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Will the peso be pegged to the dollar?

Mexico is already well on the way to such a "currency union," and the linkage may be formalized soon.

A new report on the Mexican economy, prepared by the Morristown, New Jersey-based Polyconomics, Inc., calls for Mexico to peg its currency to the dollar—a recommendation which would help to consolidate Mexico's role as a "runaway shop" extension of the U.S. economy, as envisaged by the North American Free Trade Agreement.

The study, reported in the *Journal of Commerce* on Sept. 9, was paid for by Mexico 2000, a group of 36 companies including glass-maker Vitro S.A., Cementos Mexicanos S.A., and the Mexican subsidiaries of Ford Motor Co., Federal Express, and Procter and Gamble.

According to the U.S. daily, the proposal has "strong support in the business community and has been championed by Miguel Mancera, director of the central bank, Banco de México."

As is usually the case with Polyconomics, their study presents as a series of "recommendations" policies which are already being carried out by Mexican officials, the better to propagandize in their favor. This is particularly interesting, given that the firm's head is Wall Street supply-side economist Jude Wanniski, who reportedly is also an economic adviser to Vice President Dan Quayle.

At the end of August, Miguel Mancera participated in a meeting organized by the U.S. Federal Reserve in Wyoming on "Currency and Commerce." Mancera had at his side Jacques de Larosière of the International Monetary Fund, former U.S. federal Reserve chairman Paul Volcker, and other financial vultures. His speech was entitled "Characteristics and Implications of Different Types of Currency Areas," in which he stated that "I have absolutely no intention of making proposals for currency unions," but instead "would like to offer an academic analysis of the characteristics and effects of currency areas."

In speaking of the conditions which might lead to the creation of a "common currency," Mancera drew a portrait of current trade, financial, and monetary relations between the U.S. and Mexico:

"The first and by far the most important prerequisite is that the reference currency's [i.e., the dollar] purchasing power be stable. Other conditions are: that prices and nominal and real personal income be flexible; . . . that there are no serious obstacles for the international mobility of merchandise; . . . and, crucially, that sustaining the exchange rate is a real and credible possibility.

"At one extreme, the central bank's statutes may only allow currency to be issued against the purchase of a specific foreign currency or international assets in general. . . . *The rule is equivalent, in a certain sense, to adopting the reference currency as the domestic currency, but with the advantage that the reference currency need not circulate within the national territory. . . . A few countries, such as Hong Kong and Singapore, have successfully adopted schemes of this sort*" (emphasis added).

At an earlier point, Mancera had noted that "the United States and Panama, for example, use the same currency," going on to argue, incredibly, that "this is a decision made by Panama alone."

Mancera is explicit about the loss of sovereignty involved in such currency unions: "Permanently fixing exchange rates is in almost every sense tantamount to monetary unification. . . . The implications of this are profound. National governments lose their *de jure* or *de facto* privilege to manage or at least influence its central bank's primary credit."

Mancera is, however, cautious about openly advocating such a step. Rather, he states, "When it becomes necessary to make a decision concerning this subject as with many others, it is advisable to adopt an eclectic rather than a dogmatic position."

Mancera's monetarist "eclecticism" is well known to Mexicans. In July 1989, the Banco de México director eliminated the *legal reserve,* alleging that the central bank no longer required that a certain percentage of bank deposits be left in its vaults. In its place, he imposed a *liquidity coefficient,* which determined that the commercial banks must invest a percentage of their resources in public bonds, thus creating a "captive demand" for Treasury certificates.

On Sept. 11, through Banco de México circular 34/91, director Mancera decreed the disappearance of the liquidity coefficient, but imposed in its place a banking reserve requirement of up to 50% on dollar deposits!

Miguel Mancera is doing what he "academically" informed bankers he would do. He is establishing "legal limits to primary credit expansion," and adopting "the reference currency as the domestic currency"—but with the advantage that the Mexican people presumably don't know about it.

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