

PEASANT UPRISING FORCES LAND QUESTION ONTO REFORM AGENDA

LAND SPECULATORS moved fast to exploit the riches that would flow from the new trade arrangements between Mexico and the United States.

When it comes to thinking big, no-one can match the Reichmann brothers, the Canadian developers whose legacy to London is the ill-fated Canary Wharf. In November 1993, backed by money from financial speculator George Soros, the brothers announced three mega-deals for Mexico City:

- * A shopping, residential and office centre in Alameda, an old part of town that had been flattened by the earthquake in 1985;

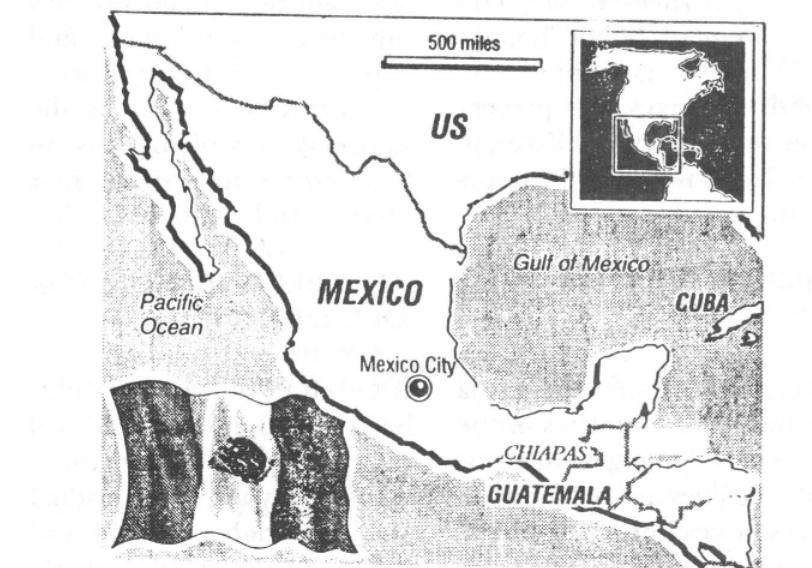
- * a 42-storey office tower in Avenue Reforma, the financial district; and

- * a 20-acre commercial and residential village in Santa Fe, on the western edge of the city.

The numbers looked good: developers had been reaping returns on their capital of around 30-40%. But even as the Reichmanns announced their plans, observers were pointing to a huge over-supply of office space. And things were stirring in the jungle. The landless peasants of Chiapas were mobilising themselves into a fighting force that would challenge the capacity of the government to engineer an economic miracle.

A little more than 12 months after the Reichmanns announced their land deals, the crash came. President Clinton put together a \$20bn rescue loan, but on March 22 some of the private banks grew nervous and withdrew \$3bn. President Ernesto Zedillo is now under siege from the international financiers and rifle-toting peasants.

THE foundations of the modern



economy are so shaky that it does not take much to trigger a financial earthquake.

Foreign investors had assumed that, safely locked into the US's backyard, Mexico was a haven for their investments. It took the Zapatistas to prove them wrong.

The war has continued for 12 months, and is now spreading beyond the jungle. Landless peasants are occupying cattle ranches and growing maize and beans, which is causing shoot-outs and the death of squatters who are no match for hired killers. The army is now employing counter-insurgency techniques developed in Guatemala and Peru in the 1980s.

These events demonstrate that we are all at the mercy of the global economy.

* Mexico's financial crisis, which is due to a combination of intense land speculation (in 1990-92) and the political crisis, has caused a deterioration in the US trade deficit. The drop in exports to Mexico contributed to the trade deficit, which soared to \$12.2bn (£7.7bn) in January.

* In Britain, the government raised interest rates to 6.75% in February in the hope of preventing the pound from suffering from the crisis in Mexico. Homeowners and entrepreneurs had to pay more for their loans, making it increasingly difficult for the British economy to recover from recession.

The Zapatista rallying cry - "Land and Liberty!" - is again mobilising the landless peasants of Mexico. But whereas in the past the impact of the ensuing conflicts were locally contained, today the rest of the world is affected. This drives home the lesson that the land question ought to be back on the agenda for the international agencies that are supposed to be searching for solutions to world problems.

Mexico is typical of Third World countries that remain locked into the grip of an ideology that will prevent economic development and political stability. In the short-term, a large number of workers will be thrown out of work: according to the latest survey,

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46% of firms expect to sack part of their workforce, and 16% expect to close altogether. This will frighten foreign investors, whose capital is necessary if the Mexican authorities are to be able to maintain a semblance of political stability.

But it will get worse, thanks to the failure of philosophy. The Mexican authorities are told that, to rescue the economy, they will have to sacrifice people's living standards - 20% of whom already live below the poverty line.

The finance ministry has begun to raise taxes and cut spending, in a strategy that will deepen the crisis. The overriding concern of the government is to reassure international financiers by shoring up the exchange rates and stock exchange indices. But the reciprocal of financial success - if it is achieved - will be a deepening of social discontent and political instability.

The ruling Partido Institucional Revolucionario has been in power since 1929, when Emilio Zapata fought for freedom. In recent years, Mexico has weakened the land rights of the peasants in the belief that this was progress to "modernity". If there is to be prosperity and justice in Mexico, the government will have to re-examine the meaning of "Land and Liberty".

GEORGE & DEMOCRACY IN THE BRITISH ISLES

Dorothy and Will Lissner (Editors)

A collection of reports by economists, historians and specialists in other social sciences, establishing the significance of Henry George's campaign in England, Scotland, Wales and Ireland in the 1880s, in which he advocated democracy based on his ideas and those of Paine, Jefferson, Thoreau and others.

Obtainable from:
Land and Liberty Press,
177 Vauxhall Bridge Road,
London SW1V 1EU. Price £6.75.

MONETARY POLICY

Bank denies it bows to "pagan images"

THE BANK of England, which is responsible for Britain's monetary policy, is campaigning to defend its performance.

Rupert Pennant-Rea, speaking just before he resigned as Deputy-Governor, defended the bank's concern with policies that stress the need to curb inflation. He said that misconceptions made the bank look irrational - "bowing before pagan images while real life goes on elsewhere".

But, he says, the bank does not place overriding weight on financial markets. And to prove it, he analysed the bank's latest Inflation Report. Out of a total of 241 paragraphs, the tally broke down as follows:

Costs and prices	83
Real economy	114
Monetary developments	19
Financial markets	25

He told Manchester bankers on February 23: "In practice, we look at many more than a dozen indicators - and so we should, because we would be foolish to ignore anything that might shed light on the outlook for inflation".

Unfortunately, the bank is notable to track the price of land, because no such indicator exists. That was the reason why economists - including those at the Bank of England and the Treasury - were hopelessly misinformed about trends in the late 1980s.

The land boom began in 1986. It

drove the economy in directions that were not visible to the policy-makers, who thought the economy was buoyant - until it started to crash-dive in 1990. Their analysis was not helped by the inflation indices, of which there are a variety - three of which are illustrated in the graph below.

In the past 15 years, governments have redefined inflation to suit their political aspirations. Until the 1970s, everything was included in the Retail Price Index. Then the Labour government excluded the price of food, the volatility of which made the inflation figures look bad.

Premier Thatcher then devised the Tax and Prices Index: popular with ministers when taxes were going down, but unhelpful when taxes started to rise.

Nigel Lawson then objected to the Retail Price Index because it included mortgage interest rates - which, under his chancellorship, were rising. Thus was born the RPI(X), which excluded mortgages!

Now, the Tory government has shifted to the RPI(Y), which also excludes indirect taxes - which have risen under John Major's premiership.

Experts continue to disagree over whether the cost of housing should be included in indices on inflation.

Pagan or not, the symbols that are used for inflation are good for those who have faith in the skills of the monetary authorities. But they are of little use to social scientists.

