

MEXICAN DILEMMAS

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For more than forty years after the end of the Second World War the ongoing rivalry between the West and the Communist nations provided an excuse to governments to centralize their economies. In the developed economies of the West there existed the counter currents of conservative thought and old traditions of checks and balances that moderated the scope and the reach of the bureaucracy, but in poorer nations with a history of authoritarian rule the ballooning of the bureaucracy left these nations less fit than ever before to deal with the complex tasks of regulating emerging high technologies, banking, and finance.

With the collapse of communism at the end of the eighties the assumptions on which socio-economic systems had been built in the Third World countries had to be replaced. The balance of power had shifted decisively to the marketplace. No nation that wished to progress could afford not to join the increasingly integrating world economy. For a country like Mexico the challenge was how to dismantle its old political and economic institutions and create new structures in an orderly manner, without leading to disaffection and chaos.

Mexico also carries heavy burdens of history. The wounds from the violence done to its heritage, history, and culture by the Spanish conquest are still carried by its collective unconscious. It is divided deeply by race and class: one-fifth of its population is Spanish, the rest are divided equally into mixed race (mestizo) or Indian. Its ancient culture, religion, and languages uprooted by force, the Mexicans have struggled to define a national identity. In the words of the historian Ramon Eduardo Ruiz, Mexican history of the past five centuries is a long tragedy intermittently punctuated by triumph.

Mexico's politics has long been controlled by a small minority of the

Spanish elite. The authoritarian system of the old was useful to this elite to maintain its grip on the institutions of power. And then there is the story of its unequal relationship with the United States, its giant neighbor to the north, which annexed a large part of the old Mexican state in the nineteenth century. This has led to the national consensus to maintain distance from the United States and but there has also been the desire to emulate the material success of America. This mix is partly responsible for the emotional nature of Mexican nationalism. This radical politics has masked the underlying authoritarian and oligarchic nature of the Mexican state. Although Mexico complains repeatedly of American high-handedness, it has remained oblivious to the disenfranchisement of its indigenous population.

The revolution

The uniqueness of the Mexican experience of the last century derives from the cycle of revolutions that took place in Mexico during 1910 to 1920. While it paid lip service to the ideals of the republic, its politics was oligarchic, controlled by *caciques* (political bosses). The agricultural economy was dominated by the *haciendas* (estates) and the industry was limited to textiles and mining. According to the most dramatic estimates, one percent of the landowners held ninety-seven percent of the land. Nearing the end of the thirty-year long rule of Porfirio Diaz, the forces seeking agrarian justice found a leader in Emiliano Zapata, a young sharecropper of a *hacienda*. In time he became the legendary symbol of the revolution.

The path of the revolution quickened with the overthrow of the Porfirio regime by Francisco Madero who was, in turn, assassinated in 1913. The subsequent struggle had three elements: the forces of agrarian reform represented by Zapata, the cowboy-warrior utopia of Francisco Villa, and the forces of the conservative Venustiano Carranza.

Although Carranza emerged victorious at the end it became clear to the elite that the agrarian interests needed to be coopted into the establishment. By the end of the civil war, that dragged on intermittently for another ten years, the winning coalition, calling itself the National Revolutionary Party became the corporate arm of the presidential policy with four wings: workers, peasants, popular organizations, and the military. In the system that emerged the president would have a single six year term and he would pick

his successor. Every six years the next president would attempt to bring together new elements into the ruling party to provide legitimacy to the government. Internationally, the Mexican government kept on feuding with the great powers leading, in 1938, to the nationalization of the oil industry. But during the Second World War, Mexico was a firm ally of the Western powers.

The Institutional Revolutionary Party (PRI)

In 1946 the name of the ruling party was changed to the Institutional Revolutionary Party (PRI). Although the party used the slogan of socialism to bring together poor workers and peasants, it was led firmly by the old establishment. The PRI held on to power not only at the Centre but also in the provinces.

The elections were generally rigged but the system, based on patronage and graft, had enough flexibility to coopt the bosses of the workers and peasants. Meanwhile, the oil revenues during the post-Second World War years had led to some development and growth of the middle class.

By the 1960s, Mexico's authoritarian and centralized system was being proposed as a model to be followed by other developing countries.

The revolt of 1968; oil boom and bust

The revolt of 1968 was not by peasants, as in the past, but by the middle class represented by students and college professors. The president considered this protest, just months before the Olympic Games in Mexico City, to be intolerable. On October 2 the army and police put an end to this challenge by means of an indiscriminate massacre at the Plaza of the three Cultures in Tlatelolco. Nevertheless, the government recognized that certain changes were required to the authoritarian system in place.

The Luis Echeverria administration (1970-1976) used the artifice of a criticism of the oligarchies and populist rhetoric to maintain an illusion of reform. But the bankers and the merchants thought that the Echeverria populism threatened stability and in 1976 they engineered a financial coup through massive transfer of capital out of the country.

This crisis passed as Mexico saw a boom in oil exports. Between 1976

and 1981 the value of oil export went up 32 times. But the imports also grew dramatically and in 1982 the government had to devalue the currency by 70 percent.

During the period of the oil boom, Mexico experienced the paradox of near bankruptcy due to a surge of abundance. Oil money led to a ballooning of the bureaucracy with its attendant waste, fraud, and inflation. Private banks considered it prudent to dollarize their operations which led to further pressures on the currency. Then international oil prices fell in 1981 which plunged the bloated economy into a long depression. In 1982, the government nationalized the banks. But it was soon recognized that such a step threatened the old compact between the government and business and within a year a process of partial re-privatization had begun.

The eighties were difficult years. Between 1982 and 1987 the economy fell an average of four percent each year. Unemployment soared. In Mexico City 34 percent were unemployed by 1985. These years made the Mexican society more egalitarian, “more equal in their poverty.”

Drugs and emigration

The Ronald Reagan presidency in the U.S. saw the drug trade from the Latin American countries and illegal immigration from Mexico as two of its greatest headaches. Mexico became a target of American pressure due to its production of marijuana and heroin as well as for being an conduit for Colombian cocaine. The U.S. also perceived the radicalization of Nicaragua as a challenge to the capitalist order in the Western hemisphere that might become a model for other Latin American countries. The insistence of Mexico, that the Nicaraguan problem be solved without external intervention, soured its relations with America.

With an intense focus on Nicaragua hordes of foreign correspondents descended on Mexico City. The recurring electoral fraud in Mexico became widely known. But the American preference for reform was tempered somewhat when the 1988 elections saw the emergence of a serious challenge to the candidacy of the PRI's handpicked candidate Carlos Salinas de Gortari by a coalition of the left parties led by Cuauhtémoc Cardenas.

It is generally believed that Salinas lost the 1988 elections to Cardenas but counting fraud made it possible to declare him the winner. There was

increased pressure than ever before on the Mexicans to engineer real reforms in the political and economic systems so that Mexican problems of drug import, and illegal immigration into the U.S. could be solved.

The Salinas presidency

The Salinas administration (1988-1994) began with political reforms. The PRI allowed the opposition parties to win some local elections. Salinas overturned the announced wins of some PRI candidates in the case of extreme fraud as a sop to the opposition.

In 1989 the centre-right opposition party PAN won the governorship of a northern state, the first time since 1929 that the ruling party had permitted to happen. But these changes were primarily cosmetic. A one-party polity is like a tiger which it is very hard to dismount. PRI did not forgive the party leader who allowed the opposition to win a governorship. This party leader, Luis Donaldo Colosio, who later was PRI's candidate for the presidency was assassinated.

Helped by large loans from the International Monetary Fund, the Salinas presidency appeared, for some time, to be making a break from the earlier cycles of promise and collapse. Meanwhile, the lack of regulatory institutions and a corrupt bureaucracy and judiciary led to an immense concentration of wealth. The ruling oligarchy also profited immensely from the ongoing drug smuggling to the United States.

The beginning of 1994 saw another revolt in the southern impoverished province of Chiapas. Soon the demands of the charismatic Subcomandante Marcos, the leader of the ragtag group that called itself EZLN, the Zapatista Army for National Liberation, were front-page news all around the world. This was the time of delicate trade negotiations with the United States and the Mexican authorities found it prudent to negotiate with the EZLN rather than crush it.

Free Trade

During the years of its oil bonanza, Mexico had steadfastly refused to join GATT, claiming that this would lead to elimination of tariff barriers eventu-

ally damaging national industry and eliminating jobs. But by 1986 Mexico was ready to reverse this policy.

American administrations reasoned that drawing Mexico into the free trading zone of North America might lead to just the degree of development so that illegal entry into the United States would not be the only means of finding employment to the poor Mexicans. This was a complex political issue in the United States because its trade unions feared that Mexico, with the advantages of cheap labor and lack of environmental regulation, will take away jobs from American workers. A large section of President Clinton's own party was against the accord, but thanks to the free-trading forces of the Republican Party the North American Free Trade Agreement (NAFTA) was approved by the United States Congress.

The initial impact of NAFTA on Mexico appeared wholly positive. For sometime Mexico appeared to have found the way to rapid development. Capital started rushing into the country. New manufacturing sprouted, especially in the border states of the north where Japanese and American companies set up factories to assemble goods to be exported to the United States. But Mexicans also went on a shopping binge. To guarantee returns to the international investors, Mexico borrowed heavily to keep the currency overvalued.

The Collapse of 1994

Salinas was succeeded in 1994 by Ernesto Zedillo Ponce de Leon. With the opening up of the Mexican economy and the spotlight of the international press, and the continuing peasant revolt in Chiapas, it was crucial to the PRI to do all it could to retain power. The Salinas administration kept up the facade of a successful economy till the election results were in. Mexican current-account deficit in 1994 was 8% of its gross domestic product (GDP), which was way too high for a country with a relatively low savings rate.

In December 1994, soon after Zedillo's inauguration, the peso collapsed. As in the past crises a lot of capital was transferred out of the country. The country was spared a bankruptcy only by a \$50 billion international bailout. President Zedillo had to institute a regime of harsh fiscal and monetary controls.

By the beginning of 1996, the peso has fallen to about one-third its value

before the crisis and inflation is running at above 40%. Nevertheless, many experts believe that thanks to the acceleration of reforms and privatization, Mexico might have turned the corner. Mexico's exports are booming and in many ways, Mexico has become more integrated in the world economy. This has also led to some political reforms.

Lessons for other countries

Clearly, Mexico's historical experience explains several aspects of its response to the challenges of recent years. But in many ways Mexico's dilemmas are no different from that of other developing countries. For example, there is a tendency in these countries to provide special benefits to middlemen who deliver voting blocs. Such dispensation is not only expensive but it also creates ill-will amongst social groups and leads to a cycle of ever-increasing demands. Mexico used special quotas and reservations to create the political machine of the PRI. It might have been a winning strategy for the party but it came with an enormous cost to the well-being of the nation. So long this system existed it was impossible to create institutions which would become guarantors of fair play in the society. It is now accepted by Mexican reformers that the most urgent task is to build institutions and the rule of law rather than administer by executive fiat as in the past.

Although Mexico appears to be on the way to becoming a genuine multi-party polity, institutions that facilitate the joining of the traditionally disadvantaged into the mainstream are yet to emerge. It has yet to hold fair elections. The indigenous people are still denied their rights.

The suddenness with which the Mexican collapse took place in late 1994 has also made it clear that greater openness and transparency of the economy is absolutely essential. In the United States also the idea of GAAP (generally accepted accounting principles) has had an enormous impact on the capital markets. Similar regimes in the developing nations that provide reliable information to individual and institutional investors will lead to greater fiscal discipline and make the flows of capital to needed enterprises more smooth. But openness can only work within the framework of appropriate laws and an efficient judiciary. This, in turn, is bound to have important social and political implications.

We are entering a new era of mutual connectedness. The international

community needs to develop tools to respond to financial emergencies of the kind that beset Mexico and is sure to repeat elsewhere before long. It is also being suggested that the international financial community must create better techniques of audit and review. Electronic trading and transfer of funds have made the old system of once-a-year review of the books out of date. Well run stock-markets, and research by financial analysts are essential to build up confidence in the system.

It is also essential that mechanisms be created so that credit for the development of infrastructure in the developing countries will be more easily available. It has been estimated that Latin America and Asia require about \$260 billion a year for infrastructure until the end of this century.

A dilemma is how to stop the flight of capital. This requires creating confidence in the nation's future. This can only happen if all segments of the population perceive a stake in the institutions of the state. Ultimately, the major lesson of the Mexican experience is that economic and social development can proceed only in an integrated manner.

Another dilemma relates to the health of its cities. The uneven development of the country has led to a mass exodus to Mexico City, which with its 19 million residents, has become the biggest metropolis in the world. But it is a city choking on its own pollution. Whether Mexico will find a way to balance the demands of justice with that of development remains to be seen.