

## **The Rise of "Economic Nationalism" in the Third World and its Consequences for US-Latin American Relations: Case Study - Mexico**

**Readings:** Chasteen, ch. 7 "Nationalism"

Chasteen and Wood: pp. 181-182 Nationalism

pp. 190-193 "The Poetry of Anti-Imperialism"

pp. 193-195 "Economic Nationalism in Action"

pp. 195-198 "The Shark and the Sardines"

Contreras "Mexican Economic Policy" and "U.S. Policy toward Latin America..."

Accompanying PowerPoint presentation "Post-Revolutionary Mexico"

In this **new era**, nations rejected the **Economic Liberalism (neocolonialism)** of the late 19<sup>th</sup> and early 20<sup>th</sup> centuries as a model of development (1910 for Mexico; 1929 forward for the rest of Latin America and much of the developing world).

- **Nationalism** took its place. Specifically, **economic nationalism**. This model of development would hold sway until about 1982 when it runs out of steam.

The **case study** here is **Mexico**. Mexico pioneered these economically nationalist policies after its Post-Revolutionary leaders rejected the Porfirio Diaz emphasis on Economic Liberalism as a model of development.

- In Mexico, neocolonialism almost broke Mexico as a cohesive social entity.

Its Constitution of 1917 would be a blueprint for Mexico. It would also serve as a model for other developing countries. Once we understand why and how these policies were put into place here, we can easily understand how nationalism will play out in the larger Latin American countries: Brazil, Argentina, Chile, Venezuela, etc...

Among other changes, this new model of development (a new era really):

- Rejected Economic Liberalism as a model of development, especially after the spectacular **stock market crash of 1929** and its worldwide **collapse of commodity prices** (imagine what happened to the price of sugar, coffee, cacao... and all of the commodities Latin America had come to specialize in)
- Sought to move away from the notion that individual private property rights will elevate nations to 1<sup>st</sup> world status, especially after the negative consequences of strict reliance on markets.

- Sought to ameliorate the social dislocations brought about by “Liberalism” - all of those inequalities that were made worse with the strict reliance on markets. This too will require a strong state.
- Attempt to change, or limit a country’s “dependence”; to change their status as mere raw materials producers. States will do so by:
  - **limiting foreign penetration and control of local economies.**
  - **repossessing foreign owned natural resources** (oil, copper...)
  - **accelerating local industrialization** to overcome their dependence on foreign capital and manufactured goods. (Policies of **Import Substitution Industrialization**, or **ISI** for short)
  - Leaders during this era, will argue that a strong interventionist state is necessary to make all of this happen
  - **Culturally**, it will represent a major break from the old patterns of cultural hegemony (a psychological break from Europe)

(Ppt: Jose Guadalupe Posada parodies a rich lady during the Porfiriato (the age of Porfirio Diaz) In Mexico, Economic Nationalist policies spring directly from the previous “Liberal” model of development (Recall the rapid economic growth, but not necessarily “development”, as critiqued by Jose Guadalupe Posada as he captures the emptiness or the “poverty” of progress)

(Ppt: “Dance of the Millions” by David Alfaro Siqueiros: a critique of Liberalism. Siqueiros asks: Who benefited during the Age of Economic Liberalism?)

- Reason for these new **nationalist economic** policies was to overcome the problems that Liberalism had brought. I.e.:
  - Foreigners coming to monopolize key sectors of the economy
    - i.e. railroads, copper, petroleum
  - and building up such power that Mexican law was flouted and Mexican interests were subordinated to foreign investors

-For Mexico these policies would allow Mexico to “exorcise its colonial demons”. I.e. to undo its colonial legacies (of dependency, inequalities...) that had been exacerbated by over forty years of Economic Liberalism.

(Ppt: “The Exploiters” by Diego Rivera. A critique of the consequences of expansion of haciendas during the age of Economic Liberalism)

-Post-Revolutionary Mexico would also try to undo the negative consequences of the huge expansion and consolidation of haciendas (both foreign and domestic). Remember how they had expanded, often legally, often “extra-legally” and had led to thousands of newly landless peasants... and entire village communities being swallowed up by haciendas.

Consider **Mao-Tse Tung** here in light of the savage inequalities that untrammelled economic liberalism brought to Mexico: “If historical debts are left unpaid, the anger of the masses will not be appeased”

-And, Liberalism's reliance on free markets had impeded Mexican (Latin American) manufacturers from developing (they had been swamped by international competition).

- Recall that Liberalism had reinforced Latin America's role as an exporter of raw materials, and importer of manufactured goods.
- Thus, **economic nationalism** springs forth in the 20th C to overcome those patterns.
  - To overcome its dependence on foreign capital and manufactured goods.
  - To overcome its neo-colonial patterns (“exorcise their neo-colonial demons”),
    - ushering forth “national” control over the nation’s natural resources
    - engaging in far-reaching land reform. Breaking up large, often foreign owned haciendas, and redistributing them to the landless peasantry
- A key date here also is the **Great Depression** (Beginning with the great crash of **1929**) with its spectacular crash of world stock markets and the collapse of commodity prices (remember

which products LA produced). It cast into doubt free markets everywhere, especially for the raw materials producers.

- World War I (WWI from here on out) and World War II (WWII from here on out) would also be influential in developing nations turning away from their “Liberal” economic model.
  - During these conflicts, the industrial nations turned inward, concentrating their industrial output to serve their own markets (thus, there would be less machinery and industrial equipment to sell to developing countries).
  - During these conflicts, the sea lanes of communication and transportation (remember the SLOCTS) would also be cut off (Brazilian coffee can’t get to Europe, Mexican oil can’t get to England, for example...)
  - Thus, Industrialization (ISI) will take hold almost “naturally”
  - In the 1930’s, as industrial output falls in the industrialized world, industrialization will accelerate in Latin America (in consumer manufactured goods)
- From Mexico's Revolution (1910-1917), emerges its new **Constitution of 1917**. This document lays the basis for this shift to nationalism and will serve as a model for nationalist development throughout Latin America and the Third World (at least until the 1950’s when Guatemala follows it and is crushed by the U.S. From then (1954 when the CIA organized the coup that brought down the Arbenz government in Guatemala), some Latin American nations (Cuba, Nicaragua) and some Latin American armed groups will pursue even more radical examples- full fledged socialism in some cases)
- **Key questions:**
  - Why will Industrialized nations not favor this trend in the Developing World (the Third World) of rejecting “Liberal” Economic policies and embracing Nationalist policies? In some cases there will be outright hostility toward nations that pursue them, complete with military interventions. Examples: Iran’s government was overthrown in 1953 in a coup d’etat organized by the U.S. and England after the government of **Mosadeq** began the process of nationalizing its oil industry (owned at that time by Anglo American Oil)
  - **Guatemala** in the early 1950’s (up to 1954) and Chile from 1970-1973 will attempt to put into place nationalist policies of their own (nationalizing land and infrastructure projects for

Guatemala; nationalizing copper for Chile), and as a result their governments are overthrown either directly by the U.S. as in the case of Guatemala, or with U.S. approval, intelligence and aid as in the case of Chile.

- Why is Mexico able to “get away with” putting into place economically nationalist policies and others are not?
- This period has also been seen as a **Historical Readjustment**, in which the weight of the past is “corrected”.
  - A reaction against neo-colonial weakness, and a
  - **rejection of cultural and racial inferiority** (rejecting the prevailing intellectual trends that favored the European and denigrated the local, the native...)
  - a symbolic casting off of mental chains of colonialism (“exorcising the colonial demons”)
  - New emphasis on Indigenous, the Mestizo (the Afro-Brazilian in Brazil)... *The Cosmic Race* as Jose Vasconcelos will say in his book by the same title

(Ppt: Diego Rivera paintings- nationalist themes: native; anti-imperialist)

- Thus, the thrust of the changes of this era was **Radical** (from the Greek word for “root”). Radical Nationalist, you’ll read.
  - an attempt to fundamentally change existing power relationships
  - to discard (or control) old institutions that had brought ill effects to Mexico such as the haciendas, the power of the Catholic Church, etc..
  - and to create new institutions in their place
- The Post-Revolutionary elite in Mexico will argue that the articles of the **Constitution of 1917** will be selectively enforced to “maintain stability”
- This process will entail the forging of a **new role** for the Mexican state, the Modern Mexican State. A state that would devise policies for the economy, education, health, and infrastructure and that would strike a balance between private and public interests (so weaker citizens would not be forgotten).

- In fact the state will have such a huge role in this era of nationalism that some economists will call it “**State Directed Capitalism**”

Some key articles of the **Constitution of 1917**:

**Article 123** dealing with labor, one of the most enlightened of its time. Called for:

- 8 hour working day
- guarantees the right to unionize (recall the role of the “*rurales*” in crushing nascent unions)
- abolishes debt peonage
- sets minimum wages
- It doesn't sound radical from the point of view of 21<sup>st</sup> century U.S., but it certainly was for turn of the 20<sup>th</sup> century Mexico and even U.S. (similar labor legislation is not put into place in the U.S. until the 1930's under FDR)

**Article 130** Given the inordinate amount of power the Church (it had been one of the largest landowners in the colonial period) had been able to accumulate, and given that the Church served as a pillar of the Porfirio Diaz dictatorship- the Post-Revolutionary elite would lash out against it during this period. Among the provisions:

- the Church could not own lands
- priests could not vote, hold offices, or criticize the government

**Article 27**

Subordinated private property to public welfare and placed restrictions on foreign economic control (foreigners would no longer be able to “own” petroleum deposits, etc...)

- Ushers in an era of **land reform** (agrarian reform).
  - The state now had the right to expropriate and distribute land for the public good
  - State also **re-recognized communal landholdings** (remember that the old “Liberal” Constitution outlawed these- with devastating consequences for Mexico's native people- 90% had lost their lands by 1910)

(see accompanying chart: **land reform**)

- From 1917-1945, 76 million acres will be “**expropriated**” (a forced sale) and redistributed to either communities or individuals.
    - Emphasis on land reform will depend on leaders (and circumstances);
      - some will give it great importance (Cardenas will redistribute over 45 million acres alone) others will neglect it (Alemán)
      - see graph on how much was distributed under each president
      - By 1984, over 253 million acres will have been given out to 2.3 million “ejidatarios” (holders of the ejido)
    - Land distribution will be in the form of “**ejidos**” - the right in perpetuity to work the land, but no outright titles. Policymakers argued they didn’t want what had happened under Diaz’s policies of Liberalism, to happen again. To prevent haciendas from emerging again. (Extreme concentration of land)
    - President **Lazaro Cárdenas** (president of Mexico from 1934-1940, the prototypical “nationalist” president) will argue it is a system that is “**neither capitalist nor socialist**”
    - It would be a system that I describe as “**State led capitalism with a wide social safety net to protect those at the bottom.**”
    - The state will also:
      - Provide **protection from international competition** to Mexican agriculture through:
        - **Tariffs** (taxes on goods coming in from abroad- to make them more expensive)
        - **Price support systems** (“fair prices”, not market prices- that are often above world prices [US doing this in 2006 still])
        - Subsidized **loans- BANRURAL** (RURAL BANK) and Banco de Credito Ejidal. In effect, the **state becomes their banker** because as holders of ejidos, they have no outright title and thus cannot put it up for collateral)
- set up massive educational efforts (schools out in the countryside now as opposed to being ignored in the previous “Liberal” era. Guatemala and Cuba will follow this example)
- setting up "Agrarian schools" where people can learn efficient techniques.
- Agronomists fanning out to provide technical support to ejidos.
- bringing healthcare out to the countryside (mobile medical vans with vaccines, doctors...)

(Ppt: “Good government” by Diego Rivera)

- The **state** then, will be doing things that markets won't.
- As you can see, the system is expensive
- Though expensive, this system is necessary Post-Revolutionary leaders argue to preserve "stability"  
-after all, this is what most people had fought for during the Revolution, they hadn't fought for “economic efficiency”

(Ppt: painting of **Zapata** by Diego **Rivera**)

- Post-Revolutionary Leaders in Mexico now wrap themselves in the mantle of Emiliano Zapata to prove their "Revolutionariness"
- **Emiliano Zapata** "officially" becomes a national hero: congress votes him one  
-becomes larger than life.  
-A semi-officially created hero, the new state needed his image  
-A textbook hero  
-The Day of the Revolution becomes one of Mexico's most important holidays  
-Consider Thomas Moore's quote in Care of the Soul: “When things die to function, they can resurrect as images of history”
- Land distribution becomes a gauge of their "worthiness to carry out the ideals of the Revolution"  
-See handout on land reform, how much each president redistributed, and how long it lasted.
- Revolution is "**Institutionalized**" (thus the name of the party that held the presidency until 2000- “Institutional Revolutionary Party”, or “PRI” for short)  
-Can a Revolution be permanent? The Mexican post-revolutionary elite argued theirs was.  
-that is, every Post-Revolutionary leader inherited the mantle of the Revolution, and “accepted” the responsibility to carry it through



- Thus, Post-Revolutionary leaders form a party to retain power, not to gain power.
  - Argued that only they as "inheritors of the Revolution," could carry out the Constitution of 1917.
- Thus party goes from
  - PNR (National **Revolutionary** Party), 1929-1938
  - PRM (Party of the Mexican **Revolution**), 1938-1946
  - PRI (Party of the Institutionalized **Revolution**), 1946- present (still has that name, and its still a powerful party, though from 2000-2006 it does not occupy presidency)
  - their party colors: red, green and white (the colors of the Mexican flag - no other party was allowed to use those colors) **Nationalism/Patriotism**
- Mexico's Revolution, they argued, was theoretically still ongoing (at least until 2000 when Vicente Fox of the National Action Party (PAN) took over the presidency)
  - and in order to not "rock the boat", the PRI needed to guide it
  - evolved into a **political patronage system**: "What the state can give, the state can take away"
  - providing tangible material benefits: loans, lands, protection from international competition and in exchange demand political loyalty.
- Ironically led to the perpetuation of that same group in power until 2000 (consider Louis XIV's statement: "L'etat C'est Moi"- "I **am** the state")
  - "Revolutionary" bureaucrats becoming wealthy. Some, obscenely wealthy. A good novel to read here is "The Death of Artemio Cruz" by Carlos Fuentes.
  - Revolutionary Generals becoming "millionaire socialists" in the words of critics
  - Mexican intellectuals, by the 1960's agreeing with Franz **Kafka**: "All Revolutions die and leave behind only the slime of a bureaucracy"
  - This is the party that Fox finally swept out in 2000.
- "Ejidos" and private property existing side by side during this time period.
  - Ejido lands account for 6.3% of Mexico's arable land by 1930

43%

by 1970

52%

by mid-1980's

- Mexico's agrarian reform had its share of problems
  - most were not as "efficient" as haciendas
  - the system was expensive, led to indebtedness of successive governments
  - Mexico's main export would become **oil** and it would rely on **international loans** to a large extent (by 1982, Mexico's external debt will be over \$80 billion dollars)
- On the other hand, "stability" was achieved
  - those who fought for lands got it
  - village communities got theirs too
- Mexico avoided the violence that El Salvador, Guatemala, Nicaragua would face from the 1960's to the 1980's
- Most ejido lands were not incorporated into the world market system
- When the government goes bankrupt in **1982**
  - the system of protection will be one of the first to go
  - tariffs, "fair prices", subsidized loans will all be gradually eliminated
  - having devastating consequences for folks out in the countryside
  - NAFTA, which belongs in the next era "Neo-Liberalism" (1982-), will undo all of this protection and devastate the Mexican countryside. More on lecture "Neo-liberalism"
- Salinas (President of Mexico from 1988-1994) will declare Agrarian Reform over in 1992
  - Ironically, does this in front of a larger than life image of Zapata
  - begins to give out actual titles in the early 90's, but critics argue he does this right before the elections to garner political support given how much it had waned after the devastating consequences of having taken away all of the subsidies described above.

-Will also “undo” ejido protections, which, among other things, will trigger the **Zapatista Uprising of 1994** (Maya peasants from Chiapas rebelling against the Mexican government and against “neo-liberalism”. More on this in the “Neo-liberalism” lecture)

More on all of this when we discuss The Rise of **Neo-Liberalism** post 82

**INDUSTRY.** Economic nationalism as it applies to industry:

(a note on recent trends: Since the mid 1980’s Latin America has jettisoned these economically nationalist policies for reasons we shall see -mainly they were expensive and the countries went broke. But there is a consensus today among economists (the “free marketeers”, anyway) that these policies were all wrong. This “Washington Consensus” (because they are based out of Washington D.C.) will state markets were distorted and that these policies led to too many economic inefficiencies. They have a point, as we’ll discuss in the lectures on “Neo-liberalism”, but that argument misses the point of where these policies came from. I.e. what were they a reaction against. So “a state governs best when it governs least” is too simplistic an explanation)

- Constitution of 1917 had called for a **strong, interventionist state**.  
-Using the government to get the economy going again.
- The Post-Revolutionary State will be characterized by heavy state involvement (statist policies)
- Massive Infrastructure Projects led or built by the state  
-such as roads, ports, electricity, dams, irrigation projects, airports  
-This is **state** investment, not private sector investment. Remember what had happened when electricity, utilities, railroad building were left up to market forces?  
-As with agriculture, moving away from strict reliance on markets to **state directed economic development**  
(Brazil will be doing something very similar beginning with Vargas in 1937, see Chasteen)

- Given that during Liberalism, markets determined the location of ports and railroads, and electricity grids, for example
  - And a consequence they connected the enclave economies (ex: oil, copper) to international markets and only large cities and profitable enterprises were wired for electricity
- Now, the State will take command of building these "in the interest of the nation"-
- Not just to connect highly profitable areas to international markets,
  - but to fully **integrate Mexico** (and the rest of Latin America well) **as a nation**
  - to connect regional production centers to regional markets
  - building railroads east-west now, not just north-south
  - connecting regional capitals with each other, and with Mexico City
- Other types of infrastructure projects:
  - dams to generate electricity and provide it to areas, even it is not profitable (private corporations would not do this, why should they provide electricity to folks who can't pay?)
  - irrigation projects to benefit agriculture, to bring it up to speed.
  - again, moving away from strict reliance on free markets (as California would do in 2003 after it de-regulated electricity and private companies began to "game" the system, creating artificial energy shortages and charging Californians super high premiums...)
- The **oil expropriation of 1938** is a **catalyst** for what Mexico (and the rest of Latin America) could now do
  - it would be Mexico's "**declaration of economic independence**"
  - Article 27 of the Constitution of 1917 will be the basis for the nationalization of key sectors of the economy (see articles by Sodre and Torres on Nationalism)
- Foreign oil companies ("El Aguila", Royal Dutch Shell was by then owner and "La Huasteca" Standard Oil was by then owner (later Exxon, ...) were still operating in Mexico. Mexican workers had been on strike, demanding higher wages. Both parties had agreed to have the conflict resolved by the newly created Mexican Board of Arbitration. The Board

sided with the Mexican workers so the oil companies took the case to the Mexican Supreme Court. The Mexican Supreme court ruled in favor of the workers. The Oil companies decided that they would not abide by decision of the Mexican Supreme court.

- President Cardenas states that "Mexico is no longer willing to allow national sovereignty to be at the mercy of foreign capital" and issues the expropriation decree, citing Art. 27 of Constitution of 1917.
- Mexico would compensate the oil companies for plant and equipment
  - the oil companies wanted the future value of all underground oil
- Oil companies appealed to Franklin Delano Roosevelt (FDR) for intervention
  - launched a PR campaign against "Bolshevik" and "Atheist" Mexico
  - financed the uprising of Saturnino Cedillo, 1939
- Cardenas crushed uprising
  - threatened to blow up all oil facilities if marines landed in Mexico
- Increased nationalism in Mexico and L. Am.
  - for standing up to the "gringos"
- Mexico paid for the plant and equipment (5% of what oil companies sought)
- Cardenas created **PEMEX** as Mexico's oil monopoly
  - became the symbol of Mexican nationalism
  - MX nationalism by definition would then be:
    - "Anti-U.S.", the threats of invasion were coming from there (recall that during the revolution, Mexico had been invaded three times (1914, 1916, 1919) by the U.S. in order to "safeguard its interests"
    - "Anti-Imperialist", because it was the US that had been expanding and extending its hegemony

- Oil companies organized a boycott of Mexican oil on the international market
  - blocking its ability to purchase equipment and sell its oil
  - Extended the boycott to Mexican silver (another major dollar earner)
- Wanted to punish Mexico for its nationalist boldness and
  - to prevent other Latin American nations from attempting similar actions
- With US. and British markets closed, Cardenas turned to Germany for equipment and markets
  - Raise red flags in Washington. Mexico shares a 2,000 border with the U.S. What if Mexico was forced to become an ally of Nazi Germany?
- With the threat of WWII looming, US
  - concerned with "instability" along its 2,000 mile border
  - would need Mexico's oil, iron ore, copper, nickel, and workers -"braceros" (agricultural workers that were contracted to come to work in US fields during WWII) etc.. for the war effort
- FDR then dismisses idea of intervention
  - boycott is called off
- Two nations come to an understanding
- Mexico proceeds with its nationalist experiment (unlike Guatemala, whose nationalist experiment is overturned by the US in 1954. Think about why Mexico is "able to get away with it" and Guatemala and Cuba, and Chile will not be able to)
- The US gains a valuable strategic partner
- "Stability" is not threatened along its border

- Mexico contributes oil, iron ore, nickel, copper, manganese, zinc to the war effort  
-as well as agricultural products: wheat, cotton, henequen, sugar, cattle products...
- Mexico contributes workers (braceros) to meet the labor shortage in U.S. agriculture.  
-Over 300,000 during WWII alone
- The nationalization of oil, became the expression of the **nationalistic** economic policies of Post-Revolutionary Mexico and 20th C Lat. America
- **Nationalization** of oil soon led to nationalization of copper, and other mineral resources
- State's efforts to build national industry as well is given impetus by WWII as well (as during the Great Depression when its commodity prices collapsed and it couldn't afford to pay for industrial products).
  - WWII caused the US and England to turn inward for the war effort
  - Mexico begins to manufacture steel, consumer durables, etc...
  - To do something about that secular decline in the terms of trade (price of Latin America's exports/ price of Latin American imports). To diversify the economy away from just the exportation of raw materials.
- The State then launches a series of programs to **build national industry** (thus **ISI**- to substitute local industrial products with what used to be imported)
- **Foreign industry is not expelled, just limited.** Partnerships of 49% foreign and 51% domestic are common. There are also many loopholes that Ford de Mexico, Colgate de Mexico, Coca Cola de Mexico, GE de Mexico can take advantage of to retain a larger share than 49%.

- A series of **subsidies** to national industry (steel, petrochemicals, paper, fertilizer, motorcycles, etc...) in order to build solid industries, often from scratch (all large developing countries will do this: Brazil, Argentina, Venezuela...)
- **Tariffs** (protect local steel producers from international competition so that this example of an “infant” industry can “grow” to be internationally competitive. If not, they would be swept away by international competition.)
- **Subsidized credits.** The State to generate credit if private bankers as private bankers are not inclined to lend to “infant” industries: **NAFINSA** (Nacional Financiera - was Mexico’s development bank. Recall in late 19th Century, lack of capital led to foreign investors taking over entire industries. The Mexicans (and Brazilians...) argue they don’t want that to happen again. It was funded by the central government. (again, an expensive proposition) [like US export credits]
- **Subsidized inputs** (cheap, gasoline, electricity, steel, etc..)
- The state will also provide workers with health and retirement benefits so industry does not have to incur the costs (business benefits, and so does labor)
  - (again, a wide social safety net that is expensive)

During this period then,

- Mexico industrializes, but only in consumer durables (where it has a comparative advantage in terms of labor costs), and in most sectors does not become internationally competitive (the protection, once its put in, is very difficult to take away). Certain industries will be internationally competitive (cement, glass, steel in Monterrey, for example), but most won’t.
- Ironically, we can characterize Mexican industrial growth during this period as **advanced industrial underdevelopment.**
  - It was producing mainly for the domestic market, but not exporting (Mexico was exporting oil, and again, agricultural commodities, but not its own manufactured goods)
  - No significant investment in Research and Development (R & D).
  - And, Mexico went overboard nationalizing industries that were not in the national interest to nationalize (cigarette; sugar mills; even banks in 1982!)



- The system can continue only as long as the protection is there.

Though not economically efficient, the system provides Mexico with **stability** and **social peace**. (By contrast, Central American nations such as El Salvador, Nicaragua and Guatemala will be engulfed in bloody civil wars, while Mexico seems a paragon of stability)

- All social indicators (infant mortality, education, poverty...) move in the positive direction

This is an expensive system, but it works reasonably well as long as the money keeps pouring in.

-How does Mexico pay for this? Oil exports (it now controls its own oil industry) and international loans (borrows from international banks)

-During the 70's as oil prices are sky high, Mexico has lots of oil. Bankers are also "recycling petrodollars" from the Middle East. Mexico is seen as a good bet, so these "go-go" bankers are eager to lend to Mexico (and Brazil, Argentina...)

-This is the reason why they all have huge external debts (more in next lecture)

And the money will not keep pouring in. Oil prices will collapse in 1982 and interest rates will skyrocket. Mexico will be hit with a double whammy that causes the biggest crisis Mexico had seen since the Revolution. (More on the shift to Neo-Liberalism at the end of the semester)

- In short, this financial crisis threatens the world economy with a melt down. Banks stop lending to Mexico, Brazil and the entire developing world...
- When Mexico goes bankrupt in 1982, its "protections" to industry and agriculture will be dismantled. Resulting in massive plant closings, unemployment, and more social dislocations.
- Forcing developing countries to radically re-think their development model
- From 1982 forward, Mexico too will lead the way in dismantling these "state-led" policies and embrace (again) market oriented policies (**Neo-liberalism**, because they are a "new" Liberalism)
- (this is where the lecture notes "Neo-liberalism" begin, with the **financial crisis of 1982**)

As you know, Mexico was only one of the many Latin American nations to embrace nationalist economic policies. In another major example, Brazil did too as you've read in Chasteen. Here is an interesting article on Brazil's efforts to become "economically independent", in this case, with regard to fuel. Article on my web: "Home Grown Fuel Supply Helps Brazil Breathe Easy" (LATimes 6-15-05)

Sources cited, for further reading:

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