

## Dateline Mexico by Josefina Menéndez

### How much austerity?

*The IMF intends to force a sharp reduction of living standards following the peso devaluation; labor is an obstacle.*

**M**exican President José López Portillo bowed to “pressure from inside and outside the country” and devalued the peso Feb. 17, but calm is far from returning to the country. The peso continued to slip during the following week, and renewed pressure is now being applied to force the burden of the devaluation on the Mexican population.

But there are a few big obstacles to achieving this—principally the resistance of the powerful CTM labor confederation.

The New York *Journal of Commerce* continues to lead up the campaign to make Mexico bite the bullet. In a March 1 editorial, the Morgan Guaranty-linked daily warned that “the devaluation won’t do the trick alone,” and called for applying sharp domestic austerity measures—cuts in the budget and real wages to “reduce inflation.” The *Journal* cited a recent Morgan Guaranty Trust study to threaten that failure to take such steps will lead to permanent price and currency instability.

The March 8 issue of *Business Week* made the same point, in an article entitled “Devaluing the peso is only the first step.” The news weekly complained that “López Portillo followed up the devaluation with a weak emergency plan,” adding that “Mexico’s economic future now depends on how well the government can rein in such inflation and temper union demands for

compensating wage increases.”

*Business Week* was right to identify the labor question as the heart of the dispute. Earlier this week, López Portillo met with the CTM, and appealed to both labor and business to refrain from panicked leapfrogging of wages and prices. The national priority, he argued, is first to re-establish calm in the foreign-exchange markets. Once this is achieved, he promised his labor base, adequate catch-ups on the wage front would be approved by the government.

As he has throughout this administration, labor chief Fidel Velásquez delivered full support to López Portillo at a crucial juncture. The labor movement, he decreed, will *not* demand an immediate emergency wage increase, nor will it now launch a wave of strikes to defend itself from the effects of the devaluation—“at this moment that would disastrous for the country.” But Velásquez added that he was opposed to having “the majorities in Mexico” take the brunt of the devaluation, and announced that he expected catch-ups to be negotiated shortly. He also lambasted the “voracity” and “ambition” of those business and financial interests that had speculated against the peso, and warned them that they should appreciate the “political maturity” and “good judgment” of the labor movement.

This labor decision was not ar-

rived at without a fight, however. Only one day before the meeting with López Portillo, a group of hot-headed labor advisers met with Velásquez and with Blas Chumacero, number two in the CTM, to demand a full mobilization for increased wages. They were ultimately knocked back into line, but not without a heated exchange of views.

Velásquez thus demonstrated that he remains in control of Mexico’s labor movement. But many labor watchers here think Velásquez is going to come under increasing pressure from his base as the devaluation works its way through the economy in the form of price rises.

This price question is the flip side of the problem for the government. The business sector here is now facing severe liquidity problems as a result of the devaluation, since it is heavily indebted abroad in now-costlier dollars. Many businessmen have reacted to this crisis by attempting to sharply raise their prices to consumers.

The Commerce Ministry has stepped in, decreeing official freezes on the price of 47 items of basic consumption, and threatening sharp legal measures against any stores caught making illegal mark-ups. The ministry put teeth in its threat at the end of February, temporarily shutting over 20 large department stores and supermarkets in Mexico City and scores of smaller establishments which had illegally raised prices.

This has evoked screams of protest from the private sector, itself increasingly caught in a bind. Some, such as Coparmex leader José Luis Coindreau, have gone so far as to threaten to block further private investment until this “confusion” is resolved.