Dateline Mexico by Héctor Apolinar

Stock market fraud

The fraud of the century burns President de la Madrid's fingers and threatens a group of ex-bankers.

Pressure is building up for the Mexican government to severely punish the owners of the stock brokerages who were involved in the mammoth October 1987 financial fraud. More than 180,000 small, medium, and large investors lost more than $20 billion, which "evaporated" during Mexico's October stock market crash.

On Aug. 9, the General Prosecutor's Office issued subpoenas for several individuals to appear before an investigating magistrate. It summoned Lorenzo Peón Escalante, who was president of the National Securities Commission at the time of the fraud, the commission's current president, Patricio Ayala González, and Eduardo Legorreta Chauvet, owner of Operadora de Bolsa, the country's second biggest brokerage firm. They were summoned to respond to accusations of crimal misconduct presented by César Fontanes Méndez and Antonio Sánchez Ancira, the lawyers for a large number of defrauded investors, who are demanding more than $1.2 billion in damages.

The October fraud has become a "hot potato" for President Miguel de la Madrid's government, since senior administration officials are implicated. Even the manner in which Carlos Salinas de Gortari won the Institutional Revolutionary Party's presidential nomination has become part of the scandal.

Although the charges against the brokerages have been aired for more than six months, with abundant evidence, not a single person has been formally charged with criminal acts. On July 18, the daily *La Jornada* reported that the National Securities Commission had found that at least five violations of the country's securities law had been committed by Operadora de Bolsa. It obliged clients to buy stocks they did not want; it made bridge loans not authorized by the clients, etc.

There are two more major brokerages which have been brought to court: Inverlat and Probursa. The first is owed by Agustín Legorreta Chauvet, first cousin of Eduardo and current president of the Business Coordinating Council, the country's most powerful business clique. Inverlat's managing director is Manuel Somoza Alonso, who was the president of the Mexican Stock Market when the October fraud took place.

In their ardor to quash the charges, the stock brokers are approaching gangsterism. The daily *La Jornada* reported July 25 that one of those going to court against Inverlat was threatened with being sent to jail if he did not separate himself from the suit. The suit was for Inverlat's having invested the client's money without the client's permission in low-yield stocks.

The market fraud and crash were caused by unchecked speculation encouraged by the government in order to attract flight capital back into the country to play the "market casino." It was also agreed that the market would be left in the hands of Mexico's top capitalists "as payment" for their supporting Salinas—at least, this is what is heard in the highest political circles.

That is quite true. In 1982, the stock market's total share value was 3 billion pesos. In 1986, it reached 135 billion pesos. By July of 1987 it had 560 billion pesos, 170 times more. In 1987, the government "sold" to the former bank owners the brokerages owned by the banks which were nationalized in 1982.

The government also changed the banking law to prohibit the nationalized banks from operating brokerages, to leave the sector to the "free" market. The government used the brokerages to massively run up its debt by marketing its financial instruments, which were manipulated by the brokerages at their pleasure. The brokers, not the government, set interest rates. Mexico's internal public debt thus fell into the hands of powerful private groups like the Legorretas, who used it to gain immense political leverage over the country's resources.

This situation had been created since 1985 by Finance Minister Gustavo Petriciolli, who was considered the architect of the stock market and of its fantastic 1987 "miracle boom." Petriciolli's right-hand man in this was his chief adviser, Hugo García Blake, until 1985 vice president of Casa de Bolsa Mexicana de Inversiones y Valores. This brokerage's president, Isidoro Rodríguez Ruiz, was accused in 1985 of receiving illegal loans from then-Pemex director Mario Ramón Beteta with which to buy ships for transporting Mexican oil. Rodríguez recently "donated" a fleet of trucks and cars to Salinas's presidential campaign.

Manuel Somoza, another person implicated, worked with Petriciolli when he was director of the state's development bank, Nacional Financiera. Somoza was "lent" to Petriciolli by Agustín Legorreta, for whom he had worked since his youth at the Banco Nacional de México. Legorreta managed that bank as a front for the Swiss Neuflize-Schlumberger interests.