

## Exchange controls: the new debate in Mexico

by Timothy Rush

A topic generally taboo in public policy discussion in Mexico is suddenly front-page news: exchange controls. During the week of Feb. 8, the radio station of the National university, Radio Universidad, was broadcasting almost hourly a scorecard of which political parties and individuals had come out for and against. On Feb. 9, Bank of Mexico director Gustavo Romero Kolbeck concluded that he had to attempt to contain the debate and issued a strong statement calling exchange controls "utopian." The monetarist central bank chief, an ally of Paul Volcker's, declared that such a move "would not be desirable for Mexico" since "we shouldn't restrict free convertibility" of the peso.

The surge of debate regarding exchange controls is the sharpest reflection yet of the decline in Mexico's financial health due to declining oil revenues, high international interest rates, and capital flight. A broad group of Mexican nationalists is increasingly seeing exchange controls—never before instituted in the country—as the only way to prevent collapse of the economy.

### Meeting of the Republic

The spark for the round of public debate was the speech of President José López Portillo keynoting the fifth "Meeting of the Republic", held in Guadalajara on Feb. 4-5. López Portillo excoriated the Volckerite

policies in industrialized nations which have forced the entire world economy into a depression "not seen since 1929," and pledged an uncompromising battle at home to defend the Mexican economy from this assault.

Some of the strongest passages in the speech denounced as traitors those Mexicans who take their money out of Mexico, and invest in real-estate or other speculation abroad. He called for a halt to luxury imports and a halt to luxury Mexican tourism abroad.

But stronger still was his condemnation of "hidden international interests . . . who are coordinating to change our foreign-exchange policy." From a welter of sources he could have cited, including recent *Wall Street Journal* columns, he chose a call to speculate against the peso issued in a Cincinnati newsletter. Columnist León García Soler, wrote a few days later that in fact the rumor of an imminent peso devaluation had penetrated even into the Meeting of the Republic, which gathers Mexico's political elite to commemorate the ratification of Mexico's present constitution on Feb. 5, 1917. According to García Soler, the President ordered an immediate investigation by his staff, and traced the rumor back to sources "in New York."

López Portillo concluded his speech with the appeal: "I call upon you with all emphasis, with all passion: let us continue defending our monetary policies."

At the height of an artificially induced panic against the peso last summer, the President called back-to-back press conferences in which he succeeded in facing down those spreading psychological warfare.

### **Walkout**

However in recent weeks the domestic forces working with external economic-warfare operations have sharply stepped up their pressure. As reported in last week's *EIR* (Feb. 16, 1981), plans for undermining the López Portillo government on both economic and political grounds were put in place at a private meeting in the same city of Guadalajara three weeks before the Meeting of the Republic. At the "Atalaya '82" conference, special attention was focused on organizing middle-class opposition to government policies, around marches and work slowdowns reminiscent of the "pots-and-pans" marches of housewives in Chile just before the fascist Pinochet coup in 1973.

The seriousness of the threat posed by the forces behind the Atalaya meeting was underscored at the end of the Meeting of the Republic, when Industry Minister José Andrés de Oteyza rose to reiterate López Portillo's call for cooperation in expanding the government's economic defense efforts. De Oteyza asked the country's productive forces "to continue working for the development of the country, through a healthy process of industrialization and job creation." He was particularly addressing a group of businessmen who had been invited as observers to the conclave of government officials for the first time.

But when De Oteyza took explicit note of Atalaya-type plotting against the government, urging the audience to "banish the pots-and-pans attitudes of our prophets of disaster," the businessmen present felt themselves sufficiently implicated to stand up and walk out of the meeting.

### **Heavy artillery?**

Given the prospect of determined resistance to the López Portillo appeal from interests allied with the flight-capital operations—interests notoriously indifferent to appeals to conscience—what will be the government's next step?

The editor of one of Monterrey's leading newspapers, *El Diario de Monterrey*, expressed what was on many people's minds when he wrote two days later: "never has a president so openly presented the fight for the decisions on monetary policy. . . . Perhaps this means that he will call upon the heavy artillery. Will he decree exchange controls?"

One of the most cited programs involving exchange controls in the current debate was presented by the Mexican Labor Party (PLM) last fall. The PLM empha-

sized that exchange controls are required not just to stanch the outflow of flight capital but to regain control of the credit system and begin issuance of low-interest domestic credit for strictly productive use. The PLM saturated the Meeting of the Republic in Guadalajara with copies of its five-point program.

Voicing the same distinction between productive and non-productive uses of foreign currency and credit was one of the leading advisers of the government sugar monopoly, Clemente Ruiz Duran. In a Feb. 6 call, a day after the López Portillo speech, he urged the establishment of a two-tiered exchange rate. A Mexican needing dollars to import essential capital goods would be able to buy a dollar cheap; but a person seeking dollars for personal travel, consumption, or investment abroad would find that the price was prohibitively expensive.

Perhaps the sharpest blast in the major media came from Mexico's largest newspaper chain, *El Sol*, which editorialized Feb. 8 that "capital which is invested in installations, machinery, equipment and raw materials . . . cannot be taken out of the country overnight. The capital taking flight are therefore not those invested in places of work, but are those that are idle. And these capitals come as a general rule from illicit or unexplained wealth. It is from that flight of capital that the country must be defended."

### **A question of liberties**

Those opposing exchange controls immediately rolled out the often-repeated arguments against the measure. Manuel Clouthier, former head of the Businessmen's Coordinating Council, charged that the 3,000-kilometer border with the United States made the idea of exchange controls "absurd."

Many have realized that this argument itself is absurd, however—flight capital doesn't leave the country physically along the border, it gets wired out through banks. Other defenders of free convertibility of the peso couched exchange controls as an attack on free enterprise. The director of the Banco de Crédito Mexicano, Arturo Alvaradejo Urrutia, called a special press conference Feb. 8 to state that controls were unacceptable: "Either we have liberties, or we don't."

Banco de Mexico director Kolbeck, in his statement a day later, declared that exchange controls had been a failure in such European countries as England during the Second World War, and therefore "were not advisable for Mexico." The Banco de Mexico has recently come under suspicion of possibly facilitating the drain of pesos into dollars, even for domestic credit purposes. Top Bank of Mexico officials have told *EIR* that the Bank intends to keep interest rates high no matter what.