will be no problem if we introduce a deflationary policy toward the speculative bubble of the internal debt, exactly as occurred in the Mexican stock market.

These are the teachings of one Mr. Sanjines who is hidden in the Autonomous Technological Institute of Mexico (ITAM), and who advises Aspe Armella and Mancera Aguaya. The credentials of said Mr. Sanjines are that he "advised" the Bolivian government in the application of its "heterodox program," which "stabilized inflation."

According to reliable sources, the only thing that is worrisome about these programs of Mr. Sanjines, is "the political consequences against democracy." What this Mr. Sanjines doesn't say in his "advice" is what is now recognized in Bolivia itself: that 80% of the GNP of the Bolivian economy comes from drug trafficking.

If deflation is opted for, the rush into the dollar will be such as to annihilate what remains of foreign reserves. If the government opts to maintain the hyperinflationary policy of "recycling" internal debt, where do they think they will obtain the liquid funds from to continue to pay interest?

The real root of this entire financial and economic crisis, is that, faced with such a high mortality rate for their programs, the technocrats of the regime are out to spread the infection, and want to kill democracy.

Mexican state heads for bankruptcy

by Peter Rush

Sharp increases in interest rates on government treasury certificates called CETES, and the announcement that the government is coming out with 7-day and 14-day CETES, signal the impending bankruptcy of the Mexican state. The point is emphasized by the persistent rumor that the Bank of Mexico is heavily supporting the peso in the face of renewed strong capital flight into the dollar.

The government's latest "program," the Economic Solidarity Pact, is helping to bring the crisis on, by further destroying the country's physical economy. And the farcical "zero bond" plan concocted with Morgan Bank in New York, primarily intended as a public relations trick in any case, is already coming apart.

Interest rates and pressure on the peso are the crucial issues at present. The Nov. 7 increase of CETES rates by a nominal 32 points, from 127% to 159%, represents a real increase, on a compound basis, of 111% a year, from 234% to 345%. Reportedly, even the 159% rate was a compromise, with prospective investors initially demanding 200% (535% compounded annually).

Explaining why the upward pressure on interest rates was so severe, columnist Luis Soto explained in *El Financiero* Jan. 7 that these rates "make one think that the Bank of Mexico is willing to pay what it must to savers and investors, such that they will invest in peso instruments." The government must pay whatever rate the "market" demands, just to roll over the CETES that come due—or face immediate bankruptcy—plus it must market new CETES to pay the growing interest costs on the old. The government is hostage to whatever the so-called "investors" demand.

The other motive for the interest rate increases is to keep pesos from fleeing into dollars. Soto commented, "Everything indicates that dollarization is growing daily, before a strong demand, despite the efforts of the authorities to supply dollars to the market to control the price."

Agustín Rodríguez Trejo, the *Excelsior* columnist, reported, "A strong rumor exists that the outflow of dollars has alarmingly reduced the much-defended monetary reserves of the Bank of Mexico," although no one is willing to estimate the magnitude of their depletion since the devaluation of mid-November. But can any rate of interest keep pesos from fleeing into dollars? Soto quotes Bank of Mexico head Miguel Mancera, suggesting that the answer may be no: "There is no rate of interest that buys off fear." The announcement Jan. 8 that the government is now to issue even shorter-term CETES, of 14 days, and even 7 days, is an indication of how short a fuse remains on the financial bomb. Still, no analyst has yet appeared to draw the only possible conclusion, and utter the dread word: bankruptcy.

Foreign debt payments strangle the country

The Mexican government has been living a terrible illusion for five years, the illusion that it has managed to pay its debt service, and survive. It has not survived. Like a cancer that expands unnoticed before bursting forth in a late stage, when death is near, the effects of paying foreign debt service at the expense of the domestic economy, are only now manifest, as the government faces utter financial collapse.

For five years, the de la Madrid administration and its finance minister, Salinas de Gortari, the prospective next President, paid the debt on demand from New York, by looting living standards, looting production for the domestic market, and looting the government treasury. Domestic production has fallen by 25-30% or more. The government has thus destroyed its own tax base. Falling revenues and ever higher costs of paying foreign debt service thanks to repeated devaluations of the peso, constantly increased the government's deficit, despite brutal cuts in expenditures for services and investment. High interest rates, large government deficits, and falling purchasing power caused inflation to keep rising.

By 1987, the stock market was for many companies the only place to make a profit. Reportedly, banks even advised their corporate clients to enter the stock market, in order to earn the means of repaying them. High interest rates, the excessive prices of imported capital goods due to the overpriced dollar, and plummeting demand all but eliminated investment except in a few export industries.

The bubble burst with the stock market crash, producing a wave of bankruptcies and flight capital. The last incentive holding capital in the country evaporated. The government is caught between a bottomless collapse of the peso and hyperinflation. So far, it has tried each in turn. The Nov. 19 devaluation finished off what confidence anyone had in Mexican economic policy. The central bank was reportedly forced to intervene to prevent a fall below the devalued level. The "free" peso has held steadier than the "official" peso ever since, supporting widespread speculation that the central bank has been intervening heavily to prevent another Nov. 19 shock. At what cost to the famous Mexican reserves is being kept a state secret.

Since Nov. 19, hyperinflation has become a frequently used word, even issuing from the mouth of the President himself. But it has not been properly understood. Hyperinflation is not the result of incremental growth of inflation. Brazil and Argentina have sustained long periods with inflation higher than Mexico's without it becoming hyperinflation. Hyperinflation is caused when national governments, in the last stages of trying to stave off bankruptcy, print money, or what amounts to the same thing, and borrow ever more money at ever-higher rates.

Hiking interest rates, shortening the term of the CETES, and the pressure on the peso prove that nothing the government can do can hold pesos in Mexico. Another maxi-devaluation is inevitable, and more traumatic than that of Nov. 19. The hour is fast approaching when Mexico will be unable to sell the CETES it needs to roll over the issues coming due, and the government will be, legally, bankrupt, unable to pay its debts.

Government response: games and genocide

In response, the government has turned to genocide against its own population. The Economic Solidarity Pact is intended to cut average incomes by at least one-third in two months. December's inflation rate (if it can be believed) was 15%, wiping out the entirety of the 15% wage increase granted in the pact. The 20% January increase in the minimum wage was no more than what had been scheduled before the devaluation to make up for earlier real wage declines. But officially, as explained by Finance Secretary Gustavo Petricioli, it is expected, as part of the pact, that inflation will rise very strongly in January and February. If inflation only rises at December's probably falsified 15%, it will rise by 32.3% before March, when wages are to start being indexed to inflation. But since wages will be indexed to a forecast of inflation, not its past performance, wages are almost certain to continue falling behind inflation.

On top of the cuts of 40-60% in income levels from 1982, a further 33-50% over the coming months is mass murder. Malnutrition afflicts a majority of Mexicans; hundreds of thousands are now dying of preventable diseases caused by poor nutrition and poverty. Mexico's death rate has reportedly risen to almost the level of Bolivia's. Further cuts on the scale officially announced and implied in the pact, will bring millions of Mexicans to Ethiopian levels.

The collapses in incomes and lost government expenditures spells bankruptcy for most industrial firms still servicing the national economy. Already, 10,000 layoffs from middle-sized and small companies have been reported since the pact.

No bread, but circuses: enter Morgan

Facing this reality, the Mexican government announced to an incredulous public on Dec. 29 that it had concocted a scheme to transfer $2 billion from its precious reserves to the U.S. Treasury, in exchange for promised savings in debt service costs that will be realized starting in 1993.

In the first announcements, Morgan made it appear that Mexico would exchange $20 billion of its government debt for $10 billion in government bonds, backed by the famous "zero-bonds" of the U.S. Treasury that Mexico would buy. Mexico would thus save 50¢ on the dollar, or $900 million a year in debt service. Petricioli has now corrected that falsehood, admitting that from the beginning, Mexico and Morgan had agreed that 60¢ on the dollar would be appropriate, so that only $16.667 billion would be exchanged for $10 billion. This would "save" $550 million a year in interest costs. But since Mexico is paying $2 billion up front, it will be four years before this "savings" will compensate for the $2 billion—not to mention interest on the $2 billion lost to Mexico.

As Prof. Jorge Castañeda, among other commentators, has noted, why all the hoopla about a $550 million saving against a $10-12 billion annual interest payment, barely 5% savings, which would be wiped out by a 1% rise in interest rates, or a $1 a barrel fall in oil prices.

Worse, most U.S. banks won't settle for less than 70¢ on the dollar, and "many bankers reportedly would like to get 75¢ or 80¢," the *New York Times* reported Jan. 11. At 70¢ on the dollar, Mexico's "savings" would be only $300 million a year, and at 80¢, only $145 million. Moreover, none of the larger U.S. banks are interested in the scheme at all.

Much less than $10 billion may be subscribed. According to an analyst for Prudential-Bache Securities, "There is a reasonable probablity that the value of debt exchanged will be low because of a large difference of opinion between the Mexican government and the banks regarding the losses to be taken in the exchange," reports the *Times*.

More and more observers are saying that Mexico may have no choice but to declare a moratorium on its foreign debt, or drastically limit debt payments.