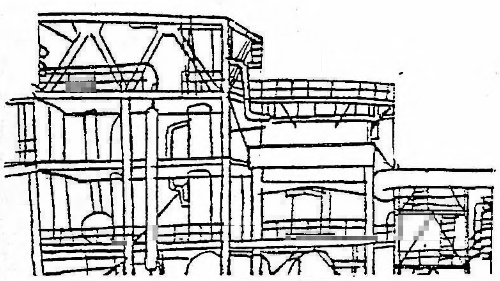
THE LESSONS ARE BLOWING IN THE WIND

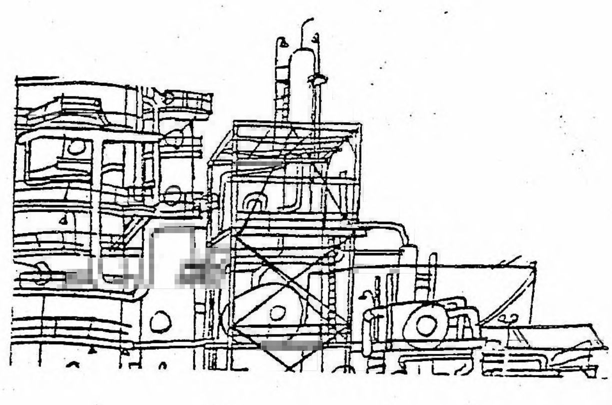
On the second day of the conference, Mexico's Oil and the Lesson of the Middle East, Lorenzo Meyer, the Director of the Center of International Studies at the Colegio de Mexico, presented a paper entitled "Mexican Oil: The consciousness of the past and the future". As the title of his paper indicates, the current oil boom in Mexico is not the first. More than fifty years earlier, from about 1910 to 1921, Mexico was a major world producer and exporter of oil. This previous experience as an oil country places Mexico in the unique position (vis-a-vis other major exporting countries) of being able to draw some crucial lessons from the past as it forges a new policy today.

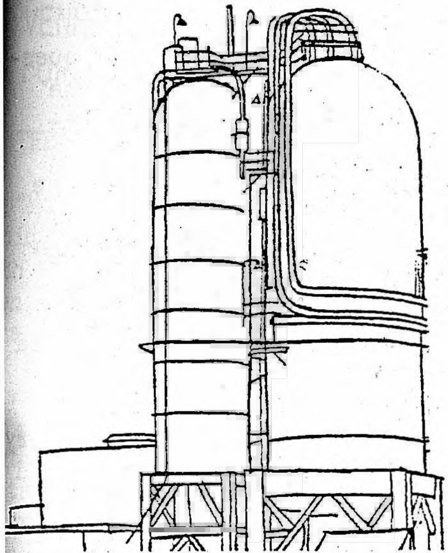


In considering the history of Mexico's oil production, its growth and decline, Professor Meyer sees four different periods. The first period from approximately 1901 until 1921, inagurated the discovery, explotation and production of oil in Mexico. Initially, Mexican oil was intended for internal use by railroad companies as an alternative fuel to coal (which had to be imported from the U.S.). Oil production, however, rapidly outstripped internal demand and Mexico soon became a major exporter of crude oil. In fact, by 1921, Mexican production had grown from 3.6 million barrels annually (produced in 1910) to 193 million barrels annually. But oil revenues which accrued to Mexico did not keep pace.

In actuality, Mexican oil revenues generated from export taxes were almost invisible. In 1911, for example, Mexico received less than 1% of the value of its oil, a mere 13 thousand dollars. As the Mexican Revolution progressed and the need for increased federal revenue became acute, Revolutionary leaders raised tax levels. Even with these measures, very strongly resisted by foreign oil companies, taxes only accounted for 25% of the value of Mexican Oil at the apex of production. Even this revenue, some 44 million dollars, was hardly allocated for economic development; 77% went directly to administrative costs.

During the first period (which corresponds almost exactly with the violent phase of the Mexican Revolution), more and more of Mexican oil was exported on the international market. Along with the noticeable shift away from internal consumption of oil came the increasing dominance of foreigners in all aspects of oil production. The estimation is that foreigners (primarly U.S. and Great Britain) controlled the whole Mexican oil industry precisely at the height of production. Therefore, the Mexican oil industry was most severely dependent on foreign companies at the exact moment when the product was potentially most beneficila to the economic development of Mexico. This seeming paradox illustrates one of the major points of the paper - namely, the first Mexican oil boom did not integrally contribute to the economic development of Mexico.



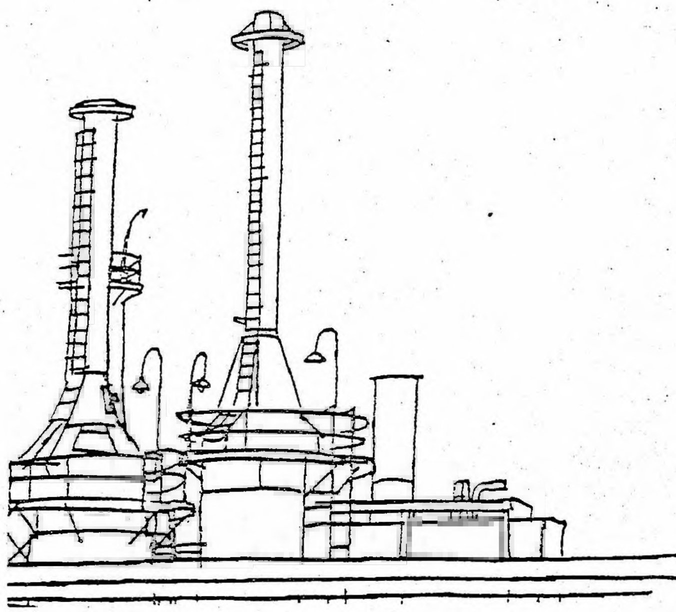


The second period in Mexico's oil history, from 1921 to expropiation in 1938, is characterized by a marked decline in oil production and an increase in internal consumption. This is the period in which new oil discoveries were made in the United States, Iran, Venezuela and Colombia; countries which were seen to be safe investment areas by foreign companies since none of them had experienced anything remotely similar to the Mexican Revolution. This period also coincides with a decline in the strategic importance of Mexico's oil for the U.S. and Great Britain. Most importantly, however, production was at its lowest when taxes on oil were at their highest. The net effect was virtually no increase in Mexican revenues derived from oil.

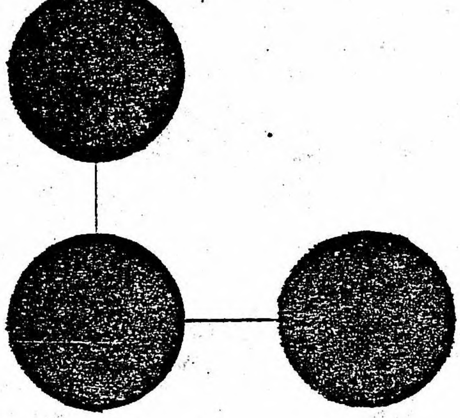
The expropriation of foreign holdings and the nationalization of Mexican oil signaled the beginning of the third period which ran from 1938 to 1976. The painful shortcomings in Mexico's oil policy during the former two periods became obvious Mexico was crippled by its dependence on foreign companies which boycotted Mexican oil and refused to sell badly needed parts and equipment to Mexico. Furthermore, Mexico experienced an acute lack of highly trained technicians and administrators, positions which were monopolized by foreigners. This was the background for the eventual development of Mexico's nationalized industry.

As for the final period, Mexico's second oil boom, the critical questions center on the advisavtility of substantially increasing exports of crude oil and once again becoming an "oil country" or the most effective way of conserving the huge oil reserves for internal economic development. In any case, Mexico must avoid becoming a strike breaker, as it were, between the U.S. and the OPEC countries. It also must be very careful not to allow the U.S. to dictate its future oil policies, or to technologically control strategic aspects of oil production.

Following the presentation, Professor Friedrich Katz provided an unusual historical glimpse into secret schemes conceived by representatives of the U.S. goverment and private bisiness; schemes drawn up with the intent of preventing increased taxes on U.S. oil companies or their expropiation.



Furthermore, Professor Katz showed that because of political and military pressure on the Mexican government, and alliances established by the oil companies with various fighting factions, the revolutionary government was impeded in successfully carrying out the agrarian reform. In actuality, very few changes took place during the first period delineated by Meyer.



Professor Zonis began by pointing out that the demand for oil by the industrialized countries has radically changed the relationship between the oil companies and the oil-producing countries. Now, the enormous revenues that oil brings to the producing nations makes it impossible to use bribery to pressure their governments. In that sense, the key issue is not so much the attitude of the oil companies, but the behavior of the local elites of the oil-producing countries, who are unlikely to police themselves. Zonis also mentioned that oil revenues have already had several clear effects in the Middle East: the production of capital-intensive facilities instead of labor-intensive industries, resulting in a great waste of capital; an enormous temptation to use oil revenues to produce welfare facilities in order to "buy off" popular political pressure; a growing economic inequality between the rural-urban sectors, a crucual political issue; and a tendency for the oil-producing countries to play the role of grandiose world powers.

Professor Schmitter then focused on the authoritarian Mexican political system. He suggested that due to the particular relation between the state and society in Mexico, it is likely that in the short run the regime will be able to consolidate itself by using the oil revenues to produce a more paternalistic state without a real economic productive basis. Nevertheless, in the long run, the increased lack of trust among the different groups will produce a disaggregation process that can result in a more democratic regime (as was the case in Venezuela) or in a socialistic revolt whose consequences would be very difficult to foresee. In the latter case, the U.S. would undoubtedly attempt to intervene.

Professor Coatsworth seriously questioned Mexico's ability to absorb the structural impact of enormous oil revenues. He showed that the two big social movements that have taken place in Mexico (1810 and 1910) took place after a long period of economic expansion suceeded by a period of crisis. In that sense, the economic boom that the oil will produce in Mexico may lead to a social revolt in the long run. Nevertheless, in both previous social revolts, the final outcome has been very far from the social expectations raised by the revolutionary forces. Would this again be the case?

Before the session ended, Professor Katz mentioned that one should not forget that the army can play a decisive role in any of the possible scenarios the oil boom may produce in Mexico.