

*Allgemeine Zeitung* and the *Neue Zürcher Zeitung* made their readers aware Feb. 19, no Mexican government will have any choice but controls. Some prominent Mexican private-sector institutions expect this to coincide with a European movement toward exchange controls, fitting into an unsettled global context.

Should the Mexican government wait for a second major crisis before taking such action after the fact, Mexico will revert to a status it shook off a century ago, with the fiduciary descendants of the Hapsburgs whom Benito Juárez ejected firmly in command. Since this element has never been eliminated from powerful positions inside Mexico, as President López Portillo warned elliptically in a Feb. 19 speech, the blackmail of the foreign creditors was supplemented by what López Portillo called "forces from inside as well as outside." This helps to explain why a full 90 percent of all new deposits in the Mexican banking system during January came in as dollars.

However, although great damage has been done, the situation may yet be recouped through bold, de Gaulle-like action. The attrition of the private sector, which grew as a ramshackle import-substitution producer of second-rate consumer goods, need not be a bad thing. One way or another the Mexican government will be left with a great deal of equity on its hands; if it uses this power to transform the private sector toward a technology-based capital-goods producer, Mexico may actually gain from the private sector's misery. In this regard Mexico's developing relations with Japan, which has the world's best record in aiding developing nations to build profitable and efficient heavy industry, may be the crucial factor.

As I argued in the cited June 30 commentary, the basic solution to Mexico's credit problem is so accessible as to make its avoidance a subject of great frustration. To much too great an extent, investment among leading Mexican private sector concerns has been oriented towards credit-based acquisitions of existing industrial capacity, rather than construction of new.

While the steel, petrochemical, and oil-producing sectors have, with substantial government subsidies, shown rates of growth of over 30 percent per year since 1978, the balance of the economy, especially agricultural production and food processing, has lagged well under the average 8 percent growth rate—leading to a shortage of basic items. Reorganization of the private sector under crisis conditions is not the best course, but one that could well ultimately solve these problems.

In this context a combination of exchange controls and import restrictions on luxury goods could easily save more than the private sector's present \$3.7 billion annual interest bill, which is to say that the Mexican government, with the right policies, could eliminate the present financial crisis almost overnight.

## President López Portillo addresses army on peso

*President José López Portillo made the following comments on the Mexican peso devaluation at a breakfast in honor of the Mexican Armed Forces Feb. 19, 1982. The presidential press office called attention to them as his only public statement on the topic.*

In a country such as ours, it is vital that we make up our minds once and for all and prove to ourselves that we are capable of providing work to all Mexicans. And this has been, is, and will be the primary effort of our administration. Thus, of course, the distance between inflation in the U.S. and ours has grown, the Mexican rate surpassing the North American; it necessarily affects our currency. I declare to you that, under my total and exclusive responsibility, we made every effort to reduce that distance. We raised tariffs and revived licenses. To promote exports we stimulated them with subsidies and fostered them to a maximum through credit facilities. Everything we could do, we did. But because of the characteristics of our country, because of the fundamental freedoms under which we live and because of our geographic situation, we could not and should not control exchange rates. . . .

From Guadalajara I issued an appeal to our sense of patriotism and national responsibility. The policy of protection that we had formulated, was not understood; it did not have time to function fully for many reasons, some legitimate . . . some due to personal ambitions, and others which perhaps suffered from persecution delusions. This week the Bank of Mexico suffered real assaults against its reserves.

And, gentlemen, when I warned that our reserves ran the risk of running out in just a few days, I made the painful decision in the solitude of my office at Los Pinos to take the Bank of Mexico off the monetary market so that we would not again undergo what happened in 1976, a year in which we were forced to take a similar measure but without reserves in the bank; when we were forced, in order to survive in the international financial community, to resort to agreements with the International Monetary Fund and its intervention in our economic decision-making.