López Portillo mobilizes Mexican population to face the economic warfare challenge

by Timothy Rush

Mexican President José López Portillo rallied his nation last week against economic warfare measures which have dramatically changed the economic and political climate of the country over the past six weeks.

In a wide-ranging, nationally televised press interview July 10, the president analyzed how the combination of high interest rates and the forced cutback in Mexican oil sales had created a "sea of distrust and disquiet" in the country. Virtual "information terrorism," based on rumors and manipulated international wires, he stated, had served to intensify the new mood of doubt, planting seeds of capital-flight operations against the Mexican peso.

The president compared this new climate to "previous occasions which have precipitated crises," an allusion to the devastating devaluation and economic collapse of 1976. He made it clear from his first words that the purpose of his press conference was to dispell these fears, identify those forces attempting to stampede the country into losing its own self-confidence, and provide a personal example of "clearing the air" to counteract the manipulation of information. It was the tone of Franklin Delano Roosevelt's famous first inaugural speech in March 1933: "We have nothing to fear but fear itself."

Spotlight on interest rates

The president put special weight on the issue of the international high interest rates forced by U.S. Federal Reserve chief Volcker. This, he stated, is the most important factor leading to world economic crisis. Though many other leading Mexicans have spoken out against the Volcker policy in recent months, this was the first time the president himself addressed the issue.

He stated that "maybe" the Volcker policy was acting to reduce inflation in the U.S. (and television viewers report his "maybe" carried an inflection of extreme skepticism), but that "for the rest of the world, [those policies] are damaging us, and damaging us very seriously." The squeeze is on, he said: "The products which the developing countries can sell, including oil, are heading downward, [while] the price of money is heading upward." He warned that resulting financial instabilities "cannot last for long" and a change in policy is urgent to prevent an international financial collapse.

In terms of the domestic situation, the president made the following announcements:

- The government was imposing a 4 percent across-the-board cutback in budget outlays and a tougher program of import controls to meet anticipated cuts in oil revenues;
- A devaluation was not ruled out as an eventual economic measure adopted by the government, but such a step would be taken solely based on the government's independent economic judgment and never as a measure forced by flight capital and speculation against the peso;
- The inflation rate for the first half of 1981 was 13.7 percent, two points below the 1980 levels;
- "Very positive steps" to "reconstruct the oil export platform" had been achieved. López Portillo praised cooperation from a number of governments, including the United States, and cited advances in negotiations with Shell, Arco, Marathon, and Union oil.

The president also broke normal "rules of the game" in Mexico to give a detailed account of why he had made the "extremely painful decision" to remove Jorge Díaz Serrano as head of Pemex in early June. Díaz Serrano had placed the interests of preserving Pemex's list of clients as a business firm ahead of Mexico's national interest in strengthening broader oil-for-development packages, he asserted. Díaz Serrano's timing in lowering Mexican prices $4 per barrel had been "precipitous" and had compromised Mexico's position as a leader of the "South" in the North-South dialogue set for Cancún in October.

Wall Street response

López Portillo's statements, backed up by a full mobilization of the nation's press and political circles, was blacked out of the U.S. press except for a July 15 response from some of the Wall Street interests who, together with Rockefeller's Exxon, are major figures in launching the economic warfare against Mexico.

The *Journal of Commerce*, in a story headlined, "Is Mexico's Oil-Fueled Boom Over?" dismissed López Portillo's statements as just words and conveyed the unmistakable message that "the war is still on." The reality is that "a spiraling inflation that may exceed 30 percent this year, lost revenues from canceled or suspended contracts for 500,000 barrels of oil daily and a sharply overvalued peso are sending shock waves through the foreign financial community," wrote the *Journal*.

Like a previous *Wall Street Journal* article designed to create a panic against the peso, it was a textbook example of the "rumors and gossip from abroad" that López Portillo had so sharply criticized in his speech.

From the President's Interview

For the first time, a blast against Volcker

I have sensed in the national environment a climate based on rumors, gossip, and foreign manipulation of public opinion. . . . All of this revolves around our economic situation, and the uncertainty that has been caused by the fact that our income from oil exports will drop due to the change in oil prices. This, along with the high interest rates on the dollar, has created a sea of distrust and disquiet. . . . [We must] confront fear with reason, and not offend our own understanding by giving credence to often ill-intentioned rumors. . . .

In the time since we brought about economic recovery, we have created nearly 3 million jobs. I challenge anyone to name another country which, in the current world circumstances, has achieved this feat. . . . And there is no other country that today has maintained a growth rate of 8 percent for three years in a row. . . . We are, with all modesty, the only nation in the world—as I will demonstrate—that is fighting to solve its own problems internally, while creating consciousness of, and proposing solutions to external problems. . . .

On inflation and interest rates

For one sector of public opinion, that which causes inflation is public spending. It is true that public spending, if it is out of control and is poorly oriented in an unproductive way, contributes to inflation. But other uncontrolled factors also influence public spending. For example, interest rates on dollars are raised in the money markets—they have doubled or more than doubled, and then we have to pay enormous interest rates. And then that increases our public spending in an unplanned way. That is inflation.

Because of adjustments in the U.S. economy, the dollar is experiencing unprecedented interest rates. . . . Countries with economies as solid as that of Switzerland have had to devalue their currency. Germany, which until recently was swimming in opulence and security, has had to devalue its currency. These problems of the European Community are undoubtedly in part, the fault of the United States.

This is damaging to the rest of the world. Perhaps it is helping the U.S. fight inflation, which is the justification that is cited for these policies, but it is hurting the rest of the world. Through high interest rates the world is paralyzing itself. . . . This is a situation which cannot last long, because it has contributed to even further disorder in the world economy. . . .

On devaluation of the peso

Informational terrorism is one of the tools of manipulation used by those economies that would keep us in our current situation of underdevelopment. How do we combat them? Through information, by telling the world with great frankness about our decisions. . . .

With regard to the drop in the peso, the problem lies within us. If we confuse other interests with those of our nation, we can do terrible damage to our currency. If we ally with another economy and believe in it more than our own—and here I am talking about those who might do this, which is not the majority of the Mexican people—we will do tremendous damage to our economy. If we are terrorized and all rush to one side of the boat, we can sink it. But what is the country we are going to leave to our children? To win a few extra centavos, we could create a serious problem for our country.

There are advantages [to a devaluation]. Many exports would be more competitive; tourism would increase. In short, it would not be a catastrophe; nor am I trying to sugar-coat a bitter pill.

We prefer to be attentive to the market, and drop it when demand so indicates; and when the world economy reorients itself, we would return to our process.

A devaluation in itself is neither good nor bad; it depends on your point of view.

But we will continue with our gradual policy [downward float—ed.] for as long as it is necessary. When it is not, we will suspend it. . . .

I would like to leave you with a final message. We should meditate with great responsibility on whom we ally with. Will we ally with our own nation, our own land, our own fathers and our own children? Or will we ally with foreign economies, which we reward with our fear, with our panic, with our ingenuity? This way we would reward the manipulation of bad information, reward the futures market in pesos that exists in the United States. . . .

How can we possibly fall into that trap of the futures market, where people speculate against the peso? It is the health of the Mexican economy that is our tranquility, for ourselves and our families. How can we leave these things in the hands of manipulators and speculators?

'Fed's policy means both inflation and recession'

Outrage and concern in Mexico over Volcker's high-interest policies were expressed by leaders of all sectors of the country the same week as President López Portillo spoke out on the issue.

On July 9, Mexican Undersecretary of Industry Natan Warman told a U.S.-Mexico businessmen's meeting that Volcker's high rates, far from decreasing inflation, "actually increase it." "Look at Britain," he admonished his audience, to see the results of such folly.

The day before, Sen. Hector Olivares Ventura, one of the top officials of Mexico's giant CNC peasant confederation and the son of Interior Minister Enrique Olivares Santana, charged that "the high interest rates which have been imposed in the U.S." threatened Mexico with an "agricultural crisis," because an important margin of domestic financing depended on availability of dollar loans at affordable rates.

And in the following interview with *EIR*, top labor official and economist Alfonso Reyes Medrano explains in depth the problem with the high rates from a production viewpoint. Reyes Medrano is Director General for Productivity and Economic Affairs in Mexico's Ministry of Labor, and also serves as an adviser to the long-time president of the Mexican Labor Confederation, Fidel Velásquez.

EIR: How do you see the current prospects for the Mexican economy?

Reyes Medrano: They are not *very* good, but they are good. The oil policy is working, despite the problems. The policy is not one of waste, but of using resources wisely, and we are doing that. Second, the GNP continues to grow at an exceptionally high rate for the period we are in, in comparison with other areas of the world.

EIR: What about U.S.-Mexico economic relations? How can they be improved?

Reyes Medrano: The economies are complementary. Look especially at the border, where, even if we didn't want it, we are indissolubly linked. The important thing is to make this relation as good as possible. Each country must recognize the other as a *nation*. Remember the famous saying of Benito Juárez, that "respect for the rights of others is peace."

EIR: You have done a great deal of personal work on the immigration question. Can this issue be resolved to the mutual benefit?

Reyes Medrano: I have thought about this a great deal, and the aspect which strikes me most strongly is the paradox of having a labor flow which is viewed by some as something criminal, but when viewed from another angle, is a question of some of Mexico's most capable, hard-working people going across the border to create wealth over there. Certainly, unions in the United States complain, but because the conditions of illegality lead to manipulation of the labor market. Let's remember that the cost of raising the children who become the workers, and giving them education, even if it is rudimentary, is borne by Mexico.

EIR: Are the Volcker high interest rates in the United States, which have had such a strong effect on Mexico, necessary to fight inflation?

Reyes Medrano: No, no, no. On the contrary. The high interest rates provoke inflation. The monetarists say that the high rates are required to compensate for lost purchasing power through inflation. They are caught in a vicious circle. I personally am convinced that the high interest rates are *both* inflationary and recessionary.

The policy is inflationary because the added costs of borrowing are immediately added onto prices all along the production process.

Then, the policy is recessionary because many industrialists are foregoing borrowing money for investments and expansion, even when there is demand. Inflation does not allow them enough margin for profit to pay the interest rats demanded by the banks. Businessmen are holding back investors from reinvesting as well as from starting new businesses, because the interest rates would oblige to virtually double the profit rate. And if they see that the market won't respond to such a price surge, well they won't invest. There is a limit, as any economist knows, where no one will buy.

There is an important exception to this however, the area of basic necessities for the population. It's necessary to control prices in this area in some form. Demand is very inelastic, as in the case of milk. Milk is a required part of the diet; you have to pay whatever price is charged. As a consequence, here in Mexico we have seen it as necessary to control the prices of these products which have little price elasticity but are necessary for the survival of human beings. However, if there is this kind of control, the profit margins aren't elastic either and investments collapse in that area. Then the government has to step in with subsidies and support programs to subsidize the production of these basic items.