

Weimar-style hyperinflation explodes in Republic of Mexico

by Lyndon H. LaRouche, Jr.

The author released this analysis from West Germany on Nov. 21, following the "free fall" devaluation of the Mexican peso on Nov. 18-19, reported in last week's issue of EIR.

During the past two weeks, as the Reagan administration and Wall Street imagined they had put the lid on the Brazil debt-crisis, Mexico's peso and markets exploded into a Weimar-style hyperinflation. This occurs at the same time that the folly-stricken Mr. Reagan proceeds to tax-increases and budgetary cuts which are triggering an imminent new round of deep financial collapse in international markets.

The international significance of the recent two weeks' developments in Mexican markets, is the fact that this Weimar-style hyperinflationary blowout is not an event local to Mexico. It is the detonation of a fuse, the beginning of a new global chain-reaction, worse than anything seen or generally imagined during the darkest moments of this October. Whoever misses that point, fails to grasp the condition and underlying dynamic of international financial markets as a whole at this time.

Mexico, August-October 1982, and since, has been the linchpin of the entire monetary and economic policy of the Reagan administration over the recent five years. President Reagan has called this "sixty months" of unbroken prosperity; that ominous counting of his reveals the fact that the President dates everything about his administration today from his fateful, and cruel decisions on Mexico during October 1982.

Every economic and monetary policy of the Reagan administration, domestic and foreign, since October 1982, has been built on the crucial decisions made then. The entire structure of developments in the international monetary system since October 1982, has been based upon the pattern set by those Mexico decisions. The "off-balance-sheet lending" bubble, now exploding, was created by Walter Wriston's Citibank and others, on the basis of that Mexico

decision.

Mexico, October 1982, is the keystone. Now, the keystone is shattered. The entire Western financial system is now at the brink of a new steep drop, far worse than the massive drop which occurred during this past month. The lunacy of the tax-increases and budget-cuts will merely accelerate the process of collapse.

The Mexico hyperinflationary blowout is a force which the Reagan administration and bankers can not terrify into submission, can not induce to sign "conditionalities" agreements, can not punish with trade embargos. Even were Bill Casey still alive and at his post, Reagan could not dispatch the CIA to overthrow a Weimar-style hyperinflationary blowout in Mexico. It is a nemesis more powerful than the President, his Eastern banker cronies, and all their resources combined.

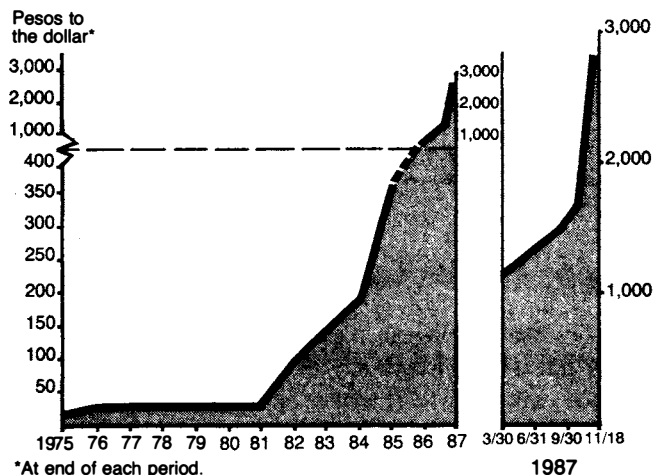
For this, Mr. Reagan has no one to blame but himself.

This unstoppable monster running amok in Mexico is Ronald Reagan's own child. He created it, back during August-October 1982. Out of his success in isolating and crushing Mexico's will, during October 1982, the President and his Wall Street cronies have created a vast financial bubble, a bubble energized by the destruction of the agriculture and industry of the United States, and by the looting of Mexico and other nations in the manner adopted during October 1982.

Since then, the President has fondled this child, bragged of it to all who could be forced to listen to such maudlin sentimentality. He has denounced, and struck out against all who questioned the virtues of this child, calling them by the name of "doomsayers." He has named this "Rosemary's Baby" of his adoption, "The Prosperity," proudly reporting its age, on schedule, each month.

Now President Reagan's child has reached maturity. Now, it is amok, a nearly full-grown monster. Now, as legends tell us that monsters are wont to do sooner or later, it is hell-bent to destroy its maker, and nearly everything else in sight.

FIGURE 1
Devaluation of the Mexican peso, 1975-87

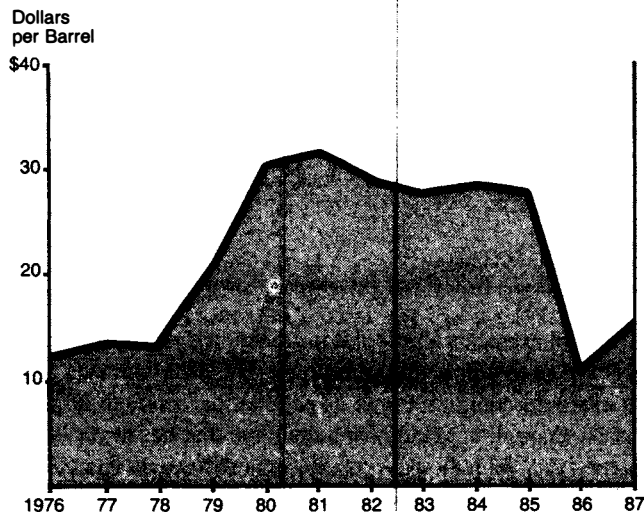


The linchpin is out. The keystone has crumbled. Cry havoc! Nemesis is amok.

Nearly every nation in South America is but a few steps behind Mexico. Bolivia is already wasted. Argentina is at the brink of similar developments. Brazil has rejoined the parade into the monetary slaughterhouse. It is all near to explode as Mexico has done.

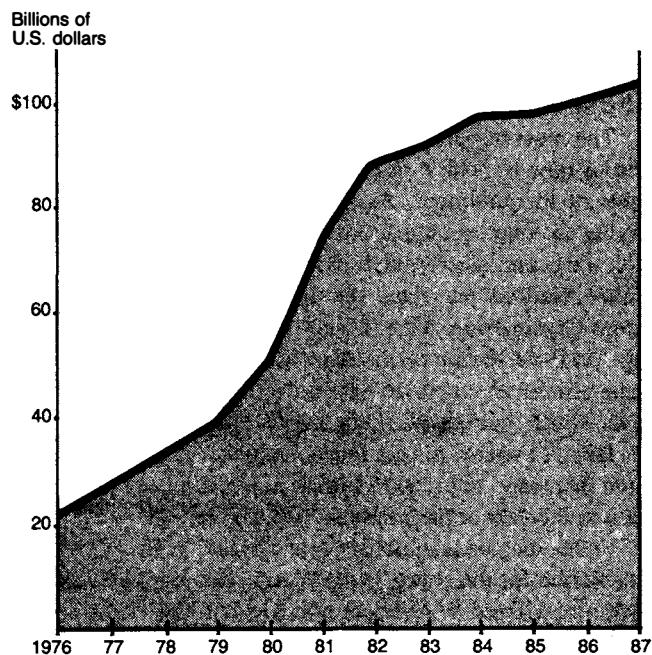
Perhaps few, except the special friends of Ibero-America,

FIGURE 3
Price of Mexico's petroleum, 1976-87



will notice any of this a few weeks down the line. The repercussions of this in Western Europe and the United States will more than overwhelm the consciousness of all but a few. On all fronts, the seemingly impossible, the unthinkable, is about to become the only reality.

FIGURE 2
Foreign debt of Mexico, 1976-87



The collapse of Mexico's economy 1976-87

	I	II	III
1975	12.50	—	—
1976	19.95	22.95	12.40
1977	22.74	28.42	13.42
1978	22.72	33.95	13.24
1979	22.80	39.68	20.29
1980	23.26	50.70	31.11
1981	26.23	74.90	33.13
1982	96.48	88.30	28.07
1983	143.93	92.10	25.19
1984	192.56	96.70	26.37
1985	371.70	97.70	25.33
1986	923.50	100.00	11.75
1987	—	103.00	—
Mar. 30	1,126.00	—	16.02
Jun. 31	1,353.70	—	18.71
Nov. 17	1,700.00	—	16.50
Nov. 18	2,700.00	—	16.50

I—Exchange rate of the Mexican peso with respect to the U.S. dollar (at the end of each period)
 II—Foreign debt (in billions of dollars)
 III—Average price per barrel of Mexican petroleum (in dollars)