Mexico's Alfa bailout

The problem was not rapid growth, reports Timothy Rush; it was exorbitant credit costs, for which there is a potential remedy.

The financial difficulties and subsequent government bailout of Mexico's largest private-sector conglomerate, the Alfa group of Monterrey, have sent shock waves throughout Mexico and much of the foreign business community there.

The conclusion being drawn by many is not the one the Mexican Social Democratic Party, Milton Friedman's Mont Pelerin Society, and other monetarist strategists are trying to impose by charging that the bailout is improper and rife with illegalities. Rather than issuing a go-slow signal to combat "overheating" of the economy, as typified by Alfa's alleged over-rapid growth, government factions are examining closely the possibility of installing exchange controls to put up a barrier against the U.S. Federal Reserve's interest-rate warfare. Such a measure, urged publicly by, among others, the Mexican Labor Party (PLM), would immediately force Mexico's private-sector borrowers back into the domestic credit markets. Combined with issuance of low-interest government credit bound tightly to productive uses in Mexico, the nation would be able to maintain its high-growth commitments.

Alfa's role

Alfa has been the flagship success story of Mexico's impressive corporate expansion of the past six years. Its assets grew in real terms between 30 and 50 percent for each of the years since 1975, currently coming in at close to $5 billion. The number of employees grew from approximately 9,000 in 1974, when Alfa was split off from the Monterrey Group, to today's 49,000. Net profits in 1980 stood at $160 million; Alfa ranked among the top 250 non-U.S. corporations worldwide.

The news that Alfa was facing a financial squeeze, first leaked into the press in late June, was followed in mid-October with an announcement that the government had moved in with a $680 million bailout package. Arranged through the government bank Banobras, it provides for a $460 million credit line direct to the holding company, and state purchase of $200 million in preferred stock of some of Alfa's subsidiaries.

Though this was by far the largest such package ever arranged through Banobras, the political effect of the deal surpassed its economic magnitude. For over half a century, Monterrey has been "Mr. Anti-Government" within Mexican private-sector circles. Suddenly Monterrey's flagship conglomerate found itself in the situation of depending on the government for a bailout.

At the same time Alfa undertook a major retrenchment. It laid off 2,500 executives, (for savings of some $65 million), as well as an undetermined number of blue-collar workers, and halted delivery of seven corporate jets, worth $28 million. According to reports Alfa has not denied, it divested itself of Power Electric, a subsidiary producing electric motors; Cimas, a washing-machine producer; and a joint venture with Moulinex of France, producing electric household appliances. Alfa also postponed a new joint venture with the German firm BASF, and canceled new projects with DuPont, Northern Telecom of Canada (to manufacture telephone switchboards), and Siemens (to manufacture industrial steam turbines).

The company plans to concentrate on its basic units: the successful steel firm Hylsa; two petrochemical plants; paper; consumer-goods lines under the Admiral, Philco, and Magnavox labels; and remaining real-estate interests (notably the Las Hadas luxury resort on the Pacific Coast).

What happened?

The remarkable thing about the voices proclaiming "overheating" of the economy—the Social Democratic Party (PSD) within Mexico, among others, and such outlets as the *New York Times* and the *Financial Times* abroad—is that they were insisting on slashing Mexico's pace-setting 8 percent growth well before the Alfa case came along. There is well-grounded suspicion that they represent interests which may have had a hand in targeting Alfa directly precisely in order to haul down the Mexican economic boom.

EIR's investigation shows a very different story, of an industrial giant put through the wringer by the international regime of Volcker's high interest rates and "long knives" taken out against Alfa by rival factions within Monterrey itself.

As Alfa's management has stated, the crucial element in the firm's current difficulties is the sustained usurious climate of high interest rates. Because of scarce domestic credit, Alfa has levereged most of its expansion on foreign borrowing over recent years. Its current foreign debt is $2.5 billion. Volcker's renewed runup of interest rates at the beginning of this year added $110 million to 1981's already high debt service of $390 million. At the same time the high interest rates and scarcity of domestic credit dried up consumer purchases of Alfa's real-estate and consumer-goods lines.

This is the squeeze that fundamentally caught Alfa. In addition, there was internal corporate weakness, as some of Alfa's acquisitions, essentially asset-stripping operations, caught up on the company. However, the basic corporate profile, built around Hylsa steel, was and is solid.

Badly hit by the interest rates, Alfa turned to the foreign markets for new loans. Suddenly, in July, the door was closed. It is reported that an Alfa $200 syndication was only 40 percent subscribed, and Alfa junked the entire borrowing.

The government bailout was the next step. One reason for the government's move was certainly preserving important productive forces in the economy. The Banobras loan is structured to give priority emphasis to completion of Hylsa's current steel expansion, and construction of new pulp plants in Durango.

But the political dimension was equally important. At the beginning of President López Portillo's term in 1977, he proposed an "Alliance for Production" with the private sector to rebuild the cooperation between the state and private business which had been shattered in the last years of Luis Echeverría's government. The man who stepped forward to reciprocate from the Monterrey private-sector command post was Alfa's Bernardo Garza Sada. Other Monterrey "chieftains," such as VISA's Eugenio Garza Lagüera, held back.

The long knives

Alfa's alliance with the government is in fact the element of the situation uppermost in the minds of knowledgeable Mexicans. There is a long history here of fundamental importance.

The enmity between Monterrey's patriarchal, one-family industrial and beer empire, and leading elements of the Mexican government was unbridgeable until President Echeverría entered into delicate negotiations with the 80-year old Eugenio Garza Sada in 1972-73. The completion of these negotiations would have redrawn the map of Mexican politics. Suddenly, in September of 1973, Eugenio was assassinated by terrorists who had been trained by local Jesuits; substantial evidence exists indicating that in fact the hit was ordered by factions in Monterrey's extended family networks who opposed reconciliation with the government.

It was on the basis of Eugenio Garza Sada's death that the Monterrey Group was broken up into separately administered holding companies. The largest were Alfa, based on Hylsa, and VISA, based on the Cuauhtemoc beer brewery and the Serfin bank. The basis for rapprochement with the government was eliminated, clearing the way for the brutal economic warfare between Monterrey and Echeverría two years later.

The curious role of the curious Social Democratic Party (PSD) highlights this Monterrey factional question in the midst of the Alfa-Banobras affair today. TV commentator and newspaper columnist López Doriga noted the strangeness of the fact that news of the Alfa-Banobras deal "first broke in New York" (referring to an Oct. 19 article in the *New York Times* by correspondent Alan Riding, "and already reaches into the ranks of this so-called Social Democratic Party—right-wing—only to be taken up from there by the left as a rallying point against the government."

The "midwife" role was indeed the PSD's. PSD leader Luis Sánchez Aguilar called a press conference Nov. 2 to charge that the Banobras bailout was improper and had to be stopped. The next day a coalition of left parties in Congress called for such an investigation, and the following day, as PSD-inspired paid manifestos against the deal appeared in several major papers, the Congress agreed to look at the case.

What is the PSD? Though under its previous name, Acción Comunitaria, it ran public relations for the Mexican Communist Party through a front called the Mexican Public Opinion Institute during the 1976 presidential campaign, it has its roots in factions of the Monterrey Group itself. The founder of the group, and mentor of Sánchez Aguilar, is Roberto Guajardo Suárez, one of Monterrey's most prominent conservative business leaders throughout the 1960s. His "conversion" to a reformist profile brought him and his associates into linkage with the circles developing the Jesuit terrorist capability of the early 1970s.

When the PSD adopted its current name and applied for legal political registration late last year, it was the interests around Garza Lagüera's VISA group and the Monterrey firm of Gamesa which reportedly provided the major backing, along with Mexico City Mayor Hank González.

The "scandal" is far from over. The congressional committee investigating the bailout has just begun its work. The PSD and related groups are pouring millions of pesos into one of the biggest press campaigns in recent history. Behind the scenes, some of the most important issues of the campaign of presidential candidate Miguel de la Madrid, of the ruling PRI party, are being fought out in terms of the Alfa case.

Statements on the future

The Mexican Labor Party (PLM) held press conferences in Mexico City and Monterrey on Nov. 7. Below are excerpts from the PLM press release, portions of which were carried in seven of Mexico's national newspapers and the two leading Monterrey papers.

It's not accidental that in the Alfa case all the threads of the campaign against healthy collaboration between the state and the private sector lead to the Socialist International, to its economic espionage arm, the Wharton School, and the Mont Pelerin Society, this last from the extreme right. These agencies carry out a division of labor, from the "left" and the "right," to promote a neo-Malthusian strategy of depopulation and de-industrialization. . . . [These forces] attack the Banobras-Alfa negotiation as conclusive proof of "overheating of the economy." The only overheating is going on in their heads. What the credit-needs of the Alfa group do in fact demonstrate is the urgent necessity of taking measures that permit lowering interest rates, at the same time protecting the national economy from a capital flight.

The PLM proposes the immediate establishment of exchange controls for this purpose.

Excerpts from a statement released Nov. 8 by Alfa President Bernardo Garza Sada and Alfa Public Relations Director Juan B. Morales:

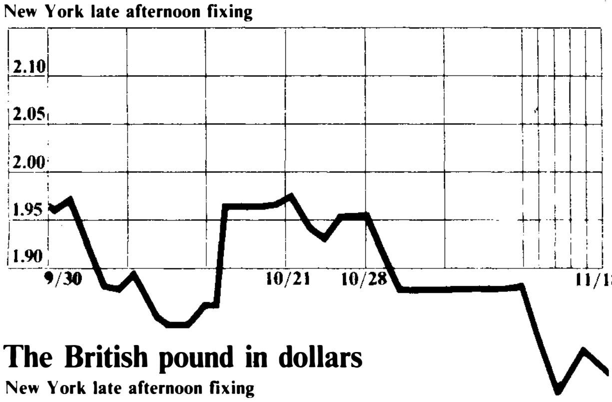
The interest-rate increase outside the country, principally in the United States, created a difficult conjunctural situation for us. Interest rates rose from 11 percent to 21 percent in dollars, and in national currency rose by 30 percent. Given our foreign debt of 50 billion pesos [$2.25 billion], we had to absorb a surcharge of over 2.5 billion pesos [$110 million] just on the service of this debt. . . .

We had to cut in half our expansion program. . . . It was necessary to adopt strict administrative cutbacks, among them . . . the reconsolidation of three divisions.

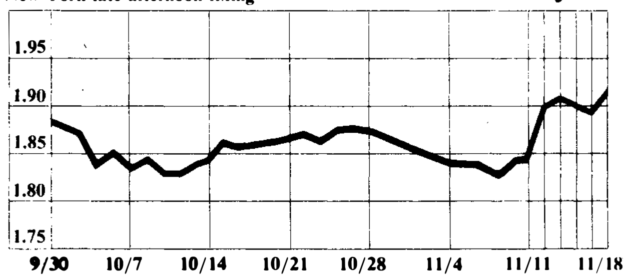
The credit is for 12 billion pesos [$180 million] under strict banking conditions, plus selling stock to the state worth 5 billion pesos [$200 million]. These are preferred stock without voting rights, which come from some of our medium-sized operating firms. Both the financing and the sale of stock constitute normal actions within banking practices. Our aim is to continue growing. In 1980 we acquired several industrial concerns. We raised our steel production from 1.0 million to 1.6 million tons, and we planned the Durango Project, worth 5 billion pesos. The situation of Mexico is excellent and its economy is solid, since the oil wealth has been converted into a mechanism to stimulate expansion. Our country is moving ahead in an international climate characterized by instability and uncertainty.

Currency Rates

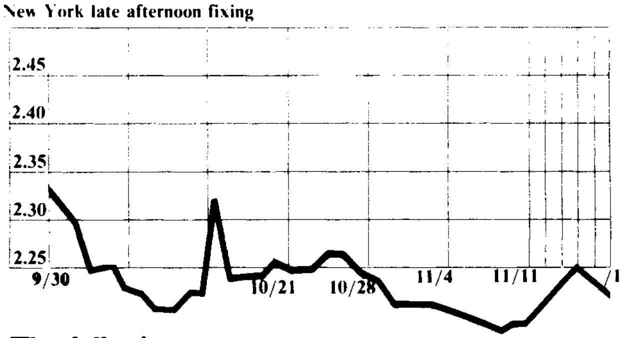
The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing