

INSTITUTE OF CURRENT WORLD AFFAIRS

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Mexico Blames its Middle Class

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Mr. Peter Bird Martin  
Institute of Current World Affairs  
Wheelock House  
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Dear Peter,

Mexico's middle class - in a country which has tumbled from boom to bust in less than a year - is being blamed for its nation's economic woes. And to punish the guilty, President Jose Lopez Portillo has nationalized the banks, established foreign exchange controls, and frozen the dollar accounts of those "unpatriotic" Mexicans who refused to keep their money in pesos.

Only last January, Mexico was being touted as one of the great economic success stories of the decade. Before the present crisis, Mexico's annual growth reached an enviable eight percent. In five years, an estimated four million jobs were created, petro-chemical production doubled, steel output increased by fifty percent, and Mexico rose to the fifth largest producer and third largest exporter of oil.

But in February, with the first of two devaluations, Mexico's economy headed for a nose dive. This year no economic growth is expected, and according to government figures, one million people have already lost their jobs. This in a country where forty-five percent of the work force has no steady job or no work at all.

Seventy-five percent is now considered a conservative figure for this year's inflation rate. And Mexico, which once was a doted-upon favorite of the international banking community, now can't even get the loans necessary to pay the principal on its \$80 billion dollar foreign debt.

What happened? According to President Jose Lopez Portillo, the middle class and its bankers are the main culprits. On September 1st, in his sixth and final State-of-the-Union address, Lopez Portillo claimed that Mexico's economic crisis was caused by internal and external factors. Mexico had been hit not just by the drop in the price of its principal export, oil, but of its other exports, including coffee, cotton, and silver, as well.

But the President believed the internal factors to be much more damaging and insidious. He said, "A group of Mexicans

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has looted more money from the country than the imperialists who have exploited us since the beginning of our history."

The president went on to cite figures incriminating the plunderers: they hold \$12 billion in dollar accounts in Mexico, \$14 billion in dollar accounts in the United States, and have invested an estimated \$30 billion in U.S. real estate.

While the President's accusations were also directed against the professionals and well-to-do farmers who had changed their pesos to dollars, only the urban-based business sector has vociferously challenged the President's remarks. Even before the President had finished his September 1st address, the bankers present were seen filing out. On September 3rd, the president of Mexico's Business Coordinating Council, Manuel J. Clouthier, took out a full-page advertisement in the capital's most prestigious newspaper. In a 17-point declaration, he rejected Lopez Portillo's accusations, and gave his own analysis of the causes of the country's financial crisis.

"The one principally responsible for the 'sacadolares' (dollar-exporters) was the government itself, which maintained the peso overvalued and the dollar artificially cheap," he said. "To have expected the people to have acted any other way was a poor judgement on the part of the government. Inflation was the cause of the capital flight, not vice versa, as is claimed."

As Mr. Clouthier pointed out, in 1981 Mexico's inflation rate (30%) was more than three times that of its northern neighbor (8%). But despite this disparity, the Mexican government didn't devalue the peso.

As a result, it became cheaper for middle class Mexicans to take a two-week vacation in Miami than in Acapulco. Many condominiums were cheaper in Texas than in Mexico. And, safeguard their savings against an inevitable devaluation, many members of the middle class opened dollar accounts in Mexican and American banks.

Businessmen and professionals alike generally accept that the exchange controls also imposed by the President were a necessary measure that should have been instituted a long time ago. What many don't accept, however, is that they themselves were the only or principal ones at fault.

Many share the emotions of a Mexico City food industrialist who said, "Jose Lopez Portillo made these decisions in order to cover himself with glory; because, if he hadn't made these decisions, he would have gone down in history as one of the worst presidents we've ever had."

Nor do some bank employees - now organized into a government-controlled trade union - accept the President's charges. As young bank teller Oscar Viscaya Tapia put it, "Why did President Lopez Portillo implement these measures? Because people took a lot of money out of the country. But let's ask his family where its money is. And let's ask the politicians where they have theirs."

The middle class feels betrayed. For his first five years in office, Lopez Portillo had been a faithful ally of the business sector. Shortly after taking office in 1976, he signed an Alliance for Production pact with the private sector's leaders, guaranteeing them tax breaks and other incentives to cooperate in the execution of the government's development programs. And in the process, the wealth of many - and their sense of self-importance - grew rapidly. What is, until the President slammed the door on them.

Even before nationalisation, the government wielded immense influence in Mexico's mixed economy. Government-owned and operated enterprises include: oil, petrochemicals, airlines, railroads, telecommunications, electricity, fertilizer and sugar production, and coffee exportation.

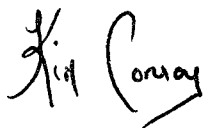
Many are also pessimistic and cynical about the government's ability to run anything - least of all the banks - without reams of red tape, inefficiency, and corruption. As a recently retired security engineer of PEMEX, the government's oil conglomerate, stated, "I'm afraid I have a bad opinion of the industries which the government has taken over. In all sincerity, that which they touch goes bad. Very few of their enterprises have flourished. If you don't have a personal stake in something, you just don't take care of it the same."

At first, foreign observers expected bankers and the business community to retaliate. But what could they retaliate with? The middle class has no political mechanism with which to fight back. And its normal way of manifesting discontent with government policies - taking money out of Mexico - has been closed.

The business community did threaten a "strike" but called it off when the government-controlled labour federation threatened retaliation. Some businessmen have also considered an "investment freeze". With a 75% or more inflation rate, however, not investing in profitable undertakings can only mean a major loss for anyone with money to spare. So, in the end, the middle class backlash has been limited to words. Emilio Goicoechea, the president of the Confederation of Chambers of Commerce, at first said that to accept nationalisation would be "neither manly nor Mexican". But he later backed down too.

So what will the middle class do? Probably nothing. At least until after December 1st when Mr Miguel de la Madrid will take over as Mexico's new President for six years. He is regarded by businessmen as an honest, intelligent politician with extensive financial experience, whose sympathies lie with them. Their worst nightmare is the possibility that, in the present mood of the country, Mr de la Madrid may be politically unable - or even unwilling - to act according to his beliefs.

Sincerely,



Received in Hanover 9/27/82