

Dateline Mexico by Carlos Cota Meza

Dropping three zeroes

The government is downplaying its currency reform as having only "psychological effects" on the economy.

Given the way the ruling PRI party majority in the House of Deputies is "considering" the monetary reform bill presented by President Carlos Salinas de Gortari, it will undoubtedly be approved without changing even a comma. The reform is being presented as something "urgently needed" for the national economy, but at the same time spokesmen for the PRI are downplaying it in public, calling it a "neutral reform" whose "psychological effects" will give "the impression that things cost less and that the peso has recovered against the dollar."

The majority of Mexico's citizens aren't buying either line.

According to an editorial in the June 17 issue of *Siempre* magazine, something doesn't smell right. "The specialists hold the opinion that this arrangement will lead the country's economy in the same direction as that of the European Community, that is, to create a common currency among the members of the trilateral pact made up of the U.S., Canada, and Mexico, or toward the so-called Enterprise of the Americas initiative in which the entire continent is to be involved."

"If this is the essence of the arrangement," continued the editorial, "then Mexicans should understand that we are being hoodwinked."

After presenting its reform bill to the House of Deputies, the federal government has spent much time, money, and effort to try to explain how its "psychological effects" will work, and to try to refute challenges

such as those expressed in *Siempre's* editorial.

According to official reports that have appeared in the news media, the last six months of 1992 will be spent printing up a new currency.

From Jan. 1, 1993 onward, the present currency will co-exist with "new pesos," from which three zeros will have been stripped. Judging by the confusion just the announcement of the plan has generated, some analysts are saying that "they aren't taking zeros away from the peso, since this has always been the unit. Rather, they are adding zeros on to make it equal to a thousand."

If one wants to truly speak about "psychological effects," one could say that this monetary reform will, in fact, drive the national economy insane, while sponsoring its dollarization, i.e., precisely what the government was intending all along.

Guillermo Martínez Domínguez, an "old guard" economist, correctly noted in his column in *Siempre* that eliminating three zeros from the peso would bring its nominal price against the dollar to its lowest level in Mexican history.

Its "psychological effect" will obviously be to induce everyone to try to buy as many American greenbacks as possible.

This is, if the truth be told, exactly what occurred in Argentina some years ago when that currency, the austral, began to circulate in place of the old peso, which has just been stripped of six zeros. Fifteen days after the austral appeared, it suffered an abrupt

devaluation.

One Mexican comedian summed up the likely psychological effect of the "new peso" as follows: "If I have a car that costs 100 million pesos, with the new currency it will be worth 100,000 pesos. Will it be possible to buy with 100,000 pesos what I was able to buy before with 100 million old pesos? While I'm preparing myself psychologically, I think I'd better buy dollars."

Of course, Mexicans of little means will also be affected by the dollarization phenomenon. Their skimpy wages (along with the meager salaries of the bureaucrats) will go into buying dollars, which, at the current exchange rate, will become available at slightly over three pesos.

This phenomenon has also occurred (and is occurring) in Peru. In that country the inti replaced the old sol by eliminating six zeros. The inti is now being turned into a new sol by stripping away another bunch of zeros. The result, of course, is that none of the three currencies have any real value.

The infamous Ocoña Street in Lima (the so-called "lender of last resort" or "free market," otherwise known as the currency black market) shows in all its crudeness that the only real currency in use today is the dollar, and particularly the narco-dollar. Ocoña Street is flooded by workers, street vendors, and domestics who want to exchange their pathetic wages for narco-dollars.

This is what Salinas de Gortari's monetary reform is all about. And this is what Milton Friedman really meant a few weeks ago, when he advised that "a small economy like the Mexican" one should assimilate itself to the dollar, doing away with the central bank and submitting to the monetary policy of the U.S. Federal Reserve System.