Mexican spokesmen battle Volckerism

by Elsa Ennis

Opposition to Volcker-induced high interest rates has become the center of a broader fight in Mexico around that nation's economic future. Although this battle has been largely unreported in the U.S. press, the effects of the U.S. Federal Reserve's credit warfare tactics have been devastating: banks are now lending at effective rates of 40 to 50 percent. President López Portillo, a strong opponent of monetarist solutions to economic problems, may bring the issue up for discussion during his meeting with President Reagan on June 8 and 9 in Washington.

The Federal Reserve's restrictionist strategy directly threatens prospects for economic and political stability in Mexico as well as America's economic growth—the two preconditions for a U.S.-Mexico economic collaboration package, which is favored by both presidents.

Opposition to "Volckerism" in Mexico has been expressed forcefully by union and business leaders alike. On May 19, Alfonso Reyes Medrano, head of the economic think tank of Mexico's largest labor confederation, the CTM, charged in the press that "the recent increases in interest rates announced by the Bank of Mexico are a response to bank interest rates in the United States. High interest rates are one of the most inflationary factors in Mexico and the world. As interest rates rise, they produce a negative effect on investment.... Hence, this measure can have repercussions against production."

Salomón Faz Sánchez, head of the National Confederation of Small Farmers, charged the same day that interests rates on loans for farming and hog, chicken, and cattle-raising were reaching 40 percent levels. "Those who borrow cannot make a profit if they pay those rates. The increasing cost of financial resources is de-capitalizing the rural areas," he said. He proposed that the government increase its dirigist role in the economy by extending credit at subsidized rates through the state rural bank, Banrural.

The widely read economic column "Among Businessmen" in the conserative paper *El Heraldo* kept the heat on Volcker by warning May 20 that "the new tendency toward high interest rates in the Western world ... poses a latent threat to developing countries like ours. The private sector, the productive private sector, hopes these ascending fluctuations won't undermine the developing process." The column also urged the government to take dirigist measures to protect production.

The opposition to Volckerism is just the leading edge of a broader determination to see Mexico quickly develop into a modern industrial nation. The powerful CTM labor confederation voiced this determination in the clearest way. On May 24, the head of the CTM's advanced studies training center, Daniel Murayama, made statements to the press blasting a recent study by the monetarist economic think tank CEESP. The CEESP study recommends further interest-rate hikes and argues that rapid industrialization is "overheating" the economy. The labor leader ridiculed such arguments as "fallacies." "The model for this country is industrial. We must promote expansion and modernization of the industrial infrastructure," he said. As for the Wharton School's belief that Mexico's inflation is produced by excessive growth, Murayama argued that, in fact, high-technology industrialization is essential: "In order not to overheat the economy, we have to unleash the economy through industrialization, which is also the only way in which we can also solve unemployment."

The Federal Reserve has found some of its most enthusiastic supporters among the vociferous Friedmanite business circles linked to the secretive Mont Pelerin Society. On May 20, Perez Stuart, a columnist for the daily *Excélsior*, blasted the Mexican opponents of Volcker by arguing that "there are those who confuse the terms and believe that hikes in interest rates cause inflation, when the truth is that it is inflation that pushes the former up." The columnist went on to note the ulterior motive behind draconian credit policies: to cut back the productive sector of the economy. "Certainly, hikes in interest rates make money more expensive, but they have a prophylactic effect because they destroy those businesses born under the protection of inflation. It is a way of reordering production and consumption."

The CEESP study has been taken up by monetarist circles as a weapon against the López Portillo government's industrialization projects. Last week the economic think tank for the private banking consortium Banamex endorsed the CEESP study and called on businessmen to reject the government's goal of an 8 percent economic growth rate for this year, proposing instead a 6.5 percent rate.

Industry Minister De Oteyza, who had forced an earlier revision of Mexico's 1980 growth rate up to 8.0 percent from a lower figure propagated by the monetarist Bank of Mexico, immediately responded that growth of 10 percent was perfectly feasible, holding up Japan as an example.