Mexico for sale—cheap

The new investment law will lure flight capital back in—but at what a price! Carlos Cota reports.

The package of seven economic laws presented by Mexico's executive branch to the Mexican Congress will provoke at minimum a hyperinflationary crisis in 1985. The package is a concession by the executive to pressure groups dominated by ex-bankers, in exchange for which they would bring back the capital they are keeping abroad.

One of the bills in the package, the one we will deal with here, concerns investment companies. Theoretically, this law would encourage "internal savings given the effective contributions coming from stockholders" who participate in buying stocks from firms registered as non-banking financial institutions. Mexican Congressman Ricardo Cavazos Galván claims the new law "will permit the access of the small investor to the stock market," with the supposed "capitalization" of the sector occurring as a result.

Debt for equity

A parliamentarian's theoretical essay is one thing; the physical state of the real economy is another.

According to reports by the Center of Private Sector Economic Studies (CEESP) in Monterrey, 33% of Mexico's private businesses "are approaching serious production problems" due to the high costs of raw materials. In 1982, 57% of raw materials were imported; in 1984, this has been cut to 17%. This does not mean that these imports have been replaced domestically, but that they have been eliminated, thus reducing the productive capacity of existing plant.

Roberto Dávila Gómez Palacios, president of the College of Economists, revealed that "firms that resort to suspending payments are trying to keep the payment of their debts from turning into a virtual seizure of their fixed productive assets, and to avoid this they resort, if their shareholders think it useful, to all the legal recourses available. . . . International private banking wants payment of the foreign debt with assets, a procedure which Alfa accepted and Cermoc rejected." He was referring to the 1984 episodes of the large Alfa firm and Moctezuma Brewery (Cermoc), both besieged by foreign creditors demanding equity in lieu of debt payments. The College of Economists reports that most of the big firms of the country have the same dismal ratio of foreign debts greatly exceeding their assets.

It is in this situation that, starting in 1985 with the new law, companies with economic problems can resort to brokerage houses, investment companies, and savings & loan institutions to obtain the resources they need. At the same time, the investing public (savers) can particpate in these institutions, called *non-banking financial institutions,* seeking even higher returns for their money, which is currently invested in high-yield government paper.

Legislating a speculative bubble

Since this is the real situation of the companies, with the investment law a feverish activity will be sparked in 1985 in the finance companies of buying and selling stocks in bankrupt companies which have an average productive activity at the level of 40-50% utilization of plant capacity.

The first to enter the game of stock buying and selling will be none other than the so-called institutional savers or investors. These are the huge octopuses which have made speculation their main business. In other words, they are the restricted group of stateless ex-bankers and flight capital specialists who have been lying in ambush since 1982 to take revenge for the nationalization of Mexican banking.

By the first quarter of 1985, what will be seen in these businesses will be an unusual activity (what the bill's authors call "economic recovery") which will raise the price of the stocks of many companies, which will then attract the "small savers" who will withdraw their "small capital" from the banks in order to enter the Russian roulette of stock buying, seeking higher yields.

Given that the big "institutional" octopuses are the ones who know the real state of bankruptcy of the firms whose stocks they are buying, once they have raised the price of the stocks to a level that will partially pay the "interest" on their investment, and have attracted enough foolhardy small investors, they will start lowering the price, leaving the small investor with no more market and no more option than to sell his stocks to the selfsame manipulators of the market.

In this way, traditionally, the "institutional investor"—big banks and insurance companies in hock to the Trilateral Commission—covers his investment in a debt-burdened company. The second reaction will be an immediate pressure to increase prices on the scarce products of the collapsed productive capacity of said companies.

As a result, we will have inflation in 1985: More money circulating without backup in real production, constant increase in the prices of products which keep getting scarcer. This is called hyperinflation and not economic recovery.

Where will the money come from for the so-called investments? If it is indeed true that theoretically foreign investment in this business will be restricted, this will not be the case for the looters of flight capital (who are hardly "small savers"), who keep some $60 billion abroad. Part of this will come flooding back into Mexico, making a killing on the devaluation of the peso. Along with this returning flight capital, a lucrative market of Mexican "front men" will proliferate, via whom the foreign creditors will come in to collect their debts in the form of assets.

The first to enter the game of stock buying and selling will be the huge institutional investors who have made speculation their business, and who have been lying in ambush since 1982 to take revenge for the nationalization of Mexican banking.

This type of reform in the national financial system is exactly like that which in Colombia, under the government of ex-President Alfonso López Michelsen in 1974-78, served to mediate the legal introduction of dope trafficking revenues.

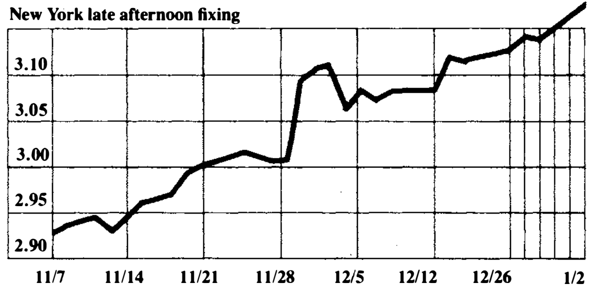
The above prediction does not come out of a crystal ball, but from the simple recollection of what has already happened to countries like Argentina, Colombia, Peru, and even Chile, with the application of the same "laws" favoring the mythical "magic of the marketplace." In those countries, when the overvalued prices of the stocks of the "firms on the stock market" started to keel over, what took place was not recovery, but a lot of suicides among the small investors.

The monetarists encrusted in the cabinet of President Miguel de la Madrid have passed along the pressure of the speculative bubble in the banking sector (which could no longer go on issuing paper at interest rates beginning to surpass the barrier of 100%), to other sectors of the economy. With the investment company law, they have built yet another story in the speculative skyscraper they constructed over the last two years through the hyping of treasury bonds and other schemes.

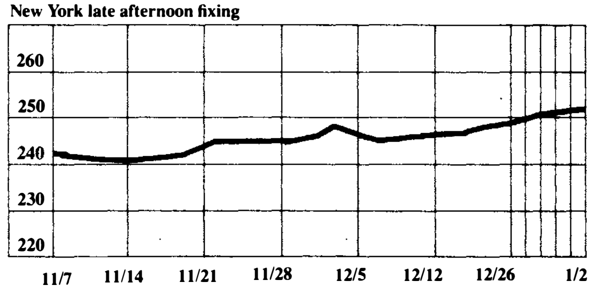
What must still be determined politically is whether President de la Madrid will accept selling (and selling cheap) the rope with which the speculators want to strangle the Mexican state.

Currency Rates

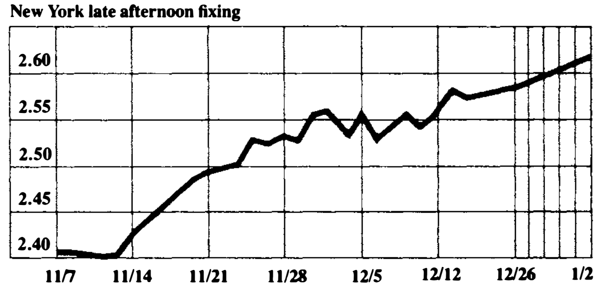
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing