Unrest grows as Mexico's economy goes into slump

By Don Knowland
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Mexican President Enrique Peña Nieto has the lowest public approval rating of any president in recent Mexican history. Some polling shows that only 37 percent of the population approves of his performance. Ruling party sources concede that his popularity has dipped below 50 percent, a rare occurrence for a Mexican president. The president's approval rating in the capital, Mexico City, is in the 20 percent range.

This year, the Mexican economy has experienced the slowest growth rate since the 2009 recession. Bank of America Merrill Lynch Global Research said the Mexican economy was in recession during the first quarter of 2014. The government's National Institute of Statistics and Geography also said that the economy grew at a negative rate in March.

The government had predicted growth this year at 2.7 percent. In May Finance Minister Luis Videgaray conceded the economy continued to grow at a rate well under 2 percent. He denied, however, that a recession had occurred, asserting that the economy was merely "stagnant."

On May 21, the Mexican Central Bank reduced its growth forecast for 2014 to between 2.3 percent and 3.3 percent, down from a previous estimate of up to 4 percent. This follows 2013 growth of only 1.3 percent, much lower than the 3 to 4 percent that had been estimated for 2013 by the central bank and the IMF. In fact, growth has fallen below forecasts in seven of the past eight quarters.

On June 5, the central bank reduced its overnight lending rate by half a percentage point to a record-low 3 percent, despite the fact inflation remains well above bank's 3 percent target. In real terms the lending rate is now negative, given the inflation rate.

Bank Governor Agustin Carstens said the reduction was necessary to boost growth, given that domestic demand and investments were in the doldrums.

Mexico's stagnating economy should come as no surprise given worldwide economic weakness. Moreover, policies implemented by Peña Nieto to lure foreign investors have not spurred growth, while the government has cut spending and raised taxes.

Widespread expectations that Peña Nieto's economic restructuring plan would boost growth, even into the range of the 5 percent to 6 percent growth rate that economies such as China and Brazil previously experienced, rather than resulting in the recent slowing these economies have experienced, by now have been thoroughly punctured.

The liberalization of the Mexican economy that began in the 1980's had already resulted in extreme concentration of wealth and economic control. Peña Nieto's policies have only worsened the plight of the Mexican masses.

On top of tepid if not negative economic growth, Mexicans have the lowest minimum wage in Latin America. They face skyrocketing food and gasoline prices despite dropping wages. Over 50 percent of the population remains stuck below the official poverty line, with over 30 percent relegated to the "informal sector" of the economy. Introducing "flexibility" in the labor market, one of the six planks of Peña Nieto's Pact for Mexico, which includes legislation permitting the summary firing of even unionized workers, encourages the further growth of the informal sector.

Despite massive unpopularity, Mexico's three main political parties continue to push through legislation that will divert the flow of Mexico's vast oil profits from the national treasury to the coffers of international oil giants.

The Mexican Congress is about to consider so-called secondary legislation that will lay down the rules for opening up the energy sector. Legislation passed in December already provided for profit-sharing and production contracts with foreign companies. Although nominally respecting the constitutional ban on “concessions”—outright foreign and private ownership of Mexican oil fields—there can be little doubt that the economic equivalent will be achieved through other arrangements.

Oil giant Chevron Corporation announced last month May that it has been in talks with the Mexican national oil company Pemex about potential partnerships in onshore, shallow and deep water fields.

In March, Mexico’s deputy energy minister, Lourdes Melgar, said that Pemex’s technical, financial and operational limitations will be considered by the ministry when awarding fields with potentially large amounts of oil reserves. Melgar said the country’s oil regulator will decide by September which fields Pemex can keep.

According to Bank of America, opening up the energy sector will bring in an additional $20 billion of foreign investment a year. This creates even larger opportunities for corrupt insider deals.

Recently the government announced the prosecution of Amado Yañez Osuna for fraudulently obtaining up to $400 million in loans for Mexican bank Banamex, a Citibank subsidiary, based on billings to Pemex by a company called Oceanografia for services not actually performed. This sort of token prosecution is meant to assuage the concerns of foreign investors who are wary of the corruption endemic to Mexican government and business.

Peña Nieto is also bringing back the authoritarian politics that dominated during the decades prior to 2002, when his Institutional Revolutionary Party ruled Mexico. Recently there has been an increase in violence against activists and journalists critical of government policies.

Debate in the public sphere has also diminished. In December, the initial energy legislation was rammed through the federal Congress and the majority of Mexico’s state legislatures in ten days with virtually no public or congressional debate. In April, Peña Nieto introduced a telecommunications bill in to Congress that would enable his government to control television content and censor Internet service.

Capitalism in Mexico offers the working class only worsening economic conditions, attacks on social rights, and a government at the beck and call of a sliver of oligarchs. Such conditions will generate widespread social and political unrest, as well as government repression.