

# Mexico: Shock and change<sup>1</sup>

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will comment on three different but related aspects of the Mexican transition. First, on the shock or initial crisis that propelled change in Mexico. Second, on the nature of the crisis in Mexico. Third, an attempt to answer the crucial question: How critical is the current crisis in Mexico?

## The shock

In my opinion, the shock that propelled change in

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Mexico was the 1981-1982 debt crisis. This crisis had a serious effect on the public finances of a country in which the state held tight control over the fundamentals of economic and political systems. Up until that time, not only Mexico's economy but its political structure as well had long been heavily subsidized and protected from outside competition. In Mexico business people, workers, peasants, and members of the middle class—including intellectuals, journalists, artists and scholars—were subsidized and protected.

Mexico was a country where elections, political opposition parties and the hegemonic official party



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Recent policy changes spell the end of the post-Revolution "ejido" system in agriculture.

were also subsidized and protected. At the top of the pyramid was the president, who was strong, subsidized and protected. Everything with visibility and clout in Mexico—or almost everything—was subsidized and protected under the sheltering cloak of the state. In the final analysis, everything was to some extent financed from the public treasury.

The Mexican government's bankruptcy, therefore, meant not only that the country's economy went bust, but pointed to the beginning of the end of its political system as well. It marked the breakdown of an economic development model, an economy closed to outside competition, characterized by heavy government intervention. But it also inflicted mortal wounds to a model of political stability and negotiation, based on a presidentialist regime with a hegemonic party, whose main instruments were subsidies and protectionism—public money and corporate privileges.

That is why 1982 was a turning point. The Mexican governing class was forced to adopt what they called, at the time, "structural reform." Structural reform was bound to undermine the very basis of the Mexican establishment. It sought to eliminate subsidies and protectionism, to open the economy to foreign competition, and to reduce the omnipresence of the state. This program of reform was intended to place Mexico in the real world at a moment when "new economic miracles" were being performed by countries with highly competitive, export-based economies. This market-oriented liberal reform was begun, gradually at first, during President Miguel de la Madrid's six-year term, gaining a much faster pace during President Salinas' administration. Both administrations focused on transforming Mexico's economy, and were—to differing degrees—resistant to dismantling the political apparatus upon which they stood.

Nevertheless, as economic reform progressed, Mexico's old political structure received, as I have said, a succession of mortal wounds. At the same time, political actors began to appear who were not controlled by the system of protection and subsidy, and with them a movement toward democratic

change. This movement was born of a society that was tired of economic crises, a society that had become modern in many ways. Its emergence had been made possible by a number of silent yet immensely significant changes, including, in particular, the process of urbanization and the formation of an educated middle class.

It soon became evident that the decision to open the Mexican economy to the world market would require not only economic reform and the transformation of the state's traditional systems of political "clientelism." It would also imply a change in cultural values. The transformation of Mexico's old model involved challenging vested interests, overcoming inertia, and overhauling institutional structures. The reform shook the very basis of the nationalistic creed held so dear by dominant sectors of Mexican society.

### **The current crisis**

What is the nature of Mexico's current crisis? First, I think it is important to say that Mexico's current situation is a crisis of the reforms implemented since 1982. Mexico is no longer suffering from the crisis caused by the breakdown of the old system, but rather from the costs of implementing the new model. It is a crisis regarding the feasibility of the reforms which were begun during the '80s and are still being implemented today, basically unchanged, by President Zedillo. Mexico's current crisis has three dimensions: one which is economic in nature, a second which is political, and finally a cultural dimension.

### *The economic dimension*

President Zedillo has pointed to a lack of domestic savings as the principal cause of the crisis which erupted in December 1994. Historically, a lack of domestic savings has been a constant constraint to economic growth. In 1982 the Mexican economy, then heavily protected, suffered a crisis that was

remarkably similar to today's situation. The triggering factor was a huge trade deficit, produced in part—as was the case in 1994—by the decision to avoid devaluating the peso in a presidential election year, and in part on the authorities' firm belief that foreign money would eventually resume flowing to Mexico.

Now, after twelve years of liberal reform, the economic policies applied in response to the current crisis have also been reminiscent of the 1982 experience. The authorities implemented a drastic "adjust-

ment" program, forcing the economy into a deep recession, with an estimated 5 percent decline in overall growth for 1995. On the other hand, inflation and interest rates soared; consumer credit contracted; businesses closed; jobs were lost; and the purchasing power of workers' wages fell.

There are, however, marked differences between the crisis of the '80s and the current situation, although to those who have been affected, these differences matter very little. Today, as opposed to 1982, the government does not have a spending deficit, but rather a surplus. Prices have stabilized rapidly, and exports have remained notably sound, while the industrial

plant that has managed to survive has initiated a process of import substitution. Imports—as in 1982—have dropped sharply, converting 1994's balance of payments deficit into a significant surplus.

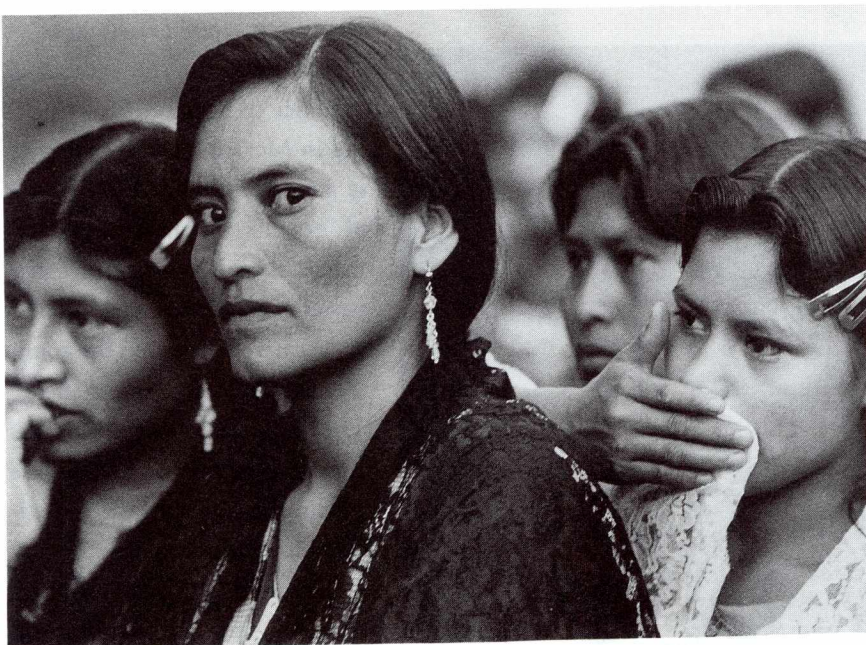
Experts today are particularly worried about one of the current crisis' most singular characteristics, which is that for the first time in several decades of recurrent crises, the sectors most adversely affected include small and medium-sized firms, and above all, families' personal incomes. For the first time in Mexico's modern social history, members of the middle class were caught with significant debts on credit card accounts, mortgages, car loans—in short, their ability to meet their most basic consumption needs.

Two structural aspects have intensified the effects of the crisis. The first is sustained population growth, which since 1985 has added 800,000 young people to the labor market each year. Mexico has been unable to substantially modify its rate of population growth over the last decade: this growth was estimated at 2.5 percent annually in 1983, and 2.4 percent in 1994. The second structural

factor that has exacerbated the adverse effects of the crisis is the country's legacy of social inequity and poverty, a situation which was aggravated by the economic stagnation of the '80s and has been further intensified by the current crisis. A 1990 estimate classified half of the population—40 million people—as poor, and of this group 20 million were said to live in abject poverty. A 1993 survey classified "only" 13.5 million as living in absolute poverty, but maintained the broader estimate of Mexico's poor almost intact, at 39 million inhabitants.

Experts are concerned, however, not only about the difficult present, but the immediate future as

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Addressing social inequality remains one of the country's major challenges.

well. The crisis is in its adjustment stage, an elegant name for recession. Yet no one seems to have the formula for pulling the economy out of recession and initiating growth. The question being asked is a very simple one: Where is the money we need for reactivating the economy? Where can effective savings be found that are ready to convert into investment, and thereby trigger economic growth? If anyone has any specific ideas about how the necessary financing could be arranged without selling Pemex or privatizing the country's social security system, they could make a fortune as consultants to the Mexican government in precisely this area.

two urgent tasks at hand: first, political and criminal violence must be contained, and second, a new mechanism for the transmission of power must be set up, as a first step toward the construction of a democratic institutional framework.

*Violence.* Political violence has reappeared on the Mexican scene with unusual force. A social rebellion in Chiapas and three magnicides—the assassinations of Cardinal Posadas in 1993, and of presidential candidate Luis Donaldo Colosio and PRI secretary José Francisco Ruiz Massieu, in 1994—are proof enough that the state's ability to control political violence has suffered from severe deterioration.

In addition, the increasing presence of illegal drug trafficking in Mexico has brought with it an unprecedented expansion of organized crime, including the construction of extensive networks of corruption and impunity that have penetrated the country's law enforcement agencies. The illegal narcotics industry has created a parallel power structure within the judicial system dedicated to combating it.

Economic crisis has, in turn, caused a growing incidence of crime in Mexico's principal cities, placing even greater strain on the already precarious public security system, and underlining authorities' incompetence at effectively dealing with the situation. These

developments have called into question the Mexican state's ability to maintain exclusive control over violence within its territory, which, according to Max Weber, is one of the fundamental rights and responsibilities of the state.

*The transmission of power.* Along with the crisis of Mexico's presidentialist system and of its hegemonic party, the current crisis has also affected the mechanism which for decades has guaranteed a peace-

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Over recent years the Catholic Church has regained its political rights.

### *The political dimension*

The most crucial political challenge facing Mexico at this time is to contain social unrest and criminal violence through a new, democratic institutionalization of political life. The problem seems to be that the old rules of corporatist politics have finally quit working, while new democratic rules are still being hammered out. In the political arena there are at least

ful transmission of power: the custom which allowed the outgoing president to select his successor. This was an effective, albeit undemocratic tradition. For several decades it solved the main question to be addressed by any political system, which is who will govern.

The development of competitive political parties and elections in Mexico could solve this problem in a peaceful manner. The PAN (the rightist National Action Party) has recently won municipal and gubernatorial elections in several states, including Baja California, Chihuahua, Guanajuato and Jalisco. The elections were freely held, fair and certified. In fact it was through elections of this sort—the first fully certified presidential elections in Mexico's history—that the PRI candidate won the presidency in August 1994. Of all the political novelties of political transition in Mexico, the only enduring institutional change seems to be the establishment of competitive elections. Free elections could replace the traditional mechanism of appointment from above and the virtual hegemony of the PRI. This possibility will be tested with the federal elections scheduled for 1997, in which the opposition could gain a majority in Congress. But the real test will be, of course, the presidential elections of the year 2000, which offer the possibility of seeing a candidate not affiliated with the PRI take office.

### *The cultural dimension*

During most of this century—up until 1982—Mexico's political culture has been systematically built upon a handful of predominant ideas, which may all be summarized by the term "revolutionary nationalism." According to this doctrine, Mexico should be:

First, a *secular* nation, in which the Catholic Church must be excluded from political life;

Second, an *agrarian* nation, which must maintain permanently open the possibility of granting land to the peasants, support the *ejido*,<sup>2</sup> and limit the expansion of private property of arable land;

<sup>2</sup> Cooperative or semi-collective farms established after the Mexican Revolution. (Translator's note.)

Third, a *worker-oriented* nation, which must provide permanent support to trade-union organizations, the promotion of labor rights, and the defense of workers;

Fourth, a *nationalist* country, capable of containing the influence and resisting pressures exerted mostly by Mexico's historic adversary, the United States; and

Fifth, a *state-oriented* nation, due to the fact that the state owned the main assets of the country, including petroleum and other energy resources, and the state, as well, guaranteed social stability by distributing protection and subsidies among the principal corporate sectors of society.

The reform initiated in 1982 challenged each of these beliefs. Those implementing the reform advised the secular nation that the Catholic Church would be allowed to recover its political rights. They announced to the agrarian nation that the granting of land and public support of the *ejido* had come to an end. The worker-oriented nation was informed that efficiency and productivity were contradictory to the labor unions' and private sectors' systems of featherbedding, clientage and "negotiation." The nationalist nation was told that if progress was to be achieved, a working relationship must be established—via NAFTA—with the country's longtime adversary, the United States. And the state-oriented nation was advised that the Mexican government was too large and inefficient, and must be slimmed down and reformed.

During the course of this reform, the government sold state-run enterprises, such as the telephone company and the banking system; withdrew its protection from an economy accustomed to captive markets; and imposed restrictions on a government bureaucracy accustomed to an absence of control. The structural reform begun in 1982 was a cultural challenge to old laws, institutions and beliefs which would have been difficult to modify even if rapid and spectacular results had been achieved in terms of economic growth and increased employment. The poor results obtained in these areas have

sparked a tense battle between those who favor reform and those who resist it.

Those resisting reform do not hold key positions within the government. They offer no alternative solution, and they cannot openly defend returning to the former system. Conversely, however, the reformers, who remain in the government, cannot show specific results of their policies. They no longer have enough credibility to affirm that the benefits will be forthcoming, if only the nation will continue to wait. Those resisting reform cannot offer a return to the past as a viable solution to the country's problems, nor can the reformers reliably offer the future.

#### How critical is Mexico's current crisis?

I will now address the last question on my list: How critical is Mexico's current crisis? It is indeed very critical, because we are facing a major change. As I mentioned before, the reforms that were applied in response to the 1982 debt crisis have had lasting effects, not only on the Mexican economic and political systems, but on many of the most basic assumptions making up Mexico's national identity, whatever that means. I am sure that future historians will refer to these years as a period of spectacular change in the country's history, and as a period of radical transformation, comparable in depth to the Bourbon reforms of the mid-16th century, to the Liberal reform of the 19th century, or the period of industrialization characterizing the 1940s.

It is impossible to implement reforms of such depth and scope without any risk of disruption. For a country emerging from six decades of stability, these changes were tremendously hard to assimilate. However, the country's institutional foundation has remained intact. Competitive elections and more open political negotiations have provided new channels for resolving internal differences, as is illustrated by the elections held this year in several states, and by the dialogue taking place in Chiapas, which has successfully contained the rebellion. The new administra-

tion seems to have finally settled into power, following several erratic months. The economy appears to have survived the worst effects of the adjustment program. Inflation and interest rates have dropped, and there have been signs of improvement in other sectors of the economy as well. Programs have been implemented to alleviate the situation of millions of individuals and businesses overloaded with debt.

Nevertheless, Mexico's situation may worsen if adequate responses are not given to a number of problems. To foster a reactivation of the economy it is crucial to promote positive expectations and reduce the burden of adjustment for the sectors that have been hit the hardest. The consolidation of fair and competitive election processes may be the touchstone upon which new democratic institutions may be built. If a democratic context can be built and maintained, the battle between the forces favoring reform and those who are against it may be effectively and openly resolved.

Improving public security is one area for which no quick solutions appear to be available. There is an urgent need to contain criminal violence—especially that associated with the illegal drug cartels—and to cleanse the country's law enforcement agencies. The nation's political stability depends on the authorities' ability to control violence. However, there are few elements favoring an optimistic outlook in this area.

There are also few if any signs of a possible solution to Mexico's age-old, fundamental problem, which is social inequality. Even if the country were suddenly to achieve high rates of economic growth, and successfully build a democratic political system, a significant reduction in social disparities would not be immediately forthcoming.

The business of foretelling the future is not at the moment the most profitable enterprise in Mexico. Reality has proven virtually everyone wrong. How serious is Mexico's current crisis? I do not know for certain just how critical the situation is, but I can say that it is serious enough to be unpredictable.✕