

impossible.

What will happen if this continues? If dollar rates continue to rise, the effects on the dollar-dependent sectors of the Mexican economy would be disastrous, private bank economists believe. Higher U.S. rates would mean a depression in the basic goods sectors, and considerably more inflation. Some of the private sector economists take this for granted. "Mexico has entered an era of permanent inflation," one Monterrey group economist told me. Said a Mexico City banker, "We are already in an inflation situation like that of Brazil, except that no one is talking about it."

I am not so sure the course is fixed in this direction. Clearly, under a worst-case scenario, Mexican inflation could double by the end of 1982. But Mexico has been through tough ones before, and Americans sometimes forget that the strongest impression made on the present generation of Mexican leaders was the 1938 nationalization of the oilfields under President Lázaro Cárdenas.

Prospects and policies

The single most important anti-inflation measure Mexico could take would be to drastically change the composition of the 30 percent of its economy which overlaps with the United States. This is far from impossible, especially after the Phoenix-like rebirth of Mexican-American relations during the recent visit to Washington of the Mexican president, following the enmity of the Carter years. Mexico is now in position to stop worrying about cheap-labor assembly industries based on the American border, and concentrate on selling oil. It needs to import technology and knowhow—including the cattle-raising and dairy technology the United States is supremely equipped to provide—and shut off the inflow of nonessential consumer items.

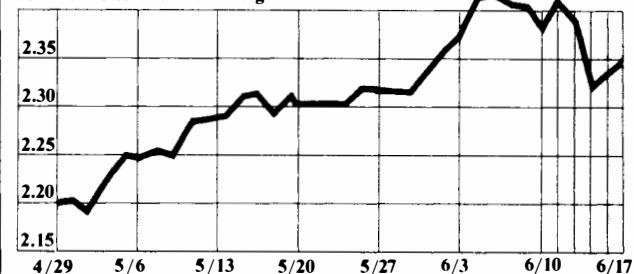
There are some real political problems in the way, e.g. the braking effect on agricultural productivity of the present land-distribution system, and the reported recalcitrance to modernization of the country's dreadful transport system on the part of the railway workers' union, which seems to enjoy the worst reputation of any organized group in Mexico.

But my sense of the people I met is that they will find the means to chop through these problems. They are likely to play financial hardball of a type that will create some upset here, if the United States does not change its monetary policy over the next several months. To be specific, speculators who bet on a big devaluation of the Mexican peso are running the risk of walking away with bandaged fingers. Mexico's credit system has caught a cold from a northern neighbor with influenza. Americans would be right to view this as a short-run problem. In reality, business opportunities for Americans who understand what kind of knowhow Mexico needs are only beginning.

Currency Rates

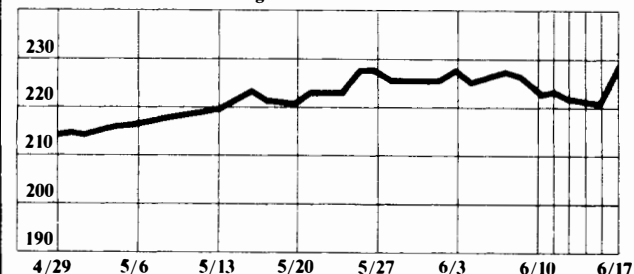
The dollar in deutschemarks

New York late afternoon fixing



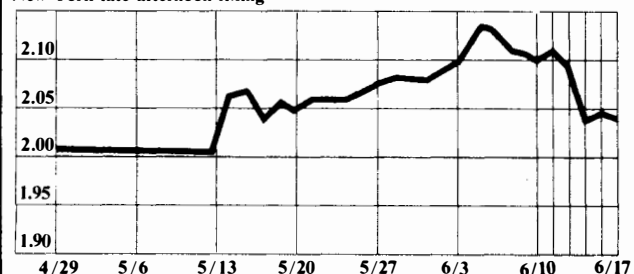
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

