Dateline Mexico by Carlos Valdez

At the crossroads

Renewed threats of financial warfare and a record $16 billion in reserves serve as backdrop to the presidential succession.

One week before President Miguel de la Madrid gave his fifth state of the nation address, new threats of financial destabilization began to surface, as the international bankers' way of warning against any "surprises" on the debt front—either during his last year in office, or in the choice of his successor.

Speaking from Buenos Aires before the Fifth Annual Convention of Argentine Private Banks Aug. 26, a former adviser to the World Bank and to the British government, Sir Alan Walters said that Mexico "is again going to be the center of a new international foreign debt crisis, but worse than 1982." He added, "I don't know when it is going to happen, but I know it will happen."

Merrill Lynch is equally pessimistic about Mexico's future. On Aug. 27, the Wall Street brokerage house demanded that a "shock program" be implemented following selection of the PRI presidential candidate. In its latest "country study" on Mexico, Merrill Lynch threatens massive new capital flight, soaring inflation, and takeover by the "informal," or black economy in the immediate period ahead, should the government try to lower interest rates or slow the peso devaluation rate.

Despite the brutal austerity regimen de la Madrid has imposed on the orders of the International Monetary Fund and creditor banks, the brokerage firm protests the Mexican government's "failure to yield results," and suggests that a "heterodox shock plan" may be necessary.

While the political climate in Mexico has certainly become much tenser in anticipation of the naming of the ruling party's presidential candidate, none are as nervous as Mexico's foreign bank creditors. They are well aware that, alongside the five years of devastating austerity measures imposed by Bank of Mexico director Miguel Mancera Aguayo, the government has also managed to save a record $15 billion worth of international reserves.

Despite immense pressure from the creditor banks to use those reserves for debt repayment, de la Madrid is leaving himself all options on this one. The banks fear that a lame duck de la Madrid, like many of his predecessors, may indulge in a last populist fling, yielding to growing domestic demands to invest the reserves in the economy instead. His carefully scrutinized address to the nation made no mention of how the reserves would be employed, and the *New York Times* spoke for many nervous bankers Sept. 3 when it observed that this is the most "pressing economic question."

Exemplary of the domestic pressures on de la Madrid is a cartoon currently circulating in the Mexican press. Based on the scandal of a top mafioso—just murdered—who collected a vast personal fortune through a monopoly on Mexico City's garbage collection service, the cartoon shows President de la Madrid as the new "king of the garbage collectors." He is seated on a mountain of garbage, with bags of gold in his hands labeled "international reserves."

Another headache for oligarchic circles internationally is that, thanks to the personal intervention of Peruvian President Alan García, Mexico will be hosting what could prove to be an historic presidential summit of the "Group of Eight" Ibero-American nations Nov. 27-28. De la Madrid announced the meeting by saying that this would be the first time in recent history that the countries of the region would have the opportunity to make "their weight felt" before the world.

It is noteworthy in this context that the same cabal of "ex-bankers" expropriated in September 1982 by then-President José López Portillo, have succeeded in erecting an enormous speculative bubble of $21 billion through the Mexican stock exchange, making it one of the most profitable in the world. It is already a poorly kept secret that the bankers, with the complicity of the Bank of Mexico's Mancera and Budget Director Salinas de Gortari, have threatened de la Madrid with the "López Portillo treatment," should he not choose the candidate who can guarantee "continuity of orthodox policies," as Merrill Lynch put it. That treatment would likely take the form of exploding the $21 billion bubble and leaving de la Madrid to take the blame.

The obvious question that remains to be asked is, why would Sir Alan Walters predict a new Mexico debt crisis, in view of the country's abundance of foreign exchange reserves? The answer is simple. Sir Alan is not offering an objective "analysis," but rather is giving the signal for the "classic" capital-flight scenario that always strikes during the succession period, bleeding international reserves before the next government can possess and deploy them.