Mexico's inflation plan sure to fail

by Carlos Cota Meza

Mexican President Miguel de la Madrid has announced that his government will shortly be launching a new anti-inflation program. If his government's previous experiments in that area are any indication, the President's promised plan condemns the Mexican population to yet another series of austerity measures, which will introduce yet more chaos to the generalized disorder of the national economy.

In the little time that remains of de la Madrid's six-year term, those who ran his economic policy, like the Gods of Olympus, are now looking around for someone else to blame for the scourge they have brought upon the country. In 1982-83, it was said that inflation was caused by "excess demand." So, they brutally slashed wages to reduce inflation. Then they said it was due to a "supply shock," blamed the businessman, and imposed a merciless policy of credit restriction through high interest rates.

The inflation ignored both kinds of measures, and simply continued.

Now they say that the previous measures "were insufficient, because inflation presents a severe problem of inertia," provoked by the so-called "rigidity of the economy," as exemplified by workers demanding more wages and producers and retailers responding with price hikes. They argue that inflation is a "vicious circle" to be fought by "modifying relative prices": freeing up interest rates, more devaluations of the peso, and increasing prices for goods and services. All of this, of course, hikes the cost of production. . . and yields more inflation.

What next?

What is now undeniable is that each of these "anti-inflationary" zigs and zags has driven the economy deeper into the abyss. The June 1986 announcement of the government's economy strategy, known as PAC (*Plan de Aliento y Crecimiento*), defined the goal of keeping inflation under an annual 100%. It is now running at 140%, and rising. Another objective was to achieve a growth rate of between 3% and 4% in the GNP; nothing remotely like that has been achieved.

After one year of applying the PAC (which in fact was stillborn, a victim of Finance Minister Petricioli's rhetoric), anxiety seized hold of President de la Madrid, and since July of 1987, he has been trying to fight inflation by braking the devaluation of the currency and reducing interest rates, thus inverting his own economic policy:

1) Letting the peso slip below the inflation rate goes against the "export or die" dogma. The exporters have responded by saying, "The slide of the peso does not correspond to inflation. . . . A very dangerous signal is being sent to the export sector."

2) The artificial reduction of interest rates immediately sent a flood of speculative capital onto the stock exchange; other capital bought dollars in anticipation of further devaluation, and the nationalized banking system continued to be decapitalized.

Well-informed sources say that members of the economic cabinet are now asking themselves, "What do we do now?" A shock program is now out of the question, they say, because the President has already put his foot in his mouth by pledging that he will not go that route. To do so now would be to discredit the government even further.

So, a new proposal has emerged from the inner sanctum of the central bank. In a confidential document already circulating within the economic cabinet, the Banco de Mexico proposes that "accumulated international reserves be returned abroad in the form of payment for imports of merchandise. This will not be one more inflationary source of pressure for the creation of new money. . . . One could think that the increase of the GNP will be based on imports, on returning foreign exchange abroad."

This new "anti-inflation strategy" will be accompanied by the final stages of an anti-protectionist "commercial opening," which will include the elimination of restrictive "prior import permits" as well as a further reduction of import tariffs. According to the plan's authors, the cheaper international merchandise that will enter the national market will put a "ceiling" on prices of local products, thereby "combating cost inflation." Much of the new import strategy will focus on food, and already suffering beef, grain, and other agricultural producers are screaming that they will be wiped out by the increase of cheap, low-quality imports.

This plan, discussed behind closed doors, has another major problem, however; namely, that the devaluation of the peso has been so severe that it has practically annulled the possibility for expanded imports. According to private analysts, this problem will be "artificially obviated" through creation of a kind of export trust that would give subsidized dollars to certain importers, while maintaining the devalued peso.

Economic disintegration

This is no anti-inflationary program, but rather, the culmination of the process of deindustrialization and denationalization of the Mexican economy. Specialists who have analyzed the statistics given out by the central bank, the finance ministry, and the planning and budget ministry, reveal that the country is undergoing a process of accelerated disintegration.

The per capita industrial gross national product for the first five years of de la Madrid's government registered an annual 2.3% decline. The value of total production fell 8.2% in 1983, and another 5.7% in 1986, something not seen since 1940. The physical volume of industrial production, even if it grows 4% this year, will not surpass 1978 levels. Central bank claims of a 4% increase in manufacturing production in the first half of 1987 are provably purely for export, pure looting.

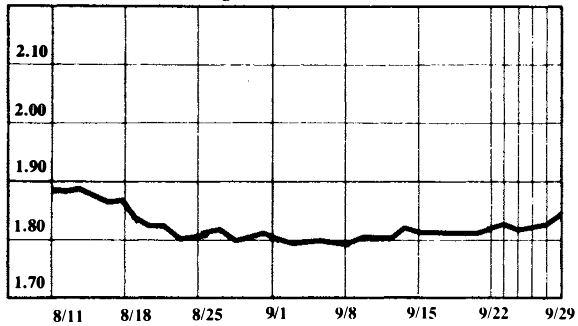
In other words, the economy that supplies the internal market will continue at zero growth, or worse. The new "anti-inflationary" plan, which would finance the import of consumer goods, and not durable goods to supply industry, will assure the absolute denationalization of the economy by simultaneously stripping it of both its industrial infrastructure and its food-producing capacity.

And, with the exhaustion of its international reserves through a combination of increased debt service and this newest "anti-inflationary" strategy, Mexico's economy will reach rock-bottom—neither industry, nor employment, nor production.

Currency Rates

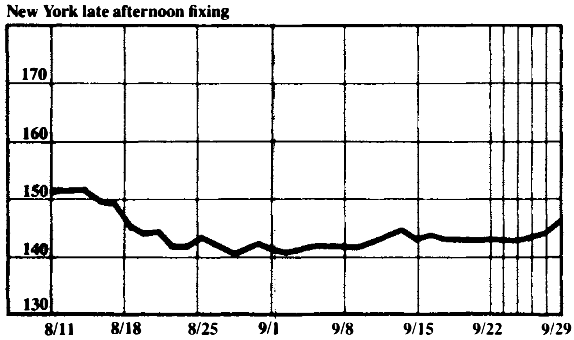
The dollar in deutschemarks

New York late afternoon fixing



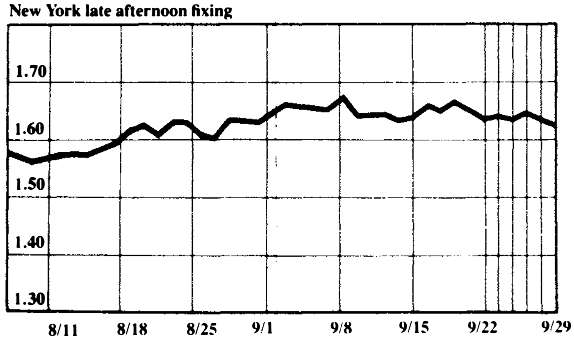
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing