

Monterrey Group digs its own grave?

by Peter Ennis from Monterrey

A visitor to Mexico's private-sector stronghold, Monterrey, cannot help but be struck by the huge discrepancy between the Monterrey Group's claims to "intellectual prowess," "efficiency," and "independence," and the sheer burro-headedness with which it approached Mexico's ongoing economic crisis. Reciting the gospel according to Milton Friedman, virtually every leader of the city's interlocking business conglomerates lined up against President José López Portillo and advocated the very devaluation of the peso that has dramatically deepened the financial crisis of the nation's private sector! Indeed, it is now a very big question whether the Monterrey Group can survive the effects of this devaluation.

Monterrey is a city undergoing a profound intellectual as well as economic crisis, and the leaders of the business conglomerates are by no means united behind a strategy to deal with that crisis. Most important is the growing, painful recognition that the policies of Milton Friedman have completely failed. The evidence is so powerful of the disastrous effect U.S. interest rates have had on Mexico's highly indebted private sector that many of these Friedman disciples are now "taking exception" to this aspect of the "Friedman formula."

Secondly, the financial crisis which forced the large Alfa Group to go to the government for help shook the foundations of Monterrey. Alfa is the center of the city's private sector, the "rock of stability" looked to for direction by the other business groupings. Not only did Alfa lay off thousands of employees, thus calling into question the private sector's cultivated image of "guardians" of the city's population, but Alfa's new status as "hostage" to the "benevolence" of the distrusted government in Mexico City dispelled the Monterrey Group's aura of "invincibility."

Finally, many business leaders in Monterrey are genuinely perplexed by the hostile attitude toward Mexico, especially on trade matters, emanating from Washington. Traditionally, private-sector leaders in Monterrey argue that the tensions in U.S.-Mexico relations are the fault of Mexico City, and that Monterrey can be "insulated" from the effects of such tension because of the many friends the Group has north of the border. This attitude is now being questioned throughout the city.

It must also be noted that President López Portillo has significantly factionalized the Group, with forces typified by Alfa's Bernardo Garza Sada and Protexa's Humberto Lobo more open to cooperation with the government in Mexico City, while "hardliners" such as Cydsa's Andrés Marcelo Sada are adamant in maintaining the Group's virtual state of war with the central government.

The devaluation

This was the environment in Monterrey when the pressure for devaluation, fueled by well-organized capital flight from Mexico, escalated.

Extensive discussions with officials from many of the conglomerates in Monterrey revealed that, in fact, there was agreement less on the "desirability" of a devaluation of the peso, than on the "inevitability" of devaluation. There was *almost unanimous* opposition to the enactment of exchange controls in the country—the only measure that could have prevented the disastrous devaluation.

The Alfa Group was most opposed to a devaluation, for the simple reason that the firm is so heavily indebted in dollars that a devaluation would probably shut it down. Moreover, Alfa has a team desperately trying to forecast the likely trend of American interest rates, as its officials insist that the Volcker measures are the single biggest cause of the firm's continuing difficulties.

Yet Alfa officials were among those that cited the "inevitability" of devaluation. In fact, one gets the impression that Alfa is a firm in the proverbial "bunker," waiting for the next disaster to strike and refusing to take actions, such as proposing exchange controls, which could improve their situation.

This paralysis of the "moderates" in Monterrey left the field open to the "hardliners" led by Cydsa, who openly advocated devaluation. In fact, the day before the devaluation, the head of the National Confederation of Employers (Coparmex), José Luis Coindreau, forecast with uncanny accuracy what would occur in Mexico economically. Coindreau, who comes from Monterrey and was there when he made this announcement, said that Mexico had to choose between, on the one hand, continued 8 percent growth, higher debt, "unbearable" pressures for devaluation, higher inflation, all of which are "undesirable," and on the other, less economic growth, slower growth in employment, and greater devaluations of the peso. Coindreau also attacked "technocratic trilateralism, which puts forward technology as the route to a solution," repeating a formula from the infamous January "Atalaya" meeting of Mexican and European conspirators called to plan the destabilization of the Mexican government. Both Coindreau and Cydsa's Marcelo Sada were among the organizers of that meeting.