# Mexico declares war on Volcker economics

by Timothy Rush

As *EIR* warned at the end of August, when push came to shove in terms of economic pressures on the Mexican state, Mexico had the capacity to reply with a dramatic re-assertion of national interest and back it up with a mass mobilization of the population. We termed this the "Cárdenas factor," referring to the 1938 oil nationalization of President Lazaro Cárdenas.

On Sept. 1, as everyone knows, President José López Portillo activated it, with his decrees nationalizing the private banks, instituting total exchange controls, and nationalizing the central bank, which had operated with Federal Reserve-style independence.

Two days later, on Friday, Sept. 3, 1 million workers and peasants filled the central plaza of Mexico City, the Zocalo, to overflowing. Amidst choruses of "*Vivas*" and the ringing of church bells, the President declared, "Mexico has become Mexico again. Mexico is ours once more."

Late on Saturday, Sept. 4, the new director of the central bank, the Banco de México, announced on national television a package of dirigist credit, interest-rate, and foreign-exchange measures which immediately lowered borrowing costs 5 percent and slashed mortgage rates up to two thirds.

On Sept. 5 and 6, the ruling PRI party held mass rallies in almost all the 31 state capitals.

A spur to the PRI has been the spirited organizing of the small Mexican Labor Party (PLM), which had all along been urging López Portillo to counter-attack against the international banks and speculators. "Now a debt moratorium"—the PLM's slogan—has appeared in huge painted letters in central locations throughout Mexico.

Those business elements which had profited from the previous orgy of speculative activity attempted to organize a run on the banks when they reopened Sept. 6, and to launch a nationwide businessmen's "strike" for Sept. 8. Under the pressure of the pro-government mobilization—15,000 PRI cadre were sent to the banks with flyers explaining the new measures, and labor leaders warned that any businesses which closed shop "could face the same fate as the banks"—this strategy collapsed. Banking functions proceeded normally on Sept. 6, confederations organizing the "strike" threw in the towel on Sept. 7 and publicly called it off.

## What next?

In light of the success to date of the popular mobilization behind López Portillo's Hamiltonian policies, the international forces of usury and speculation have had to give up fantasies of a quick "counterrevolution" within the country. The middle class, hyped for six months in the international press, was not the uniform, intransigent anti-government force it was advertised to be, though pockets of hard opposition remain. The army demonstrated firm loyalty to the institutions.

The strategy drafted by the international oligarchy, diverse sources confirm, is to continue a new "blowout" of the Mexican situation in the December-January period, when López Portillo has left office and Miguel de la Madrid takes over. One element of this strategy is to unleash Guatemalan military strikes at Mexican oilfields, and possibly attempt a U.S. military occupation of the Tabasco region to "protect" those oilfields. De la Madrid will be tested in spades.

Mexico is not to be given three months' breathing space, however. Some of these sources expect activation of "wetworks"—assassinations and terrorism—from both "right" and "left" between now and then. The presidential circle and the President-elect are not excluded.

Initial indications point to laundering operations against Mexico through the same kind of "private-sector" apparatus developed in Chile by Kissinger and Rockefeller for the overthrow of Salvador Allende in 1973.

Sections of the Connally-Bush machine in Texas fit in here, and Henry Kissinger can be expected to play an especially large role. For years his "Mexico connection" has been former President Miguel Alemán, czar of the Acapulco underworld, whose group of business cronies, formed in the late 1940s, had run most of Mexico's flight capital circuits and controlled the Banco de México as their speculative preserve until the events of Sept. 1.

Various international bankers have put out the line through their press conduits that López Portillo's actions were a desperate public relations stunt, typical of a lame duck (his term ends on Dec. 1). The President was "scapegoating" the private banks for a situation he himself brought on through "mismanagement" of Mexico's oil wealth, went the line, and some charged that the moves were a lurch toward "socialism."

The bankers know perfectly well that it is Volckerized world interest rates, declining oil prices and markets, and flight-capital operations coordinated by oligarchic families in Mexico, which forced Mexico into a situation in which its economic sovereignty and survival as a republic were on the line.

What frightened the Friedmanites in IMF and BIS circles was not that the López Portillo measures were socialistic, but that they were *capitalist*, in the sense of the industrial capitalism of the first U.S. Treasury Secretary, Alexander Hamilton. From the first moment of the outpouring of mass support for López Portillo's moves, the watchwords were "War on usury and speculation," and "A rebirth of productive, industrial growth."

More threatening still to the Swiss gnomes and their cohorts, Mexico stood in a position of spreading such reprehensible doctrines to scores of other developing countries and

## At the Zocalo: 'Juárez, Cárdenas, López Portillo'

The support rally of one million in Mexico's central square Sept. 3 heard speeches from leaders of the three branches of the PRI party—workers, peasants, and professional groups—and a short but emotional greeting from the President. With López Portillo in the balcony overlooking the giant Zocalo square were President-elect Miguel de la Madrid, PRI president Pedro Ojeda Paullada, labor chief Fidel Velásquez, and Defense Minister Felix Galván López. Excerpts from the major statements follows:

**Fidel Velásquez,** head of the Mexican Workers Confederation [CTM]: "We nationalized the banking system to prevent financial speculation from dominating the economy of the country. There will be rational management of interest rates, and credits will be oriented for the progress of Mexico."

**Pedro Ojeda Paullada**: "We are at the historic center of the nation. We have come to this place, where 115 years ago the nation celebrated the triumph of the Republic [over Hapsburg emperor Maximilian] with Juárez; here, where we took rightful title to our oil wealth for the nation in 1938 with President Lazaro Cárdenas. We unreservedly support and applaud the revolutionary and patriotic measures decreed by the Mexican President in defense of the nation. . . . [These measures] are vital for our progress, because only in this way can Mexico direct all its resources to the satisfaction of domestic needs and the increase of national wealth.

"To those who attempted to place their individual security ahead of the security of the nation, we warn, with Juárez and López Portillo, that they must remember that they are Mexicans, and that they have children to whom they must not leave a legacy of infamy. To those who preferred to create prosperity and jobs abroad, at the cost of backwardness and unemployment in Mexico, we reply: today, with Cárdenas and López Portillo, may their economic power and arrogance not shield them against the dignity and sovereignty of the nation."

**Gustavo Carvajal,** secretary of Agrarian Reform, former president of the PRI, interviewed leaving the rally: "Our history has shown that with the unity of the Mexican people, [outside] pressures will not triumph, and that those who attempt such pressures will find another Hill of the Bells [site where Maximilian and two traitorous Mexican generals were executed by Juárez in 1867]. In these conditions there will be no step back in the historic path taken by the government of the republic. The Mexican state is capable of directing the banks efficiently. Now there will be greater stimulus for industrialization which generates jobs, since nationalization will lower interest rates on loans and free them from the ravages of free speculation."

**President López Portillo:** "I want to say to you, that here the roads divide again. On this side are the majorities, who demand justice, who demand the values of our nationhood. On the other side, those who want to steal the treasure [of the nation]. Here, with all of you, is Mexico, here we are united. The revolution is once again in vigorous motion. Let us support it, let us push it forward. Mexicans: this is Mexico and Mexico has lived. Mexico lives and Mexico will live. *Viva México!*

into advanced countries such as the United States itself (see *EIR*, Sept. 14).

## Factionalization in the private sector

For a long time, most Mexican businessmen, especially those in small and medium-sized firms involved in tangible-goods production and agriculture, have known the Mexican private banking system the way a victim knows his mugger.

As detailed by the new Bank of Mexico director, Carlos Tello Mucias, on Sept. 4, effective interest on loans to preferred customers had reached 80 percent. It was higher for the small fry. Banks, however, were paying out a maximum of 44 percent interest to depositors, and to a large class of "small savers," only 4.5 percent. The record outstrips the practices of the Bardi and Peruzzi in the early 14th century.

Those business leaders who had a cut of the bankers' speculative paradise raised the roof when López Portillo announced the nationalization. Fat, bearded former latifundist Manuel Clouthier of the Businessmen's Coordinating Council called the measures "infantile," while José María Basagoiti of the Mexican Employers Confederation called on all the private sector to overturn the "unfair and baseless" action.

From the first, however, important sections of industry and agriculture supported the measures. Endorsements came from the National Association of Business Lawyers; the head of the Guadalajara metal-working industry; and several local Chambers of Commerce around the country. After the Tello Macias measures were announced, support within the private sector accelerated. One owner of a medium-sized factory in the Mexico City area, who had just finished a trip abroad, where he had harped on how Mexico was unsalvageable because of the "corruption" of the government, said after the Tello measures that he had sounded out all the other manufacturers in his area and the reaction was universal: now they had a future. Bellwether Chambers of Commerce, like that of Ciudad Juárez, and the traditional antagonist of government policy, the 280,000-member Cattlemen's Association, led the movement in terms of public declarations.

Further puncturing the effect of the "socialization" line was Tello's announcement that the 35 percent of the Mexican private sector which had fallen into the bankers' hands would be auctioned off, not incorporated into the state sector.

Mexican Cardinal Ernesto Corripio Ahumada, moreover, issued a Pastoral Letter sanctioning the move. Citing Pope John Paul II's encyclical *Laborem Exercens,* Corripio stated that if the means of production are used to support labor, then they are good; if used for "egoisms," they are harmful. If the nationalization of the banking system is administered "honestly and loyally for the good of the national community without [the state] constituting itself as a new and arbitrary owner, the measures will be good," he concluded. His statement undercut efforts of the nominally Catholic National Action Party (PAN), Mexico's second largest electoral force, whose economic policy is avowedly fascist, to make hay out of the situation.

*What Mexico's President José López Portillo announced in his State of the Union (Informe) address Sept. 1:*

**Two decrees:**

1) All Mexican private banks in the country nationalized. Indemnification to owners over 10 years.

2) Full exchange controls. No private dealings in dollars.

**One "corollary" measure:**

Nationalization of the Banco de Mexico, the central bank, which previously included part private ownership. (Almost from its inception in 1925, the Banco de Mexico had been run by monetarists. After World War II, the clique around President Miguel Alemán took control of the Banco as a private fiefdom, a control on behalf of speculation, drugs, and other dirty money flows, never broken until now.)

**International fight against flight capital:**

1) Call for an early meeting of U.S. and Mexican legislators to work out arrangements to encourage return of flight capital to Mexico;

2) Call for a new chapter of international law, "difficult to conceive of in a free trade world," to protect all developing nations from flight capital devastation. New international economic relations must include a "special recycling link."

**Calculation of amount of flight capital:**

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| Bank accounts of Mexicans abroad | $14 billion |
| Initial payments on U.S. real estate valued at $30 billion | 8.5 billion |
| Remaining payments to be made on foreign real estate purchases (minimum) | 20 billion |
| Accounts denominated in dollars within Mexico (so-called Mexdollars) | 12 billion |
| | $54 billion |

López Portillo stressed repeatedly that these figures were conservative and depended on further scrutiny of previously private records to determine the true figures.

The previously unreported balance of private indebtedness abroad hikes total Mexican foreign debt $95-100 billion.

**War on speculation and rentier finance:** In his Sept. 1 speech, López Portillo stated: "The fundamental question is determined by the difference between an economy increasingly dominated by absenteeism, by speculation and rentier finance, versus an economy vigorously oriented towards production and employment.

"Speculation and rentierism translate into a multiplication of the wealth of a few without producing anything, and are necessarily derived by the simple plundering of those who produce, and over the long run it inevitably leads to ruin."

**Fight for industrial and technological progress:** "The world's productive capacity has been increasingly subjected to contraction and unemployment by an unjust and obsolete financial system. . . .

"The lack of coherence between industrial progress, whose technology advances by ever more astonishing leaps, and a world financial structure that has responded to the technological challenge primarily by attempting to stop it, is increasingly evident. The financial plague wreaks more and more havoc around the globe. As during the medieval era, it devastates country after country. It is transmitted by rats, and in its wake lie unemployment, misery, industrial bankruptcy and speculative enrichment. The remedy of the witchdoctors is to deprive the patient of food and submit him to forced rest,'' stated the speech.

**Abolish usurious interest rates:** ''For all countries, but especially for the developing nations, the rise in interest rates explains a large part of the process of economic deterioration. . . . The prevailing levels of interest rates, the highest in civilized history, apparently do not obey any logic derived from the functioning of the markets, but rather the logic of deliberate policies of monetary restriction, whose anti-inflationary purpose is belied by the inflationary effect of the high cost of money. Everyone suffers from it,'' said López Portillo.

**New director of Banco de Mexico:**

On the same day as his State of the Union address, López Portillo replaced the monetarist director of the Banco de Mexico, Miguel Mancera Aguayo, with nationalist economist Carlos Tello Macias. Tello served as Minister of Planning and the Budget 1976-77, before resigning in opposition to IMF interference in the economy. He then directed the national sugar agency, Finasa, until his current appointment.

Named to be director of the Foreign Trade Bank is Horacio Flores de la Peña, Industrial Development Minister 1970-75 and Ambassador to France 1976-82. Like Tello, he is a strong economic nationalist.

**Priorities on use of dollars:**

As established in the official decree of Sept. 1:

1–4) Various categories of debt obligations of the federal government and its dependencies, such as Pemex, the national oil company.

5–7) Payments for import of basic food, capital goods, and other priority industrial goods.

8) Repayment of private sector debt.

9) Certain classes of border transactions.

10) Royalties and repatriation of profit by private firms operating in the country.

11) Travel for business or health reasons.

12) Travel for tourism.

**Anatomy of usury:**

On Sept. 4, new Banco de Mexico director Carlos Tello announced a series of measures to go into effect with the reopening of the banks on Sept. 6. He outlined first the depth of usurious banking practices that had been built into the private banks before nationalization:

At the beginning of 1980, banks paid out an average of 17 percent on deposits and charged an average of 21.5 percent for better clients. The differential for the banks was 4.5 percentage points. As of Aug. 31, 1982, banks were paying out an average of 44 percent on large deposits, while charging 62 percent interest to their best customers—a spread of profit for the banks of 18 percentage points.

For all borrowers, the above figures do not include a phenomenon called ''reciprocalities,'' which meant that 20 percent or more of any loan had to be kept on deposit with the bank, although interest had to be paid on 100 percent of the loan. When this and other ''service fees'' were computed, even good customers were playing *over 80 percent effective interest.*

More: the banks paid out only 4.5 percent on smaller savings accounts, exploiting smaller savers. A charge of 800 pesos per month was made on any checking account holder who maintained a balance of less than 10,000 pesos—an 8 percent charge on small deposits.

**Measures to halt usury:**

Tello announced measures to:

1) Immediately lower interest rates to borrowers 5 percentage points, and in succeeding weeks for a five week period, by 2 percentage points per week. Lower rates paid to depositors 2 percent per week for the same five-week period. At the end of that period, evaluate next steps.

2) Eliminate all hidden charges, commissions, ''reciprocalities,'' etc. Immediately **raise** interest paid on deposits in small savings accounts to 20 percent. Eliminate the charges on checking accounts which fall below 10,000 pesos.

3) Slash mortgage rates. Rates on lower-class housing, currently 34 percent, will drop to a uniform 11 percent, for a two-thirds reduction. Mortgages on middle-class housing will drop to 24 percent, for a one-third reduction.

**Other measures to regain economic sovereignty:**

Tello also announced:

1) The dollar will be eliminated as a currency of lending and gradually as a currency of deposit. No new loans will be given out in dollars and existing dollar loans which come due will be renewed in pesos. As existing time deposits in dollars come due, they will be open for redeposit only in pesos. The peso will be legal tender again in fact and not just in theory.

2) The peso will be set at a two-tiered system of **fixed,** not floating, parities. The rate for preferential payments, largely debt repayment and priority imports, is 50 to the dollar. For other uses, it is 70 to the dollar. Tello stressed that fixed parities is a ''central feature'' of the new system, since ''it aids planning processes in private firms as well as the government, by giving certitude to (future) transactions.''

3) The government will not hold on to the non-banking assets of the private banks. The banks had used their usurious profits to buy up fully **one-third** of the entire private sector economy. These were holdings that went from tourism to real estate to manufacturing firms. Tello announced the government will begin a process of selling these assets off to private buyers. He ''highly recommended'' such purchases to Mexicans who had taken their money out of the country and were looking for a place to invest it again in Mexico.

## Which way for the U.S.?

Will the United States line up as a sympathetic partner of Mexico's return to Hamiltonian economic policies, or will it declare them anathema in favor of the Friedmanite "free-enterprise" dogma and throw the weight of America against Mexico? This was the question in 1920, when "Hamiltonian" Mexican president Alvaro Obregón seized direction of the Mexican Revolution and channeled it toward industrial and agricultural development under a mixed system of state and private control. Obregón turned to the United States for diplomatic recognition, credits, and support in the creation of a national bank for development. The House of Morgan in Wall Street and London, working in collusion with the State Department, put Mexico in a deep freeze. Across America, however, industrialists, border interests, labor leaders, and some bankers, helped create a measure of rapprochement with Obregón in 1923.

Thus far, the White House has been careful to steer clear of direct statements about the Mexican measures. In response to a question from *EIR*, White House spokesman Larry Speakes stated Sept. 8 that, "What the Mexican government is doing is an internal matter. We have worked closely with them in giving loan guarantees and buying oil, for instance. We want to be helpful because we think it is a situation that plays on the international economic situation."

However, it is known that some informal advisers with access to the President are enraged at what they see as a "stab in the back" by a López Portillo "who is worse than Castro or Mitterrand." Washington's ambassador to Mexico, John Gavin, leaked a cable to the *Wall Street Journal* Sept. 9, in which he termed Mexico's efforts to institute exchange controls "a mess," and urged that any financial bailout package be held up pending resolution of claims from Americans who have frozen dollar accounts in the country.

No formal State Department reaction has been released, though eyebrows were raised by the notation, "tape indistinct for 2 hours 48 minutes," in the Department's Foreign Broadcasting Information Service reporting of the López Portillo speech Sept. 1, just at the point the Mexican President began to discuss his economic measures.

Neither the State Department, nor the White House, nor relevant Congressional bodies, have had any comment on López Portillo's proposal that a meeting of U.S. and Mexican legislators be held to work out cooperative mechanisms to induce Mexican flight capital to return to Mexico. As one Mexican banker correctly put López Portillo's offer, "I think he was telling the foreign bankers, 'if you want the money we owe you, you'd better help us get the money that has gone from our country into yours."

The underlying attitude of the hard-core Volcker partisans was expressed in the racist response of a New York Federal Reserve officer, asked what might follow the Mexican nationalization. "Look, who knows?" he said. "A white man can't imagine to himself just what it is that they, in their heart of hearts, want. . . ."

Leading up a pro-Mexican mobilization has been the National Democratic Policy Committee of Lyndon LaRouche, with rallies and leaflet distributions in a dozen or more cities, and a campaign of support telegrams to both López Portillo and President Reagan. In Europe, Helga Zepp-LaRouche, chairman of the European Labor Party, is directing a similar mobilization.

Along the U.S.-Mexico border in Texas, American bankers are putting out the word to "keep calm" and give the new Mexican measures a chance.

The farm sector, which had bonanza exports to Mexico in the 1979-81 period, has seen those exports slow to a trickle. Robert B. Delano, President of the American Farm Bureau, has written a letter to Treasury Secretary Regan proposing four measures to revive United States-Mexico grain trade. The Farm Bureau wants the cheaper credits of the Eximbank to be brought into play, as well as other outside credit.

## Support from private sector

Largely ignored by the international press have been the substantial numbers of Mexican businessmen who were being strangled by the usurious credit policies of the private banks and are now hopeful that investment in production will once again be profitable. A sampling of their statements:

**The president of the Ciudad Juarez Chamber of Commerce,** Sept. 6: "The financial measures announced by [central bank chief] Carlos Tello are very satisfactory. The government is giving us what we had asked for. It would be stupid to protest because they are lowering interest rates for us, they are eliminating extra commissions, and not demanding minimum levels of deposits. We can't be opposed to that. We see the nationalization and the generalized exchange controls as necessary measures and we support them. Naturally, we are defenders of free enterprise. It is mortifying to think that everything that is being done now could have been done without nationalizing the banks.

**The National Association of Business Lawyers,** statement Sept. 3: We support the new measures, the Association declared, "as long as interest rates are reduced and cheap credit is re-instituted. That is the path that will help the country."

**The National Cattlemen's Association,** Sept. 7: statement of support for the measures preferentially lowering interest rates for the productive sector. "Finally we can produce more milk and eggs and other things that high interest made impossible," the Association declared.

# A profile of Mexico's nationalized banks

by Elsa Ennis

Previous to their nationalization, Mexico's private banks enjoyed enormous power and political leverage. According to government estimates, the country's 53 private banks and credit institutions controlled at least two-thirds of domestic banking operations.

A list of the 10 largest banks published in the Mexico City press last April included the following private banks: *Banco de Comercio* (Bancomer), with 21 percent share of all banking operations; *Banco Nacional de México* (Banamex), with a share of 20.22 percent; *Banca Serfín*, with 8.68 percent; *Multibanco Comermex*, with 3.68 percent; *Banco del Atlántico*, with 1.79; *Banpaís*, with 1.79 percent; and *Banco de Credito Hipotecario*, with 1.73 percent.

The two largest banks, Bancomer and Banamex, thus controlled more than 40 percent of the country's total banking system, and 50 percent of all private-led banking. The other major banks were mostly controlled by business interests based in the city of Monterrey and the state of Chihuahua.

Their influence over the country's economy extended well beyond credit activities. According to recently published government figures, these banks has muscled into 30 percent of the companies participating in the national stock market, and through this stock participation they had particular influence in the industrial, tourism and mining sectors.

Documents seized by the government shortly after the nationalization nonetheless show that some of these banks were not fully reporting their holding of assets. Their grip over the economy could therefore be even greater than was previously believed.

The banks maintained as well the largest private paramilitary force in the country, the Pan-American Security Service, handling all bank security. Questions were repeatedly raised over the private army's acquisition and disposal of weapons.

Over all, this banking system, with its traditional orientation to speculation and raw materials production, represented a major obstacle to Mexico's full industrialization.

## Banamex

On Sept. 6, President López Portillo opened operations of the new nationalized banking system by raising the national flag in the headquarters of Banamex, based in the famous Iturbide Palace in Mexico City. The palace was the residence of Agustín de Iturbide, a pro-British general who proclaimed himself Emperor of Mexico in the 1820s; since then it became a symbol of the country's "pro-Empire" oligarchy.

In 1880, under the presidency of Porfirio Díaz, the newly constituted Banamex chose the building for its headquarters. Interlocked with French and Swiss capital, the bank developed such power under the Díaz dictatorship that for many years it served as the country's principal bank of currency issue, and de facto central bank.

Except for a short period of nationalization after the 1910 revolution, the Legorreta family—the bank's main holders and controllers—has acted as a key command apparatus and channel for zero-growth oligarchical penetration of business circles. Most recently, the bank's president Agustín Legorreta had been one of the main promoters of the idea that Mexico's financial problems were to be blamed on López Portillo's "expansionist economic policies."

"We should not have accelerated the economy as we did," said Legorreta at a heavily publicized meeting of the Mexican Businessmen's Committee on Foreign Affairs (CEMAI) April 20. "The growth of gross domestic product at 8 percent a year was simply too much." Mexico should have built just one new industrial port instead of four, he said, and should stop building steel plants since imports were cheaper. His alternative to growth? "Further reduction in population growth."

With a "right-wing" tint, this anti-growth perspective was presented in a large symposium of businessmen sponsored by Banamex last January in Guadalajara. Titled "Atalaya 82," the meeting brought together the top command of Mexico and Europe's "black nobility" networks. A strategy of confrontation with the government was planned out.

## Bancomer

Enrique Espinoza Iglesias, the president of the other giant banking conglomerate, is widely known as the founder and funder of the "right-wing" Falangist circles stemming from the Cristero movement, which in the 1920s launched a bloody insurrection against post-revolutionary governments.

The Puebla-based Jenkins Foundation, one of the dirtiest fortunes built in the period between the two world wars, aided Bancomer's rise, as well as the Cristeros. Built by the American citizen William Jenkins, this empire was based on sugar, liquor, and Hollywood-style film industries. Named as executor of this fortune, after Jenkins's death, Espinoza used the Foundation's influence to build Bancomer into Mexico's largest bank.

In a speech at the annual meeting of the Mexican Association of Bankers on June 1, Espinoza demanded that Mexico follow the recessionary path set by Chile under the Pinochet government with all its implications: mass unemployment, bankruptcies throughout the industrial sector, a renewed emphasis on exporting raw materials, and brutal austerity measures.