



Mexico City government

The engineering corps that built Mexico City's Metro and its deep drainage system is among the best in the world. Today, that engineering capability will be lost, unless great infrastructure projects are undertaken. Shown: Mexico City's water tunnel.

would represent management of a total flow of some 420 cubic meters of water per second, that would make it possible for us to expand land under cultivation by 1.3 million new hectares (3.2 million acres) in the states of Nayarit, Sinaloa, and Sonora.

Along the PLHINO route, in its first phase, which starts with the San Pedro River, only two pumping stations would be needed, each with a capacity of handling 35 meters per second, installed at the juncture of the Sinaloa and Fuerte Rivers.

The nuclear energy plant on the Pacific that will be required for the PLHINO pumping system will substantially cheapen energy costs.

Finally, keep in mind that at an annualized rate of investment which expends \$14 billion over ten years, we would be in a position to generate at least 300,000 direct and indirect jobs a year. That doesn't include the number of jobs that will be added once the project begins to expand land suitable for cultivation.

According to international estimates by companies involved in the construction of basic economic infrastructure, for every billion dollars that a nation invests as capital, the country has the potential to recover five times that amount in taxes, as a result of broadening its tax base. Together with all the other economic benefits already mentioned, the most important benefit is that we would be generating optimism within the population, which would find pride and hope in seeing that its nation has given itself to the task of building one of the largest water transfer projects in the world.

Capital Budgeting

Economic Potential Vs. Cost-Benefit

by Alberto Vizcarra Osuna

This article was translated from Spanish.

When the board of directors of the National Water Commission (CONAGUA) and its representative José Luis Luege Tamargo, state that projects like the PLHINO (Northwest Hydraulic Plan) should be reviewed and reevaluated on the basis of strict adherence to cost-benefit criteria, and that it also has to be shown that its construction is fiscally viable, we are witnessing precisely the kind of thinking that, in the context of today's crisis, will guarantee that Mexico sinks. The greater problem is that this kind of criterion is not limited to just one institution, but dominates the thinking of the Federal government and of President Felipe Calderón, who is trying to survive the ongoing international financial collapse by means of accounting and administrative measures.

Unfortunately, this kind of thinking has been institutionalized as an axiom that defines the parameters of the budget discussion, in which the monetarist dogma of having a balanced government budget, and austerity in spending, has practically become an inviolable formula. Thus, in effect, the state has abdicated the fundamental reason for which it has been constituted: to guarantee the general welfare. And thus, the budget debate remains disconnected from the goal of achieving the growth rates required for the creation of jobs and the increase of the productive powers of the national economy.

Submission to those axioms, some of which were converted into laws, accepted as reality, and forcibly imposed by the globalization and free trade, also leads us to accept the loss of sovereignty in monetary and credit policy. The Bank of Mexico, since it was granted its autonomy, has exercised a monetary policy reduced to so-called control of inflation, without caring that the consequence of this policy suffocates productive activity and economic growth.

The Bank of Mexico today operates as the guardian of dollar reserves, making sure that these reserves are maintained as liquid guarantees of the financial interests that speculate at the expense of the sacrifice of millions of Mexicans and of strategic institutions such as the national oil company, Pemex. This submission to the speculators was made clear when, during just three days in the second week of October, the Bank of Mexico auctioned off US\$10 billion, to hand over to the sharks, the corporate owners who are over-leveraged in the financial derivatives markets, and who have undertaken a speculative run against the peso.

In those three days, they stripped the nation of what largely would have been the funds needed to construct the PLHINO. We could say that in those three days, they stole the potential for opening up 1.3 million hectares of land to cultivation—what the PLHINO would accomplish—and with that, the possibility of doubling production of wheat, and increasing the production of corn by more than 60%, as well as the generation, over the course of a decade, of 5 million new jobs. And then they tell us that this was done to protect the peso!

Within the Crisis, an Opportunity

If there is anything positive to draw from this terrible crisis, it is to recognize that it offers an opportunity to break with the axioms and belief-structures that have led us to the threshold of the economic hell that we are now suffering. There is no reasonable way to continue coexisting with current economic policies. The future of the nation depends on being willing to throw the whole doctrinaire body of neoliberal monetarism into the garbage can, and to take up the best traditions of our republic, to systematize the principle that will allow us to generate a national credit policy backed by a national fund for expansion and economic growth, a fund that will rely in part on oil revenues. This would allow us to develop capital budgets specifically oriented toward great infrastructure projects, that would allow the nation to enjoy a vigorous policy of water and energy management, generation of productive jobs, and an extraordinary strengthening of our primary sector, to be able to face the world food crisis threatening us today.

With this in mind, the Congress and its various committees face an historic opportunity to elevate the discussion of the 2009 fiscal budget far beyond simple wheeling-and-dealing around the current irrational

policy of Federal cutbacks. The moment has come to break with the doctrinaire axioms that have been destroying the national economy for the past 25 years, and move toward the adoption of a capital budget for carrying out the PLHINO.

Economic Potential

Toward this end, the first thing to do is to overturn the criminally absurd idea that the economy is measured by money. It is that magical belief in money as the source of wealth which has led us to make the worst economic policy decisions. It was on the basis of this belief that, with the signing of the North American Free Trade Agreement (NAFTA), the sophistry was fostered that it would cost us less money to import basic grains than to produce them ourselves. Luege Tamargo continues to support that same fallacy, when he argues that he has specifically fought to get the country to drastically reduce production of corn and other grains which require excessive amounts of water. It were better, says Luege, to save water and import corn, and substitute that crop with other high-value-added crops like fruits and vegetables, which could then be exported for good money.

One can see that, in this worship of money, there is no reference to increasing the productive powers of labor, nor goals having to do with increasing the total volume of physical goods production to meet the present and future consumption needs of the population. Instead, everything is oriented to monetary profits as the motor of the economy, in which money is accorded an intrinsic value. The ideology around money has become a mass swindle to hide the parasitical policies that undermine productive activities and expand poverty.

The greatest evil of this monetarist ideology is that it suppresses the idea of the existence of economic potential. It causes the state's sovereign capacity to generate credit to disappear; investment in infrastructure remains subject to potential for monetary and financial profit; and the fate of the economy in general is left subject to the whims of market forces.

The economic potential of a region or a country is not something which can be demonstrated with empiricist methods; the human mind, however, can grasp it as a mental object of that which physically can be created. It is here that economic planning resides, in the estimation of the physical potentials of an economy, and not in monetary profit. A survey of installed capacity is made, and then the goals are set based on the present and future

consumption requirements of the population, and of the economy as a whole. In that sense, economic potential is a physical principle, and as such, is measurable in dynamic terms. Herein resides the legitimate authority of the state, as is implicit in the Mexican Constitution, to exercise a national credit policy. That is what we must appeal to in the formulation of a capital budget for a strategic project like the PLHINO.

A Capital Budget

As is documented above in the preceding article on the PLHINO's Bill of Materials, about 85% of the physical requirements of the PLHINO project can be met with the installed capacities of Mexico's domestic economy. That is, Mexico has the physical capacity to produce the millions of tons of concrete and steel the project requires, and also has the technicians and civil engineers needed, along with an army of unemployed ready to participate in the construction of the nation's future. What this tells us is that, to build this great project, we are not primarily going to need foreign credit, since we have the domestic capability to meet the majority of the required inputs.

What the task will require is a budget of US\$14 billion, to be deployed over the course of approximately ten years. As 85% of what the project needs can be produced nationally, approximately this same percentage of the total budget can be covered in pesos. This physical potential of the national economy underlies the government's ability to issue sovereign credit for realizing the PLHINO, without any problem.

The purpose of a capital budget is to increase physical-economic productivity and to improve the potential for development. Contrary to the simplistic allegations that credit issuance causes a budget imbalance, an economic orientation which emphasizes capital budgeting instead guarantees that the operating budget will also be strengthened down the line, as a result of the economic expansion generated by the capital investments.

With this understanding, the Congress should legislate to formalize the operation of a capital budget, for the specific purpose already defined, apart from an operating budget.

There will be no lack of monetarist foolishness, arguing that the issuance of peso credit will trigger a run against the national currency, and flight capital. Generally, these kinds of fallacies originate with the same authorities who thus far have controlled the Bank of

Mexico and the Treasury, the same authorities who did not hesitate to hand over to the speculative vultures more than \$10 billion in less than 72 hours.

If we are to protect the national currency from the world financial tsunami, it will be necessary to establish exchange and capital controls, as several nations are already considering doing, as a means of safeguarding their currencies. But, in addition to protecting the peso with these actions, it will be necessary to strengthen the currency and the domestic market more broadly, precisely through an economic policy oriented toward great infrastructure projects. The value of a currency, and its strength, lies in its productive potential and not in simple criteria of commodity trading.

The other 15% of the PLHINO's total budget will require contracts and agreements with other nations that have the capital goods and specialized technologies that Mexico may lack, for example for the construction of the dams and tunnels the project involves. This percentage will require dollars, which Mexico can cover based on its oil revenues. This part would also function with the same criteria of a capital budget discussed above.

With all this in mind, the Congress should pose the creation of an Economic Expansion and Growth Fund, rather than the current oil-based Stabilization Fund, which in practice has meant a fund for speculators. With aid of such a growth fund, the construction of the PLHINO could be financed. The Fund should issue peso-denominated credits, as well as a dollar component to cover the import requirements that will be necessary, in part back-stopped with oil revenues.

The relevant Congressional committees would ensure that the operation of this Fund is protected from the ups and downs of operational budgetary policy, and that a \$14 billion spending proposal be developed, which is the estimated total cost of the water project, over approximately a ten-year period.

With this commitment by the State, national industry would be called upon to establish the contracts and credit supports, at an interest rate of no more than 2% a year, given that capital formation is measured in terms of cycles of useful physical life of the infrastructure projects, which generally correlate to a generation. At the same time, the measurement of capital cycles encompasses periods of between 25 and 30 years. With this, the productive equipotential of the existing popu-

lation is maintained, and the future needs of the next generation are guaranteed.

This physical-economic reference point is what should define and make up monetary policy, and credit generation. This will allow the ongoing emission of credit oriented toward production, under the strict condition that the rate of growth of the economy must always exceed the net growth of the debt. In this process, the potential real growth rate is what guarantees the feasibility of credit emission.

The Idea of the Good

If we proceed on the basis of these central concepts, and we put them into practice to realize a specific infrastructure project such as the PLHINO, not only are we assuring material benefits—which will be extraordinary, given the nature of the project—but we will also be establishing an exemplary programmatic precedent on how to proceed at this moment of world financial disintegration. With this, we will give the population back its sense of confidence, creating hundreds of thousands of jobs.

The marginalization created by unemployment is a blow that goes beyond simply depriving the citizen of his material needs. The most important thing for the citizen is to fulfill a significant function in life, a life that is distinguished by contributing skills and talents to future generations. It is around this idea that we must unite the nation and its people, to assure its posterity and its progress. Around this we should reestablish as well the responsibilities of the nation-state to be the sole guarantor of the general welfare, and to thereby produce in each citizen the passion for fulfilling a mission governed by the idea of the good.

The mobilization for the PLHINO brings together all of this cultural and social potential, to awaken an optimism based on the confidence that the great evils facing us today can be solved. The Constitution of the Republic had the wisdom to deposit our sovereignty in the Congress, and the question this crisis thus poses is whether or not the Congressmen of the current legislative session have the moral stature to respond to that constitutional mandate.

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