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Mexico is ruled by rumors

The government has been put on notice by labor with the threat of the first general strike since the 1920s. By Mark Sonnenblick.

Warning that "Mexico is on the verge of hyperinflation," President Miguel de la Madrid decreed a package of measures Dec. 4. He froze wages and prices, sharply reduced import tariffs, and ordered government subsidies for basic foods and medicine. The package was a belated feint to forestall a threatened Dec. 18 general strike. As de la Madrid spoke, the labor movement was notifying 100,000 employers that 10 million workers would strike for 46% pay increases.

If the strike finally takes place, it will be the first general strike since the Institutional Revolutionary Party (PRI) became Mexico's ruling party in the 1920s. The labor movement is the voter mobilization machinery on which the PRI depends to legitimize its continued rule in the June 1988 presidential elections.

PRI labor chieftain Fidel Velázquez admitted that the new package could ameliorate the most recent bout with inflation somewhat, but insisted Dec. 6 that wage demands must be met, because they were to compensate for real wage declines since January. Therefore the strike is still on, he stated.

Real wages have been cut in half since de la Madrid and his central bank president Miguel Mancera took office Dec. 1, 1982. Coming on top of this decline, sharp price increases of between 30 and 50% on some items which hit after the Nov. 18 collapse in the value of the peso was the last straw for Velázquez, who knows that he must bring home a large wage increase now or see control over the labor movement fall into the hands of communist-run or -influenced forces.

Stock market shock

Mexico is already being ravaged by hyperinflation, rapidly nearing that of Weimar Germany in the years preceding Hitler's takeover. From January to September, inflation was running at an annual rate of about 130% by official account. The official wage-setting board reported Dec. 9 that the buying power of the average salary had fallen 45.6% during that period.

Compared to what has happened since October, those were "the good old days." The stock market bubble burst Oct. 5 and, since then, the market value of shares has gone down 75%. While the stock market crumbled, Mancera facilitated capital flight by selling an estimated $2 billion of Mexico's painfully accumulated foreign exchange to speculators jumping out of the peso. On Nov. 18, Mancera suddenly stopped selling dollars. In just one day the free market peso fell from 1,700 to 2,700 to the dollar.

The shock devaluation was immediately translated into price increases. Consumers watched with anger while stores marked up the prices of their goods each time a new rumor arrived as to how many pesos it took to buy a dollar at the airport or in El Paso. Many items disappeared as hoarders closeted them in expectation of further increases.

Fidel Velázquez was probably close to the mark in his calculation that in a single week the peso was devalued by 30.5% and prices increased by even more. He went to President de la Madrid Nov. 23 to demand a roll-back of the devaluation and a wage increase or else a strike. De la Madrid gave no response until his Dec. 4 palliative package. His regime says wage increases will be granted only after the annual cost of living review in late January.

The Chamber of Deputies gave its unanimous endorsement to the general strike. The Senate resolved Nov. 23 that the peso devaluation had been caused by the year-long orgy of speculation in the stock and dollar market which the regime had celebrated as "the return of investor confidence." It noted that the speculative blowout had obliterated that confidence in whose name Mexican workers have already sacrificed half their incomes over the past five years.

It concluded by urging an immediate renegotiation of Mexico's $110 billion foreign debt: "Society makes the generalized demand that the nation's government ask its foreign creditors to urgently renegotiate debt amortization and interest payments in order to substantially reduce the outflow of dollars and bring internal recovery."

Parallel government

The Mancera clique brought Paul Volcker to Mexico to

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give him an award for having forced through in the United States at the end of 1982 the policy that Mexico must pay its debts at all costs. That nexus of financial and trade policies is what has bankrupted not only Mexico, but also the United States.

According to insider columnist José Luis Mejías in *Excélsior,* Nov. 30, economic policy is not being made by the cabinet, but by Mancera's coterie, which includes several U.S. officials and businessmen. Mancera and company "have turned the economy into a casino" by reversing ex-President López Portillo's 1982 nationalization of the banking system and abandoning exchange controls "with the result that they have begun to loot us again, scandalously . . . with the disastrous results the state is experiencing."

Under the management of Mancera's cronies, the nationalized banks have been asset-stripped and bankrupted. As the stock market crashed and capital flight increased, the banks were devastated by withdrawals. They raised interest rates and even paid up to 300% interest to borrow from the free market usurers which have flourished under Mancera's protection. The run on the banks turned into panic when the bankers pleaded with the public not to withdraw. The panic increased when it became known that Multibanco Mercantil bank had closed seven branches for "bad management."

On Thursday, Nov. 26, the country was shaken by the rumor that the government would close all banks for 48 hours starting Monday, Nov. 30 and forbid withdrawals when they reopened. The government denied it, but Mancera's central bank, the Bank of Mexico, had to loan 200 billion pesos to get banks past the weekend.

Government faces bankruptcy

The bottom line for de la Madrid and his economic team are the finances of the government itself. Since 1982, the government has relied increasingly on short-term treasury bills called CETES, most of them 28-day or 91-day maturation. In the draft budget for 1988, de la Madrid allocated an incredible 54% of all projected revenues for servicing internal and external debt, while 30% of the budget is to be accounted for by net new issues of CETES; in other words, the government is caught in a vicious spiral of interest costs compelling ever more borrowing, leading to yet larger deficits and more interest charges.

The short-term nature of the CETES is a time-bomb. Immediately following the devaluation, the government had to raise the interest rate on the CETES by 8%, to 105%, and within days raised it again to 110-112%. The government must, in fact, raise the rates as high as it needs to attract money both to roll over the existing mass of CETES and to place the new issues needed to cover the widening budget deficits.

However, according to several financial columnists writing on Dec. 10, this process may already be coming unstuck. José Pérez Stuart reports that the government tried to sell 5 trillion pesos of 28-day CETES, but could find buyers for only just over half of it, 2.7 trillion. The Bank of Mexico managed to sell most of its 2.7 trillion peso offering of its own 28-day paper, but only by raising its interest rate to 120.3%. But for 91-day paper, the Bank could only sell 4.6 trillion out of 20 trillion, with a 129.9% interest rate. When these bills stopped being bought, the Bank and the government both go bankrupt in very short order. Their only alternative is to spiral interest rates ever higher—which blows out the government budget at an ever faster rate.

To deal with this, well-known columnist Luis E. Mercado reports that it is widely believed that the government is using its dollar reserves in some form of "swap" whereby internal debt is exchanged for external debt. Mercado also reports that the recent stabilization of the free-floating peso, is believed to be due to secret Central Bank intervention, surreptitiously using its reserves to bolster its value.

The government which, until October, was singled out by Wall Street and Washington for having "the best economic management in Latin America" has destroyed Mexico's own credit—by following Wall Street's advice, and despite allocating 54% of all government expenditures to debt service.

De la Madrid is foundering. His government tries to unload the blame for hyperinflation on "unscrupulous speculators and hoarders." His tearing down tariff walls—believed by Mexican insiders to be part of a deal struck with U.S. special trade representative Clayton Yuetter in October—will flood the country with cheap manufactures from Southeast Asia, and thus hold down consumer prices. But it is more likely to wipe Mexico's domestic industry off the map than to "stimulate it to become more modern and competitive," as de la Madrid said it would, Dec. 4.

There are rumors of more shocks, including an all too appropriately named "Aztec Plan" which would sustain debt service by further blood-letting from workers, industrialists, and farmers.

Mexicans desperate for hopeful signs grabbed onto de la Madrid's statement to labor leaders Dec. 7 that he was engaged in an "exhaustive review" of his whole economic program. He promised rapid restoration for wage erosion and that the "financial" rather than the "operating" side of the budget would be sacrificed in any anti-inflationary austerity program. The daily *Unomásuno* interpreted that as the President's first public challenge to central banker Mancera.

De la Madrid has few options for regaining control over his country from the rumors. He could use his "review" to fool labor into demobilizing its strike only to be hit by an Aztec Plan. Or he could follow the advice of his Senate, stop payment on the foreign debt and focus everything on domestic consumption and production. The first option leads to economic paralysis and social chaos, which could replicate the 1910-1917 Mexican Revolution in which 1 million died. The second leads to a debtors' cartel and confrontation with Washington.