus, contrary to free market principles, the banks were bailed out with the objective of preserving the system. From the Mexican perspective, the situation was certainly extremely difficult. However, the sheer size of the debt and the danger that this represented for the banks, offered Mexico powerful leverage to negotiate in a beneficial way. In a study from the Institute of

International Economics, the ratio of Mexican debt to bank assets for the 18 largest banks was not less than 28 percent and as much as two-thirds of their assets. These are the debt to bank asset ratios for these banks: Manufacturers Hanover, 66.7%; First Interstate, 63%; Chemical, 60%; Citibank, 54.6%; Bank of America, 52.1%; Crocker, 51.2%; First National Chicago, 50.1%; Bankers Trust, 46.2%; Mellon, 41.1%; Wells Fargo, 41%; Chase Manhattan, 40%; Morgan Guarantee, 34.8%; Irving Trust, 34.1%; Continental Illinois, 32.4%; Security Pacific, 31.2%; Inter First Dallas, 30.1%; Marine Midland, 28.3% and First National Boston, 28.1%.[6] For Mexico it was important that the amount of debt and the debt service would not compromise the recovery of the economy and the welfare of the population. And the large exposure of the banks provided Mexico with the strength to negotiate protecting its own national interests. But the Mexican government did not elect to use its leverage to negotiate a reasonable arrangement where everybody would share in the losses. This would have been a fair situation that considered both the sustainability of the international financial system and the sustainability of Mexico's economic growth.

It should be clear that, in this crisis, decisions to lend and borrow were made with full knowledge, by all parties involved, of the normal risks contained in these kinds of transactions. Thus, the private banks were certainly as responsible as Mexico for generating a crisis, for over lending when they were flooded with excess liquidity from the petrodollars. In a capitalist system, a lender and a borrower take their risks, the former of not being able to collect and the latter of defaulting and falling into discredit. It is as irresponsible to over lend as to over borrow; but, ultimately, borrowing would never occur without the consent of the lenders. In consequence, banks, in a capitalist system, are not at all insulated from the risk of going bankrupt. If they overexpose themselves they may very well put their viability into peril. And, if they do, they may very well go under. This is exactly what happened in 1929. When banks gambled by joining in the speculation and overexposing themselves, they collapsed and they were allowed to go bankrupt, indeed, for their failures. This process follows the principles of free market Capitalism. But in the 1980s, the governments of the G7 were not true to the paradigm and intervened to protect the international financial system.

The intervention of the U.S. and the rest of the G7, notwithstanding, the Mexican government had the leverage to negotiate a balanced arrangement. Unfortunately, the government did not use this leverage and accepted the demands of the banks through the IMF and absorbed all the responsibility. The fact is that the U.S. and the other G7 members, through the Bretton Woods institutions, decided to bail out the banks against the Mexican taxpayer, and the Mexican government signed on it. Indeed, Mexico was the first country to sign an agreement with the IMF to renegotiate its debt without getting any concessions, except the rescheduling of the payments. This established a terrible precedent for the rest of Iberian America. For it would provide the framework under which all other debtors would have to negotiate and sign. Mexico's government decided to bail out the foreign banks, agreeing to pay its debt in full, putting in jeopardy its future as a viable nation and effectively betraying the Civil Society that it was supposed to serve. In return, it also pledged to impose the most conservative and anti-social economic paradigm.

Some scholars assert that Mexico and the rest of Iberian America accepted the banks cartel's conditions because they saw this as a temporary burden. Bulmer-Thomas explains that Iberian American governments believed that, as the U.S. economy recovered, interest rates would drop, a renewed demand for commodities would raise back their prices, and this would pull debtors out from the crisis. But time passed and the economies did not recover.[7] I believe this was to be expected. The conditions of the private banks, embodied in the IMF agreements, demanded a strict and austere fiscal discipline and major macro-economic structural reforms, which specifically sought to depress the economies. Furthermore, although a drastic reduction of the deficit was urgent, with or without the IMF, the conditions demanded went beyond what was required. This was the moment of the so-called Washington Consensus, when a shift of paradigm was imposed to protect the interests of the banks and the MNCs, which constitute the world's centres of economic power. Thus, these very powerful interests were advanced, at that moment, through the Reagan Administration's neoliberal agenda. As part of the accord, banks agreed to re-schedule the debt and provide more funds to give some breathing air, conditioned upon the strict adherence to the change of paradigm. However, the banks did not lend more funds, and, although the U.S. economy recovered, the demand for commodities did not, and the terms of trade for Mexico and the rest of Iberian America deteriorated further. In 1985, exports for the whole region were no greater than in 1981, and a year later, with the new fall of oil prices, they were more than 20% below.[8]

What Mexico needed was to negotiate the downgrading of the debt to manageable levels. Instead, the Mexican government indebted the nation indefinitely. To be sure, the real reason for accepting the whole burden of the crisis was not its positive outlook on the immediate future of the economy, as some writers suggest, but, rather, the permanence of the PRI in power. What the government did was to abide by the demands of the creditors in exchange for the political support of the U.S. government, which was implicit, as long as the Mexican government would protect U.S. economic interests. This would mark the destiny of Mexico for the rest of the century. For the last three PRI administrations, until the fall of the party in 2000, would adhere to the demands of the Washington Consensus, while concurrently securing the permanence of their group in power. Their gamble was that Civil Society would not mobilize enough to defeat their autocratic system. They would continue to control the electoral process and secure the support of the U.S. by protecting its interests. This made the U.S. economic centres of power and the U.S. government, along with the local industrial oligarchy, the only constituents that the PRI would really acknowledge. If previously the PRI would work to procure some degree of welfare, thereafter, this mafia would completely subject the people of Mexico to their very private interests. The implications were clear. Crafting a new development strategy would be completely subservient to the protection of powerful domestic and foreign economic interests. And if this implied reversing the small gains that the mixed economy had generated, well, so be it, with total disregard for the welfare of the nation and its future.

Once the agreement reached through the IMF with the bank cartel was secured, the funds expected, particularly from small banks, did not materialize. And, although multilateral institutions increased their loans at the beginning of the crisis, private banks did not loan much more. Payment of multilateral debt has precedence over private debt and, for this reason, private banks, did not want to increase their exposure. On the contrary, at the insistence of the smaller banks, a secondary market emerged, where these banks would sell their debts with a small loss. This generated a net transfer of capital for the entire region, since Mexico and the rest of Iberian America were transferring much more in interest, principal and profits than the inflows they were receiving. In 1987, for example, the three multilateral institutions dealing with Iberian America –IADB, WB and IMF– were all experiencing positive transfers of capital. Beginning in 1982, and for the rest of the decade, there were negative flows of capital to the region.[9] During the worst years, in the mid 80s, the net outflow for the region reached $30 billion annually, equal to 4% of GDP and 30% of exports.[10] Thus, the economies were not only not recovering, but also becoming increasingly incapable of servicing their debts. The discount of the Iberian American debt in the secondary markets was averaging 30%. This was certainly true also for Mexico, which continued to suffer negative capital flows. For example, in 84 and 85, the net loss was $1.5 billion and $1.3 billion respectively.[11]

By 1985, the centres of power were forced to admit that the Iberian American debt, under the current scheme, was not going to diminish and that the crisis would not subside. Debtors were constantly falling in arrears with their payments. The Baker Plan to lend new funds from both private and official lenders, explained in detail in essay VI, was then put in place, along with renewed conditions for neoliberal structural adjustments. But this scheme also failed when the funds committed did not materialize entirely and the negative transfer of capital continued.

In 1986, oil prices dropped again, and this provoked a further deepening of the crisis and more devaluations in Mexico. In 1987 Brazil defied the system and declared a moratorium. This put severe pressure on the market value of the debt, but the centres of economic power still refused to allow countries to discount their debts. In contrast, the banks were being treated diametrically differently. Up to 1988, private banks were allowed to fiscally write off their Iberian American portfolios. However, Mexico and the rest of the debtors were still asked to maintain their debt and pay interests, on the nominal value of the debt and not on the market value. That is, they could not adjust their debts to reality and benefit from the discounts obtained in the secondary market because the centres of power did not want to face the "moral hazard"[12] of a debt that was impossible to be serviced, despite the fact that debtors continued to de-capitalize. Therefore, by the end of the decade, much of the debt was selling in the secondary markets with a loss of at least 30%, and for some countries it was approaching discounts of nearly 50%. Finally, in 1989, the so-called Brady Bonds were designed to allow debtors to swap their debt for bonds at the discounted prices of the secondary market. But, concurrently, as had previously happened with the Baker Plan, debtors were accused of not doing enough in the adjustment of their economic structure to open their markets and, thus, new demands for even faster and complete neoliberalisation were imposed as a precondition for participating in the use of Brady Bonds. Neoliberalism was thereafter applied in full force.

For the remainder of the Twentieth Century, the last three PRI administrations would exclusively concentrate on staying in power by protecting the interest of the local oligarchy and the international centres of economic power. In full adherence to its commitment with the IMF agreement, the de la Madrid administration devoted all of its efforts to the contraction of demand to reduce the deficit and begin the structural adjustment. In 1983, the first year, the contraction was so severe that it brought production back to 1980 levels and per capita GDP back to 1979 levels.[13] This left a considerable portion of industrial capacity idle, which more than tripled the incidence of open unemployment from 4% in 1981 to 12.6% in 1983.[14] At the same time, the by-now systemic devaluations and the effect of high inflationary rates, despite the contractionary policies applied, rapidly collapsed the labour endowments. Throughout the 1980s, the Mexican peso would suffer a continuous depreciation against the dollar, and, with every devaluation, prices would immediately be adjusted to compensate the cost of imports. However, manufacturers and retailers began to raise their prices beyond the level needed to compensate for the cost of their imports, for, whenever possible, they were also seeking to increase their profit margin positions. This put pressure on all prices of goods and services, including those that exclusively had local content. By 1990, the currency had lost 99% of its early 1982 value, and the market rate was now P$2,800 for one dollar.[15] This created an inflationary spiral, which engendered a vicious circle of inflation-devaluation-inflation that would not end until the mid 1990s, before the next collapse. During this period, Mexican real wages lost so much ground, that labour became clearly cheaper than in places where labour costs had traditionally been cheaper. A case in point is Hong Kong. For example, in 1969 the hourly wage in the electronic and garment industries in Mexico averaged 53 cents, versus 27 cents in Hong Kong and $2.31 in the U.S, in dollar terms at current prices. In 1984, instead, the Mexican hourly wage rate was $1, versus $1.50 in Hong Kong and $8.13 in the U.S.[16]

Laissez-Faire Imposition

The new role of the government was evident. It removed itself from its responsibility to act as the balancing agent of market forces in order to ensure the best possible welfare of the population, and it took the role of monetary regulator and official agent of the structural change to impose neoliberal globalization. Applying the neoliberal paradigm by supporting the supply side, it especially focused on the development of an export-oriented industry and disregarded the importance and leverage that a strong domestic market provides for social and economic development. Thus, instead of seeking to balance growth by supporting a strategy based on both domestic and foreign markets, it focused solely on exports. It was a complete 180-degree turn around; and the economy moved from a domestic market orientation to the other extreme of an exterior market orientation.

There is absolutely nothing wrong with becoming a competitive exporter; it all depends on the strategy used to become competitive. A country with a large population that excels competing in foreign markets is all the more viable if the strength of the domestic market is the platform used to compete abroad. If technology-based efficiency is a key element, internal economies of scale, provided by a large population with strong disposable income, are especially important. For the economies of scale provide the market potential to develop new and better technologies. This is the case of the United States that has a large population with strong disposable income. Much of the technological and economic progress achieved in the U.S. has been possible due to the sheer size of its domestic market. Mexico instead is in a radically different situation. An explosive population growth has made the country the thirteenth most populated nation in the world; but half of the population is largely impoverished and lacks the disposable income to develop a large domestic market. This is a hurdle in developing a competitive industry supported by large domestic economies of scale because the population suffers from extreme income inequalities. Thus, the first step is to develop the market internally by increasing the disposable income of consumers. But the government instead opted for anchoring its export emphasis on maintaining the income inequalities and exploiting the population. Therefore, the comparative advantages were not going to lie on growing economies of scale and the development of a technologically-competitive industry. On the contrary, the Mexican government made the conscious decision to provide a comparative advantage based on using the cheapest possible labour cost. If the age of the mixed economy did little to improve real wages, the last three PRI administrations decided to perpetuate and even widen the income gap. If the Echeverría Administration failed to carry out a fiscal reform, the last three PRI presidents –de la Madrid, Salinas and Zedillo– made the reform a moot issue and put all of their efforts in support of the large Mexican industrial conglomerates and the MNCs to use Mexico as an export haven. Instead of exporting competitive products based on technological efficiencies and competitive production costs due to large domestic economies of scale, the Mexican governments decided to export based on cheap labour. Thus, more than anything, Mexico became a cheap labour exporter. In a country that had experienced a population explosion of Malthusian proportions, it was criminal to abandon the population exclusively to the fate of the global economy and to the interests of domestic and multinational exporters that based their competitive strategy on cheap labour. In its struggle to preserve its political monopoly, the de la Madrid government made the conscious decision to abandon any strategy of social development and envisioned its self-preservation based on the use of supply-side economics to benefit its real constituents: the owners of domestic and foreign capital. Technocrats educated predominantly in economic and business schools in the U.S. and who supported the neoliberal paradigm now dominated the government. This way, the rhetoric of the technocrats spoke of the need for structural change to make the economy efficient and to go through an austere period to then resume development; they promised prosperity and "Reagan/Bushonomics" of the trickle-down effect; but the fact was that, with complete premeditation, they abandoned their country to Spencer's ethos of the survival of the fittest. In a country where at least half of the population has no opportunity to aspire to a median prosperity, the government's behaviour constitutes the most despicable form of treason. Thus, with de la Madrid, the country's in-bond plants, designed to assemble products with almost 100% foreign content, were placed in the centre of the export strategy. With almost no local content, the export of cheap labour was never as real as it then became. Laissez faire was now commencing its reign.

The collapse of 1982 had a devastating impact on the welfare of the population due to the huge debt overload and the change of the paradigm to Neoliberalism. Real wages collapsed, and poverty surged. Without a doubt, the de la Madrid Administration represented a period of complete regression. It took more than his entire six-year term just to recover the GDP level of 1982. A synopsis from the IADB of the impact of this crisis provides a clear answer of who bore the brunt of the adjustment. From 1983 to 1988, real wages fell between 36% and 46%, depending on the sector. Minimum real wages, as could be expected, did worse, losing 49%. Moderate poverty surged 14% to account for 32.6% of the population, and extreme poverty jumped 23% to account for 17.1% of the population. Thus, total poverty jumped to account for half of all Mexicans.[17] Social spending fell 33.1%, education 30% and health 23%. General food subsidies were phased out and replaced by targeted programs. Even worse, social programs targeting the extreme poor in rural areas were disproportionately cut or completely phased out. Clear signs of de-development appeared in areas where Mexico had shown, in previous decades, a marked and consistent improvement. For instance, mortality caused by avitaminosis and other nutritional deficiencies increased from 1982 onwards; and the number of infants suffering from slow fetal growth and malnutrition, both in absolute terms and in proportion to total diseases, surged.[18] In education, more children were either dropping out after completing a cycle or delaying their entry to the next level; and the proportion of children entering primary school in the relevant age group declined. Indeed, the collapse in real wages and the drastic cuts in social spending provoked the worsening of income inequality, which increased the Gini index from 47 to 53.[19] In 1985, the Valley of Mexico and the South Pacific Coast suffered a devastating earthquake of 8.1 on the Richter scale. The ineptitude of the government and its lack of commitment to provide emergency services to support tens of thousands who lost their homes became clearly evident. As a consequence, Civil Society mobilized to take charge of the situation and provide many of the services that a corrupt, inept and autocratic government was unwilling to deliver. But this was still not the end of Mexico's plight; it was going to get much worse.

Consolidation and Pledge of Allegiance

In 1988, despite the direct control of the electoral process and the retention of the so-called "corporate vote" of bureaucrats, corporatist unions, rural organizations and others, the PRI lost the presidential election to a coalition of left-of-centre democratic forces. However, the PRI refused to concede its defeat, and it blatantly rigged the vote count through the manipulation of the computing system. Nobody was able to show the evidence and prove the fraud, for the government put the entire documentation in basements of government buildings under closed military guard. To be sure, there was wide consensus that the election of Salinas was fraudulent, and, twelve years later, this consensus remains intact. More than ever, the legitimacy of the PRI's presidential system was in peril. Civil society had openly challenged it, seeking to change a structure that had demonstrated that it had completely abandoned the future of the country to the fulfilment of its very private interests and of those of its partners: the domestic and international centres of economic power. But the PRI succeeded in crowning Salinas as the next saviour of Mexico.

President Salinas grew up immersed in the values of a family of the PRI's high bureaucracy. His father had been Secretary of Commerce during the mixed economy era. A key cultural trait of the PRI clan has been the belief that it owned the country and that, in classic paternalistic fashion, this gave it the right to be authoritarian. Its argument was that people were like children, too immature to carve their own destiny. This is how the clan justified the electoral frauds when these were too overt to hide. In his father's generation, staunch nationalism reigned and, thus, almost all high bureaucrats had gone to Mexican universities. But in Salinas' generation things had changed. Now, Salinas and other heirs of the PRI's political families were getting a post-graduate education in the U.S. in universities of the so-called Ivy League or in other high ranked U.S. institutions. Hence Salinas belonged to the group of young technocrats trained in the philosophy of the neoliberal paradigm. In this way, his authoritarian and corrupt culture and his neoliberal beliefs combined, in an explosive formula, to fully consolidate the construction of the economic edifice dictated by the Washington Consensus. With de la Madrid, the new structure was initiated by a gradual liberalization of the market. The signing of the GATT, previously rejected by López Portillo, finally occurred in 1985 with de la Madrid, and foreign direct investment and speculative investment began to be systematically courted. Some sectors of the government began to be dismantled, and some state-owned companies were either sold or closed. With Salinas, his goal became, in high autocratic style, the complete insertion of Mexico in the dangerous U.S. aegis. For not only did he exacerbate the already extremely high Mexican dependency on the U.S. economy, [of more than 70%] but also he did it in the most rushed, subordinate and, therefore, weak position. And so, he set himself to convince the U.S. and Canada of the benefits of including Mexico in the NAFTA. Certainly, he disregarded the opinion of

Mexico's Civil Society and conducted the negotiations in constant concealment, hiding from public notice the most inconvenient aspects. Once more, it was clear for whom the PRI made its pledge of allegiance.

As part of his plan to win U.S. approval, he deepened the reforms of the government and of the economic structure that de la Madrid initiated. The opening of the economy moved faster, and the crusade to reduce the role of the government to a mere monetary and fiscal regulator was accentuated. The welfare state was further abandoned by reducing the support of social programs. The banks that had been expropriated began to be re-privatized along with more and more state-owned companies. Naturally, the privatization process was done, once more, in the most corrupt and crony way possible. Since de la Madrid, the formation of a parallel banking sector of stock brokerage firms was eagerly promoted and given to many of the previous owners of the banks and to other families politically connected to settle their grievances.[20] This time the decision-making process was completely executed using crony capitalistic practices. The industrial oligarchy was being well served. In stark contrast, medium-size and small businesses were mostly ignored. If de la Madrid had devoted himself to please the local oligarchy and its foreign partners, Salinas, without exaggeration, fell into a frenzy of messianic proportions, in which he believed that he was the saviour who was going to take the country to the first world in a quantum leap; only that he was thinking of less than one-fourth of the population, for he completely ignored the fate of the great majority. He worked exclusively for his cronies and the upper crust of the middle class and ignored the rest of the nation. Against the growing criticism in public opinion, he argued that wealth needed to be created and then redistributed. Against the lack of progress in the democratic process, he argued that the new economic structure needed to be in place before the political structure could be democratized.

Obviously, his strategy failed to even generate reasonable macroeconomic growth. In 1993, Mexico's GDP, based on 1980 prices, had grown a mere 20.7% since 1980. This is an average of 1.5% annually, well below the still high population growth, which averaged 2.5% for the same period.[21] Even at market prices, the average growth between 1989 and 1993 [the year before NAFTA, took effect] was a mere 3%, and in 1993 it was a dismal 0.7%.[22] These were the results that Salinas had delivered in the first five years of his six-year term. Without a doubt, his performance was a clear disaster, which further worsened Mexico's socio-economic picture. Comparing 1988 versus 1994 figures, the key indicators show a rapid deterioration. If the current account balance deficit was one percent of GDP in 1988, in 1994 it had jumped to 9.9%, $29 billion; if the trade balance had a surplus of 1.1% in 1988, by 1994 it had a deficit of 6.2% of GDP.[23] The income per capita, which had dropped 5.9% between 1980 and 1990, continued to slide in real terms for the remainder of Salinas' administration. The deterioration of Mexico's economic performance was thorough.[24] At the end of his term, foreign debt had increased by almost $41 billion to $140 billion, which increased the burden from 40.3% to 46.9% of GDP. Great corruption and ample mismanagement had caused this rapid deterioration. Mexico's rapid liberalization had provoked a tremendous increase in imports even before NAFTA had taken effect. Indeed, up to 1993, exports had grown 69%, whilst imports grew 133%, almost twice the rate. In 1994, already with NAFTA, the gap continued widening. In that year alone, imports grew by $15 billion and the trade gap jumped 37%, which represented a trade deficit of more than $18 billion.[25] Foreign direct investment legislation was almost completely reversed from the previous ethos that allowed not more than 49%. Now they were liberalized to allow one hundred percent foreign ownership with the exception of the energy sector. In his *laissez faire* frenzy, Salinas avidly promoted investment in the stock market and the banking system; but his administration was completely incapable of managing it wisely. The rush to free marketeering triggered the loss of control of the financial system. Between 1989 and 1994, Mexico received $63.4 billion in portfolio investments.[26] That capital had been attracted by offering high interest rates and it was being used to finance the trade deficit that had surged to a colossal 6.2% of GDP.[27] But banking to finance the expansion of aggregate demand on speculative investment cedes control of the economy to the perception of the stock market investors. And the perception that was generated was that the trade deficit was getting out of control. This perception and the perception of growing political uncertainty provoked a stampede of speculative capital fleeing the country. This constituted another devastating blow to Mexico's financial health. When portfolio investments left, the central bank's reserves collapsed. As a consequence, in 1994 Mexico lost more than $18 billion, equal to 75% of its central bank reserves.[28]

The influence that financial speculative investment had exerted on the economy provides a vivid example of the perils of globalization that puts institutional investors in the driver's seat of the world's economies. For regardless of mismanagement and corruption and the lack of democracy, the indiscriminate opening of the market puts the fate of millions of people in the hands of speculative investors that have no other interest except profit. This is what sheer Darwinian Capitalism can do to a nation with a government that admits no accountability.

An analysis of the Inter-American Development Bank asserts that the most important cause for the Mexican crisis at the end of 1994 was not irresponsible fiscal and monetary policy, but rather weak banking and financial regulation in a world of enormous and speculative capital flows.[29] But, from a democratic perspective, this is clearly a tremendous irresponsibility all the same. The Mexican government's irresponsibility provoked a collapse of the central bank's reserves, which destroyed any equilibrium in Mexico's balance of payments. The Salinas Administration, in its zeal for liberalization and in order to win the U.S. approval of the trade agreement, put the fate of the nation in the hands of stock merchants. The IADB points out the pervasive dominance of speculative investment at times of crises [in Mexico, Southeast Asia, Brazil and Russia] when it asserts that restoring balance of payment equilibrium is closely subjected to restoring investors' confidence in order to reestablish equilibrium in the capital account.[30] The Bank speaks, of course, making the assumption of the reign of a neoliberal economic ethos and argues that, in order to prevent recurrent crises, the regulation of financial intermediaries needs to improve, the distribution of data needs new standards and corporate bankruptcy practices must be reformed.[31] That is, governments better gear up to punctually report to the merchants of stock market speculation, literally paying homage to institutional investors in hope of their goodwill. The IADB's perspective of the economic environment and how countries ought to behave is a vivid example of Chomsky's enunciation of what market democracy is all about. In this ethos, the only citizens who count are the financial market speculators, the MNCs and the local business oligarchies.

The Mexican government's negotiation of NAFTA has been one of the clearest examples of how the bolts of power play in Mexico. In an effort to secure approval, practically all the conditions demanded by the U.S. and Canada were granted. Instead of taking a responsible position, where the objective would have been to negotiate a beneficial agreement for the development of all sectors of Civil Society, the Mexican government spent its time lobbying in the U.S. Congress, trying to convince representatives and senators to vote in favour of the agreement by eagerly satisfying their demands. It was a pathetic negotiation. To this effect, the government spent millions in a high profile public relations campaign, hiring professional U.S. lobbyists and several well-known PR firms to buoy support for the agreement. In some cases, the negotiations became so pathetic that they turned embarrassing. This is the case in Florida, where the orange growers, in a last minute demand, pressured their representatives to vote against the treaty unless they extracted the protection of their business from the Mexican negotiators, by keeping out Mexican oranges from the market. Naturally, the Mexican government readily accepted.

Trade agreements are certainly good as long as they benefit all the participants involved. In the case of Mexico, in relation to the U.S. and Canada, there are extreme asymmetric conditions that put their economies far apart in their level of development and efficiency. Therefore, Mexico cannot pretend to become a developed economy that competes as an equal partner with the U.S. without receiving support through compensatory programs. The European Union is a good point of reference. In the EU, the insertion of the countries of the Mediterranean basin has been carried out in a very gradualist fashion, with the purpose of bringing the less developed economies up to the level of the others. In Mexico, where the differences are much more extreme, a very well thought-out and even more gradualist agreement was absolutely necessary. The difference between Mexico and the U.S. is abysmal. Mexico's population of 96 million in 1998 accounted for 36% of the U.S. population; but the income per capita was, in that year, only $3,840 or 13% of the U.S, thus, the size of the Mexican economy is equivalent to less than 5% of the U.S. economy.[32] However, the Mexican government, instead of negotiating a win-win situation, behaved as the most enthusiastic supporter of immediate insertion. Certainly, the agreement provides a gradual opening of many economic sectors, but others, especially those that are not competitive in world markets, were left practically unprotected. In the EU, transition periods for Spain, Portugal and Greece were established; not just with gradual integration but also with ample compensatory funds as well. These included strong financing for the development of a critical infrastructure in transportation, energy and industrial development and are designed to enable these countries to become competitive and to increase the welfare of their societies. Greece joined the Union in 1981, and it is still receiving compensatory funding. In the spirit of the EU, there is certainly a commitment for the overall development of all EU members and their populations; and the Mediterranean countries have clearly progressed in a true quantum leap, from their previous state. It should be clear that this is absolutely not the case with NAFTA. Here, the agreement represents a business deal between the Mexican political-economic oligarchy and the centres of U.S. economic power. Nothing in this agreement bears the spirit of human development.

Certainly, the EU is much more than a mere trade agreement and encompasses a wide array of social, economic and political aspects, where member countries cede part of their national sovereignty. But even in the case of a mere trade agreement, such as NAFTA, the Mexican government could have demanded compensatory measures and could have even opted for maintaining some sectors protected indefinitely, until the conditions for a gradual opening were met. The Salinas government, instead, was to prey on the welfare of its nation for pure political and economic gain that was to benefit very private interests. The government's simple strategy was to sell Mexico's geographical location, next to the world's most powerful economy, as a production platform with the lowest labour costs. Nothing more was on its agenda except for retaining power through the support of the U.S. and the industrial oligarchy. This was a real sell out of sovereignty. Salinas and his cabinet sold cheap labour as a commodity to the MNCs and made every effort to ensure that this commodity would be kept docile; for they also systematically repressed the struggle of workers for union organization, especially in the in-bond plants. The NAFTA agreement is so one-sided that, according to the NGO Public Citizen, it was serving as the model of reference for the, for now, defeated Multilateral Agreement on Investment.

Crony Deregulation and Privatization

There is little question that, in most instances, an open economy in the Twenty-First Century is more plausible for Mexico than a closed economy, because most economic sectors, with some special exceptions, should be in the private sector where they are most efficient, and because the country is already engulfed in the realm of the global economy and it needs to be competitive. However, due to the lack of a democratic system, Mexico does not have an open economy; it has a semi-open economy because it has a semi-open society. When future governments begin to systematically account for their deeds, then Mexico will have an open society and an open economy. For these reasons, the privatization of state-owned companies has been far more detrimental than beneficial to Mexico's Civil Society. Between 1970 and 1982, more than two thousand companies were created by the government or rescued from the bankruptcy they had fallen into in the private sector. This amounted to ten times the number of state-owned companies that the government had before 1970.[33] Beginning with de la Madrid, and even more so with Salinas, most of these companies were privatized or closed down. Beginning in 1983, most of these businesses were transferred to the private sector, but the process was done, in most cases, with very little transparency.

I have previously discussed the nature of neoliberal privatization and deregulation through top-down democracy. In Mexico's case, suffice it to say that cronyism was the trademark of the

Salinas Administration in its privatization of state-owned companies and the deregulation of industrial sectors. Beyond the perils of Neoliberalism, the fashion in which the privatization and deregulation process was carried out was marred by conflicts of interests, fraud and all types of corruption. A mock system to review bids from prospective buyers was set up to make the process appear as a legitimate evaluation of the bidders' offers. It apparently sought to identify which offers best complied with the criteria required. But the fact was that many of the privatized companies were sold not to the holders of the buying offers that would be most beneficial to the nation, but to cronies that were doing backroom deals with government officials, including Salinas.

As could be expected, little hard evidence of these deals has been uncovered, [lack of political will to investigate has dominated the office of the Attorney General] but there has been ample criticism and great suspicion that companies such as Telmex, the old telecommunications monopoly, and Imevision [TV Azteca], the state TV network, among many others, were sold to people that agreed to share the business with top bureaucrats. In many cases, there have been accusations that politicians have provided federal funds to bidders necessary to make their offers the winning bids. Indeed, a wide array of accusations of fraudulent practices relative to the privatization of many state-owned companies, such as Imevision, of banks such as Banco Unión and Banpaís and of the closing of state companies such as Conasupo, have involved high-ranking politicians such as former Tabasco governor Madrazo or one brother of Salinas. It was a huge web of corruption and murder that characterized the Salinas term, including the murder of the PRI presidential candidate Colosio in the middle of his campaign, and PRI's president Ruiz Massieu. To make things worse, drug traffic cartels, which began to emerge as a serious operation in the early 1980s, penetrated many areas of federal, state and municipal government, creating an even more intricate web of corruption. Even the murder of a cardinal occurred, supposedly, in an unrelated exchange of fire between two different drug cartels. But the fact is that these cartels have been able to penetrate all levels of government where they have been seeking protection for their business in exchange for a piece of the action; and it is highly suspected that some of the privatized companies were purchased with drug money. The embezzlement of funds in the process of privatization became widespread. Many of those involved flew out of the country, such as in the case of Aeroméxico and in some of the banks sold. One of Salinas's brothers has been in jail for several years with multiple charges related to embezzlement and murder accusations that are still under investigation. Donations to finance the PRI campaigns also were entangled with the privatization process. Salinas personally requested millions of dollars from each tycoon in a private dinner. One of the schemes that Salinas used to fund the PRI's campaigns was to privatize the banks, selling them to a select group of cronies who supported the neoliberal paradigm, who were willing to fund the expenses of the PRI and who greatly benefited from the deal.[34]

Salinas also began a vast program of construction of high-speed highways by developing a network of toll roads under private management. As expected, the government awarded fat contracts to construction companies in the traditional corrupt fashion. Infrastructure projects were traditionally given to companies who were ready to kick back a piece of the total investment. Typically, budgets were purposely inflated to include the kickbacks. The only difference was that this was the first time that highway construction had been financed by the private sector. Generous paybacks were included. In return, the private sector would receive concessions to manage them for a time span necessary to recover its investment and make a profit. But all the new highways imposed usage tolls so steep that, even today, they have remained greatly underused. In the first years they were literally empty. These highways charge some of the most expensive tolls in the world; and, yet, rather than providing top quality service, it has surfaced that their construction had violated the specifications required. Substandard materials and engineering specifications were used in order to increase profitability, violating the requirements of the contract and federal transportation safety standards. But the private sector is not the only one to be blamed in this disaster. There was careless planning of the program. The government arbitrarily made assumptions of traffic flows, tolls and interest rates. These assumptions were grossly miscalculated, and when the traffic loads expected did not materialize and the interest rates were much higher, the construction companies were pushed near bankruptcy. Later, the government decided to rescue them, spending the equivalent of what would have cost to build the highways without private operation. A culture that was a mix of corruption and gross management inefficiency had reached daunting proportions. The PRI, with the help of its cronies, transformed itself from an autocratic regime into a real mob of bandits devoted to preying on the nation's welfare.

In sum, Mexico became hostage to an intricate mob of PRI politicians and their many cronies, whose only business was to prey on the national wealth for private gain. Nothing in the Mexican process of privatization and deregulation was done with the objective of benefiting the country. Everything was exclusively done to fulfil the ambitions of very private interests. None of the issues discussed earlier, such as the effect of privatization and deregulation on the general welfare, labour endowments, competitiveness, downsizing of the workforce to boost shareholder demands, oligopolisation, among other issues, received serious consideration. Even worse, it is less than clear how the proceeds from the sale of all the state-owned companies were used. To be sure, some of these actions will haunt the country for decades, as a consequence of the billions and billions of dollars that were used, in the Zedillo Administration, to rescue the newly-privatized banking system from its collapse and then passed on to the taxpayer as public debt. The only key industrial sector that was not privatized was the energy sector; for the government encountered strong opposition, even within its own ranks, in its attempts to sell Pemex and the two state-owned electrical power entities. They appear to represent a last illusion of sovereignty that the country has.

The Worst Collapse

NAFTA became effective on January 1, 1994. Salinas had envisioned this date as the crowning of his plan to lead Mexico into the First World. But this was going to be one of the worst years in the history of Mexico. On the same day that NAFTA took effect, a guerrilla group of Lacandón Indians, in the deep Southern state of Chiapas, declared war on the Mexican government, accusing it of being the main perpetrator of the insulting exploitation of the poor and of the Indian population. The Indian army, led by a Mexican believed to be of Spanish stock, identified itself as the Zapatista National Liberation Army, or EZLN, in memory of a Mexican revolutionary hero. Launching an armed attack against the Mexican army, the uprising denounced both the local oppressive oligarchic system and global economic Neoliberalism. The uprising transcended the national sphere and became an international symbol of the condemnation of the exploitation of indigenous minorities by the apologists of the Washington Consensus. After the initial military skirmishes ended in a sort of political stalemate, legions of members of global Civil Society, especially from Western European countries, committed to social justice, rushed to Chiapas to defend the uprising with their presence.[35] It became a symbolic war against the PRI, the domestic oligarchy and the centres of economic power that were imposing savage Capitalism. The armed conflict ended after a few days, but the condemnation of the oppressive system became a huge and decisive world media success, for the Mexican government did not dare to openly attack them using its clearly overwhelming military advantage. The government initially sought to be perceived as receptive to the EZLN demands for autonomic rights. Later, the Zedillo Administration tried to defeat the EZLN by outmanoeuvring it in the media, by repressing it in its communities and by hoping that time would wear it out. It is estimated that nearly fifty thousand soldiers and at least ten paramilitary groups, supported by the government, plus thousands of state policemen were deployed in the immediate area to ravage the EZLN communities in a low intensity war.[36] But, although Zedillo completely failed in his strategy, the new Fox Administration has not shown a genuine will to arrive at an agreement with the EZLN that will satisfy the latter's particular demands. Nonetheless, it has become evident that the only way to successfully deal with the EZLN is to acknowledge its grievances. For the EZLN continues to enjoy great support, both internationally and with a substantial segment of the Mexican Civil Society. Clearly, the majority of the global Civil Society agrees with the EZLN.

In March of 1994, Luis Donaldo Colosio, the PRI candidate, was assassinated, and a few months later Francisco Ruiz Massieu, the PRI's president was also murdered. Neither of these crimes has been resolved. Obscure political interests have impeded a real and serious investigation. Zedillo became the new PRI candidate less than five months before Election Day and, one more time, won the election in the traditional way. Officially it was recognized as a fair election. Most of the press regarded it as legal. However, there was ample documentation that showed that the process continued to be grossly manipulated; and while it may had have complied with certain legal procedures, the vote of millions of people continued to be controlled by the PRI. It was far from being a democratic election. Then in December, three weeks after Zedillo was sworn in, the peso collapsed in rapid successive falls, losing in a few days almost 40% of its value against the dollar. Salinas had refused to devalue the peso during the electoral year. Since 1976, when the dollar exchange rate with the peso was $12.50, the successive crises that occurred during the next eighteen years, had continued to erode the value of the peso. The erosion was so staggering that by 1993 the exchange rate was more than P$3,000 for one dollar. In that year, the government erased three zeros for practical reasons and to reduce the shame of managing a pulverized currency. Thus, at the time of the next collapse, the now called "New Peso" exchange rate was about P$3.45 [formerly P$3,450.00 x $1] for one dollar. But, as previously explained, the artificially healthy economy collapsed when the current account deficit could no longer be sustained as the central bank reserves had eroded more than 75% in 1994, from $25.1 billion to $6.2 billion.[37] The peso immediately lost more than 30%, and by early January it had lost more than 40%. At the end of 1995, the exchange rate was close to P$8 x $1, a loss of more than 50% from the P$3.45 rate of December 1994, a loss of 99.8% of the value of the 1976 exchange rate. Beyond the issue of the current account deficit and the pressures of inflationary differences between Mexico and the U.S., as its main trading partner, the Economic Policy Institute explains why the peso had to collapse to regain competitiveness, from a market economy strategy perspective. The overvalued peso made Mexican products less competitive in the U.S. market and it made imports very competitive, for they became cheaper, thus contributing to an unprecedented trade deficit; equally important, it made Mexican workers less cheap and thus made Mexico a less attractive investment location for MNCs,[38] that would then look to countries like China where they could pay death wages.

This new crisis really constituted the writing of the epitaph of the PRI hegemony in power. For the PRI would gradually lose its grip, during the Zedillo Administration, until losing the presidency in 2000 after seventy-one years in power. Immediately after the collapse, the U.S. Administration stepped in to put together a bailout of U.S. institutional investors that were caught in Mexico's economic debacle. The loss of Mexican reserves had left many U.S. investors with huge losses. The U.S. Treasury department, along with the IMF, assembled a line of credit of $52 billion. As a guarantee, it demanded to use Mexican oil revenue generated from its exports to the U.S. Thus, payments for oil went to the U.S. Federal Reserve Bank to guarantee the scheduled payments of the emergency line of credit. This was completely humiliating for the country. And, yet, the Mexican government readily accepted it. With no moral support from its Civil Society, it nodded at the demands of the U.S. even when these demands were completely out of line from a free market economy perspective. The PRI's immediate acquiescence confirmed one more time that its only vested interest was to remain in power and that its most critical support was coming from abroad. The situation could not be more illustrative of the corruption of both the Mexican government and the capitalist centres of power. For the U.S. government, fearing a political backlash at home, refused to let U.S. investors in Mexico lose what they risked in the Mexican market and they forced the Mexican government to accept bailing out the investors with a charge to the Mexican taxpayer. Free market rules were "overruled" by a very visible hand of the U.S. government.

This is how the bail out of U.S. investors came about. Throughout 1994, institutional investors began to move out of the Mexican stock market, due to the increasing instability generated by the EZLN uprising and the murders of Colosio and Ruiz Massieu. With a presidential election that summer, there was a growing perception, among investors, of unusual political conflict among opposing forces manoeuvring inside the system. Furthermore, there was increasing criticism of the refusal of the Mexican government to let the peso slide to its real value, given the huge trade deficit. The Mexican government reacted by raising the interest rates of its CETES [peso-denominated treasury certificates of deposit] with variable interest rates and converted them into dollar-indexed *Tesobonos* [similar to U.S. Treasury bonds] with fixed rates.[39] In contrast to the Mexican crises of the 1980s, where Mexico experienced drastic cutbacks in lending by private international banks, the 1994-1995 debacle was a hurried escape by speculative investors. An UNCTAD analysis reported a flight out of Mexico by international creditors in the form of the rapid liquidation of Mexican treasury bonds and their conversion into dollars.[40] When the peso collapsed in December and the bonds were no longer payable, the U.S. government intervened to rescue U.S. investors who held the overwhelming majority of the *Tesobonos*. This is when it was arranged that Mexico would get a rescue package of $52 billion. This package went directly to pay the *Tesobonos'* holders, whilst Mexico added to its already huge debt more debt that was refinanced into mid and long-term debt in international capital markets. In sum, U.S. investors were bailed out when the U.S. government forced the Mexican government to bear the entire responsibility and pass it on to the Mexican taxpayer. As I previously asserted, this situation goes completely against the principles of a free market economy; a fact that shows that the free marketeering verbiage is considered fair game as long as it benefits the centres of economic power. For, in the case of purely speculative investments, the investor who takes a direct risk by buying instruments that are exposed to market risks is liable for his decision. That is, it is a speculative investment because it speculates on a number of expectations, especially a stable exchange rate. Obviously, there cannot be any absolute guarantee of stability when investing in an instrument denominated in a foreign currency, especially a weak currency, even if it is indexed to the dollar. The UNCTAD report further explains that the chaos created by the stampede of international creditors is far worse than those of the debt run by creditors of domestic debtors, because it easily turns a liquidity problem into a generalized insolvency and default by altering key asset prices, interest rates and exchange rates. This situation is equivalent to that of a bank unable to meet a sudden run by its depositors. The difference is that a bank could be insured to a limit, such as the U.S. FDIC that insures deposits up to $100,000 per depositor. In the case of a country, there is no equivalent insurance, and, thus, investors are taking a risk based on their level of confidence. In the flight of foreign investors in a herd-like behaviour, as they usually do in developing nations, many will get burned. This is something that should have been allowed. It was U.S. investors investing in the Mexican stock market who initiated the stampede in the first place. But the U.S. forced the Mexican government, and the PRI nodded at it in order to remain in power. This, of course, not only hurts international debtors, but employment and output are badly hurt and constitute some of the major consequences of a macroeconomic debacle.[41] To be sure, in this case, it was only Mexico that bore the whole blow, for U.S. investors were bailed out by Mexican taxpayers.

An article in the Mexican magazine Proceso keenly describes the debacle, following an analysis of globalization journalists from Der Spiegel magazine, Hans-Peter Martin and Harald Schumann. From their book "The Global Trap", the article recounts how the strategists of Mexican growth kept the dollar cheap and interest rates high, which did not only keep the voters happy but attracted over $50 billion in short-term capital from U.S. investment funds. In 1994, the artificial boom imploded, and the peso devaluation was inevitable.[42] It explains that, for fear of the rage of its defrauded investors and of a world financial collapse, U.S. Treasury Secretary Robert Rubin, and IMF President Michel Camdessus, put together the largest emergency credit of all times, after the Marshall Plan. To be sure, this saved the U.S. investors but sank Mexico in the worst possible economic crisis. Zedillo imposed a new shock treatment to regain the confidence of financial markets. Annual real interest rates of more than 20% and drastic budget cuts generated the worst recession in sixty years. In a few months, 15,000 businesses went bankrupt, three million people lost their jobs and purchasing power dropped to one-third of its pre-devaluation value.[43] Now the Mexican debt was more than $166 billion.

And, yet, this was not the end of the crises. In the same way that Zedillo nodded to the U.S. government and, like a good pupil, behaved by the book, he now nodded to the demands of the Mexican banks that were going bankrupt. This was going to add another huge amount to the public debt that a treacherous government was going to impose on taxpayers, in order to rescue a corrupt and inept domestic oligarchy, in an effort to remain in power. In 1990, Mexico created a federal deposit insurance fund named FOBAPROA. When the economy collapsed in 1995, interest rates went up as high as 140%. The Central Bank, in line with IMF instructions, had raised rates to depress aggregate demand and fight inflation. But the banks tried to increase their margins and raised rates beyond what was necessary. Suddenly, millions of consumers, with personal loans and credit card balances, found themselves with interest rates that were adding to the balance at a pace much faster than their capacity to pay the principal. It rapidly surfaced that the banks were not only trying to protect themselves, for there were hundreds of fraudulent transactions perpetrated by the banks in connivance with businesses and politicians. Since these fraudulent transactions were not paid, the banks decided to compensate for these losses, in as much as possible, via the collection of high interest payments imposed on consumers. The filth of the banking privatization began to surface in its full dimension. When the crises imploded and interest rates skyrocketed, consumers realized that it was impossible to pay their loans. It also became evident that something had been rotten in their loan contracts from the very beginning. It became evident that many banks were systematically cheating consumers with their loans. For instance, many banks, as a policy, would structure mortgage loans with negative amortization schedules, without informing their customers. This had been in practice years before the collapse, as a way to increase revenue, deceiving customers, who later realized that their principal had increased instead of diminished. As a reaction, hundreds of thousands of consumers organized themselves in different groups to deal with the banks with the help of legal counsels. A group formed by farmers, *El Barzon*, that was suing the banks for the outrageous interest charged on the farming loans, soon included hundreds of thousands of consumers and became the largest group organized to legally fight the banks. Very soon there were millions of bank customers organized in different groups to contest the payments demanded by the banks. They challenged the banks regarding the mounting balances as simply impossible to pay. More than three million credit card holders alone contested their balances and refused to pay them. Bank customers had contracted loans and used credit cards, paying interest rates of thirty percent or more. But when the banks demanded interest rates above one hundred percent, consumers not only regarded the demands as completely unrealistic but also as illegal and immoral and accused the banks of practicing usury. The banks insisted on their demands alleging that they would collapse otherwise, which was true for they had huge portfolios of bad debt. But consumers and the greater part of public opinion considered that having large bad debt portfolios was a result of not only inept management but of numerous fraudulent loans. Furthermore, it was pointed out that in a market economy, if risky and ineffective management brings about financial collapse, this outcome is a natural consequence, and should be left to run its own course, just like it had happened in the U.S. in 1929. To be sure, it was argued that bankruptcy was one of the natural outcomes of the activity of players participating in a market economy. Thus, there was no reason to commiserate with market players who had brought about their own demise and tried to force consumers to bail them out with outrageous demands.

As for the government, throughout this period it sided with the banks, alleging that the banking system could not be allowed to collapse and avoided addressing the mounting accusations of fraud. Throughout the dispute, the banks constantly threatened people. But the fishy smell of corruption gradually showed that the banks had involved themselves in all types of illegal practices. Bank executives and board members were lending themselves millions of dollars to create new businesses or lend money to friends in the most corrupt style. It soon came to light that some banks had been partially bought with loans given by the same banks. Moreover, it was found that the borrowers, who now were boasting as chairmen of the banks' boards, never paid these loans. To be sure, the Salinas government had been directly involved in these practices, including at least one of the president's brothers.

It became evident that government officials encouraged prospective buyers who were willing to share in the business. They encouraged them to buy the banks by providing them with loans that would help them make a good offer and get it approved by the government. Corruption had reached a new ceiling. The filth discovered uncovered more and more filth inside the high spheres of government and the business oligarchy.

Months passed until it became evident that most consumers would not accept the demands of the banks. Then, the government decided to bail out the banks, discharging them from their bad debt portfolios by buying them and passing them to the taxpayer as public debt. Enormous opposition to the government's intention immediately emerged. The PRD, the left-centre party, strongly opposed the measure. However, the PRI and the PAN, the right-centre party, joined their votes in congress to pass the measure and defeated the PRD and the larger part of Civil Society who opposed it. High manoeuvring was performed manipulating many regulations. The deposit insurance fund was designed to safeguard the deposits of bank customers. However, the government and the banks alleged that if the banks would go under they would not be able to return their customers' money. At the time, unlike the U.S. FDIC that insures deposits up to $100,000, there was no limit to the amount insured. This was their main argument against letting the banks go under. But, contrary to their claims, what they were really pursuing was to bail out the banks from their huge mismanagement and from all the frauds in which they were involved. The purpose for the fund was to protect deposits. Therefore, if banks were going bankrupt, the fund should have protected the deposits. Since actual reserves of the fund were much lower that what was necessary to protect the full amount of deposits, then the government would have had to bail out the banks' customers, but not the banks. Bailing out the customers would have required acquiring public debt, but it would have been much less than what was required to protect deposits plus the bail out of the banks and their illegal transactions. Once customers had recovered their deposits, they could have gone to other banks that had survived or to new banks that would come in to fill the void generated by the banks that collapsed. As long as the deposits of all customers were covered there was no real danger of a financial collapse. Again, customers would take their liquid assets to other banks. But the government instead changed the bylaws and nature of the fund with a new name, IPAB, and decided to buy all the bad portfolios of the banks, take control of the collapsing banks, clean them out of liabilities and sell them.[44] This happened in the case of several banks that were later bought mostly by the two top Spanish banks BBV-Argentaria and Santander-CH. Other banks that did not fold, including Banamex, the largest bank in the industry, were allowed to pass on to the Fobaproa all of their bad debts, including those of companies such as hotel developer, Grupo Sidek, with a debt of $2.2 billion.[45] In this and in many other cases, the taxpayers bailed out both the debtor and the bank. The local oligarchy was released from all its debts, including those that were illegally structured. It also surfaced that the PRI had received millions of dollars to support its political campaigns from the banks' funds from some of the new bankers that had illegally acquired funds to buy the banks. This was part of the cosy relationship between bankers and politicians. Banco Union and its former chairman, Cabal Peniche, who was fighting extradition in Australia, Lankenau from Banca Confía and Rodríguez from Banpaís have been the scapegoats chosen by the government and have been publicized extensively in the Mexican and international press, but they are not the only cases by any means.

To give perspective to the size of this huge banking embezzlement, the following figures provide a clear picture of the crisis. It is truly mind-boggling. In 1998 the amount that the government pretended to pass to Fobaproa was $60 billion. In 1998 domestic debt before Fobaproa was $30 billion; thus, with Fobaproa it would go up to more than $90 billion,[46] a 200% increase. This additional burden on taxpayers' money is equivalent to 38% of the total 1998 foreign debt of $160 billion, based on World Bank figures;[47] and total domestic and foreign public debt, which was about $100 billion at the end of 1998, would now increase almost 60% to nearly $160 billion in 2000.[48] With about 96 million people, the per capita burden from public debt was now about $1,700, equivalent to more than 40% of per capita GDP. The government had completely indebted the nation, and a substantial portion of this debt was now the result of a huge banking embezzlement. It was estimated that the payment of interest to service the public debt would increase 185%, and it would constitute 27% of the federal budget.[49] Social writer Enrique Semo points out the unusual components of the debt. For 40% of the bad debt portfolio corresponds to loans transferred to the fund that were given to 400 financial groups, where the average amount of each loan was $60 million.[50] Clearly, this 40% had nothing to do with protecting deposits. These loans were bad debt from embezzlements and mismanagement between banks and the local oligarchy. A year later the opposition forced the government to conduct an audit. By that time many representatives were accusing the government of trying to hide information that would reveal the names of those who were involved in the embezzlements. In the meantime, more and more debt was being transferred to the fund, and accruing interest was being added despite the fact that Congress had not approved the transfer yet. Some representatives in Congress were mentioning numbers as high as $93 billion.[51] It had become fairly evident that there were billions of dollars that were being fraudulently transferred to the fund. At the time, the Economic Commission for Latin America and the Caribbean offered its opinion in the voice of its Executive Director, Jose Antonio Ocampo. He said that "as a general rule, the state must provide enough resources in financial rescues in order to reestablish confidence in the financial system; but not certainly to rescue private trusts that were lost due to errors of evaluation of big investors", he emphasized.[52] At the end, the audit conducted by a Canadian auditing firm revealed that there was something more than $7.2 billion transferred with irregularities, including more than $4 billion of illegal inter-bank transactions and more than $600 million of outright frauds. However, the auditor complained that the audit was only a partial report, for the government only allowed him to audit the banks that were formally intervened and not the banks that were intervened in practice, for these represented a greater portion of the system, he said.[53] The opposition demanded that the names of those involved be revealed, but the government, with great cynicism, argued that the bank secrecy law did not allow it. Michael Mackey, the auditor, indicated that, given the limited access that his team had, the cost of $65 billion that the Treasury estimated at the end of 1998 will surely be higher.[54] A month later, in September of 1999, the government admitted that the cost would be about $92 billion or 19.3% of GDP, at the end of the year; but Standard & Poors estimated it to be about $104 billion or 21.3% of GDP,[55] and the total debt transferred to this fund continues to be revised always upwardly. During the fight in Congress between the left and the PAN and the government, the Fobaproa was closed and the new deposits protection agency was created, whose first priority was to execute the bailout of the banks. It was a legal manoeuvre to provide legitimacy to what had been executed illegally through the Fobaproa.

Despite the government's efforts, more information surfaced revealing that all types of credits were transferred to the Fobaproa with the full acquiescence of the government. For instance, in late 1999 the left made public detailed information about credits that two state companies, CFE and Ferrocarriles Nacionales, transferred to the fund for about $250 million, and denounced that prominent PRI and PAN members, including Vicente Fox, had benefited through the fund. It was denounced that the balance of the loans that many politicians from both parties had with different banks was drastically reduced and that the amount reduced was transferred to the fund. It was also denounced that a seemingly endless group of people were allowed to transfer their debts to the fund.[56] In sum, it was denounced that the bailout of the banking sector was a complete embezzlement by people from the PRI, the business oligarchy and some members of the PAN. Of course, in line with its autocratic rule, the government did not allow any legal prosecution of its cronies.

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