

Dateline Mexico by Carlos Cota Meza

Facing collapse

With its financial structure unraveling at a breathtaking pace, Mexico faces near-term economic disaster.

On Nov. 9, the Mexican government decorated Paul Adolph Volcker, ex-chairman of the Federal Reserve, with its highest honor for foreigners who have helped the country, the Order of the Aztec Eagle. It was given to Volcker for his participation in the "restructuring of the foreign debt, and financial help to Mexico."

On receiving the medal, Volcker explained his contribution to Mexico: "It is necessary to maintain the total payments due on the foreign debt," exactly as Mexico has done, "which has brought the country prestige and glory in the world." Meaning, that Mexico has not tried to reduce its foreign debt to the market price (presently 52%), and is paying everything due.

At the same time, the Finance Secretary of Mexico, Gustavo Petricoli, received a decoration from the Mexican-U.S. Chamber of Commerce, which is headed by Rodman Rockefeller and Jacob Zeindeweber.

Apparently, all this has pumped fresh adrenalin into President Miguel de la Madrid in his voyage to the precipice. On Nov. 10, the Bank of Mexico hiked the interest rates on its Cetes (Treasury certificates) to 106.05% on 91-day notes and to almost 100% on 28-day notes.

This clearly "Volckerian" measure has a multiple purpose. One is to try to stop the intense capital flight—\$80 million daily, according to the Mexican business association Sales and Marketing Executives—that began on "Black Monday." The flight is also due to expectations of a "maxi-devaluation" of the peso, in order to

strengthen the non-petroleum exports, whose market is being lost because of the devaluation of the dollar and the U.S. economic depression. The "maxi-devaluation," planned in conjunction with the recently signed "Framework Accord" for U.S.-Mexican trade, is intended to close the gap between the present 101% annual rate of devaluation, and the 145% rate of inflation.

But the essential reason for the sudden increase in interest rates is an effort to prevent the panic that collapsed the stock market from spreading to the bonds that finance the public debt. The speculators have demanded that they be able to cash in their Cetes in order to inject liquidity into the collapsed stock market, or to begin a run into commodities, gold, or dollars. That threatened to bring about the bankruptcy of the government itself, which therefore raised the interest rates to stop the holders of Cetes from selling them. That, in turn, depressed the stock market further, given the greater return from investing in Cetes than in devalued stock shares.

The big players in the market pressured the government to implement a "rescue plan" to buy selected stocks. The government negotiators demanded in return that the potential beneficiaries of its credits commit themselves not to sell their stocks for at least one year, with the hope of stabilizing the market in the long term. The speculators reacted hysterically. Now, the Government Financing Agency, which was to have injected the new money, says the deal is off.

Meanwhile, the market continues to fall to record levels. In little more than one month, it has fallen almost 275,000 points, from 380,000 to 105,000, a 72% decline. Financial columnist Luis E. Mercado, reported, "If the prices continue declining . . . it is probable that in a few days more we will not be talking about a 'super-crash' but an authentic financial tragedy for the country." He asked for "rapid action" from the government to salvage the situation.

However, the increase in Cetes interest rates greatly increases the government's internal debt, and the budget deficit. The "Volckerists" of the regime intend to deal with this situation with a federal budget for 1988 even more austere than previous ones. This will cause inflation, the one parameter that de la Madrid says is "worrisome," to shoot utterly out of control.

After the visit of Volcker to Mexico, de la Madrid declared that he had confidence that there would be no depression in the developed countries, and that "rationality and pragmatism" would rule. And he affirmed that the Mexican economy is strong and healthy enough for any eventuality.

All of this reminds us of the story of Edgar Allan Poe, "The Death of Mr. Valdemar." Bedridden by a serious disease, Mr. Valdemar is kept alive by means of an hypnotic trance. After a period, he is awakened, because the hypnotist believes that he has recovered from the disease. At the moment of awakening, Mr. Valdemar immediately turns into a putrified corpse between the sheets. The hypnotic trance had had the effect of embalming a dead corpse for a time.

If President de la Madrid continues in the hypnotic trance in which Volcker has put him, when he awakes, the putrified corpse will be the size of Mexico.