

The Politics of the Debt Crisis in Mexico
(1982-1988)

Ma. Esther MARTÍNEZ-CANTÚ

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The candidate confirms that the work submitted is her own and that appropriate credit has been given where reference has been made to the work of others.

ABSTRACT

There have been numerous studies of the debt crisis from global, Latin American and even Mexican perspectives. However, very few studies have so far addressed the political dimension of the crisis and examined the effects of the crisis on political stability and democratic practice in Mexico. This research focuses on the political dimension of the crisis, in order to make good this important omission in the existing literature. This thesis explores in particular two closely related questions about the practice of politics in Mexico. First, it explores the role which political debates and political pressures have played in shaping the response of the Mexican state to one of the gravest crises faced by the country. Second, it illuminates the common political practice of the Mexican state.

This work analyses the political forces involved in the domestic debate surrounding the negotiations between the Mexican state and the IMF during this crisis. It interprets the various economic and political pressures that different Mexican social groups exercised upon the Mexican state. The social actors taken into account in this study are people involved in the political arena such as politicians, bureaucrats and senior members of the state; institutions with socio-economic interests inside civil society such as workers' unions, chambers of private

organizations, banks, peasants' organizations, the church, the press and civil associations.

The thesis demonstrates how public opinion generated a new political debate through the media. This political debate inside Mexican society was substantially extended and intensified, stimulating the formation of new political alternatives. The awakening of a political consciousness contributed to the generation of an important debate which shaped the contest of the presidential political campaign in 1988. A new political coalition, the FDN, emerged, presenting a serious alternative presidential candidate. In the end, the governing PRI won the presidential elections; nevertheless, many Mexicans gave their support to both the left-wing FDN and the right-wing PAN, instead of to the PRI. Thus, the economic debt crisis culminated in a political electoral crisis during the 1988 presidential elections.

To sum up, the thesis proves that the debt crisis as an issue opened up the political debate and led to a political crisis. The earlier process of political reform initiated in Mexico in 1977 opened the space for alternative political parties and views. The debt crisis was taken up as an issue by these alternative groups which encouraged the debate. The debt crisis itself thus reinforced the process of political transformation.

To

Ma. Esther and Gerardo
 my mother and father
 for their unending love.

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List of Abbreviations.-

ANDE	National Association of Enterprise Directors
ANIT	National Association of the Industrialists of Transformation
BANAMEX	Mexican National Bank
BANCOMER	Mexican Trade Bank
CAINTRA	Chamber of Manufacturing Industry
CAMCO	American Chamber of Mexican Trade
CANACINTRA	National Chamber of Manufacturing Industry
CANACO	National Chamber of Trade
CAREINTRA	Regional Chamber of Manufacturing Industry
CCE	Business Coordinating Council
CIOAC	Independent Central of Agrarian Workers and Peasants
CLAT	Latin American Central Organisation of Workers
CNC	Peasants' National Confederation
CNOP	National Confederation of Popular Organizations
CNT	National Council of Workers
CONACEX	National Council for Foreign Trade
CONCAMIN	Confederation of Industrial Chambers
CONCANACO	Confederation of the National Chambers of Trade
COPARMEX	Mexican Republic Employers' Confederation
CROC	Revolutionary Confederation of Workers and Peasants
COR	Revolutionary Workers' Confederation

CROM	Mexican Workers' Revolutionary Confederation
CRT	Revolutionary Confederation of Workers
CT	Labour Congress
CTM	Mexican Workers' Confederation
FAT	Authentic Labour Front
FDN	National Democratic Front
FNAS	National Federation of Union Groupings
IDB	Inter-American Development Bank
IMF	International Monetary Found
LOPPE	Law of Political Organisations and Electoral Procedures
MRD	Movement of Democratic Renovation (Democratic Tendency)
PAC	Programme of Encouragement and Growth
PAN	National Action Party
PARM	Party of the Authentic Mexican Revolution
PDM	Mexican Democratic Party
PFCRN	Cardenist Front of National Reconstruction Party
PIRE	Immediate Programme of Economic Re-ordering
PMS	Mexican Socialist Party
PMT	Mexican Workers Party
PNR	National Revolutionary Party
PPS	Populist Socialist Party
PRD	Party of the Democratic Revolution
PRI	Institutional Revolutionary Party
PRM	Party of the Mexican Revolution

PRS	Revolutionary Socialist Party
PRT	Workers' Revolutionary Party
PST	Socialist Workers' Party
PSUM	United Mexican Socialist Party
SINTCB	National Independent Union of Workers of the Baccalaureate Colleges
SME	Mexican Union of Electricians
STUNAM	Workers' Union of the National Autonomous University of Mexico
SUNTU	National Union of University Workers
UAEM	Autonomous University of the State of Mexico
UNAM	National Autonomous University of Mexico

Introduction

I

This thesis attempts to explore the politics of the debt crisis that arose in Mexico from August 1982, and the political consequences that resulted from this crisis. The thesis will argue that the debt issue, which became a central matter in Mexican political life from August 1982, opened up political debate inside Mexican society. As a result of this political debate, various parts of society came to exercise new and important pressures upon state institutions. These new political pressures created cracks that seriously affected the Mexican political system, stimulating the creation of an official opposition to the ruling party (the PRI which had been in power since 1929) and an atmosphere of discussion about the future shape of Mexican political institutions, and confronting a nationalist view of the problem with a internationalist one.

The rhythm of the debt crisis in Mexico was determined by the nature of Mexico's insertion into the world economy, and by the domestic consequences of that insertion. The growing problem of Mexican debt had a direct impact on the international financial community. This was not the first time Mexico owed money to international financial institutions; nevertheless, this

was the first time that Mexico had declared its inability to meet its financial responsibilities. Furthermore, Mexico was the first major country in the potential list of defaulters to make clear that it could not pay all of its external debts. The dangers posed by Mexico's possible default to American private banks and international economic organizations were enormous. The amount of money owed by Mexico was not so important; more significant was the notion that the rules of the game should not be broken, and default should not be allowed. Thus, the financial community had a powerful interest in resolving Mexico's debt problem, and in urging their own solution to that problem on successive Mexican governments.

The debt issue became central to Mexican politics. The Mexican state was involved in a political crisis in at least three senses. First, the Mexican state was subject to very tight financial external constraints, being forced to negotiate with the IMF and foreign bankers in a disadvantageous position. Second, the Mexican state was at that time subject to an unexpected and very unusual level of popular mobilisation around the debt crisis, particularly a mobilization of sectors of the Mexican middle class. Third, the dominant party (PRI), which had held uninterrupted power for nearly 60 years, was now subject to a challenge to its hegemony by

an alliance of different opposition groups within the National Democratic Front (Frente Democrático Nacional, FDN).

It is clear that the roots of the present political crisis lie far back, in more than 20 years of escalating foreign loans and declining ruling party popularity. Indeed, the present crisis has emerged from much longer-term changes in agriculture and industry, in the discovery and development of oil, in the arrival of multinational capital in large amounts, in a growing food crisis, in balance of payments difficulties, and so on. In other words, in Mexico in the 1980's there was a growing economic crisis underlying an emerging political one.

The gradual deterioration of living standards and continuous inflation produced growing political disquiet in Mexico. Initially the new government was widely blamed for what was seen in the first instance as simply bad administration. Nevertheless, the recognition, encouraged by the government, soon grew that the ultimate responsibility for the state of the economy lay with the burden of external debt. Thus, there was a gradually increasing demand for a large scale national repudiation of the policy of servicing the external debt. The possible repudiation of the external payments awakened

the political consciousness of many Mexicans, and the debt crisis became the subject of conversation in many families. The debt issue penetrated all sectors of society and soon most Mexicans had something to say on the politics of the Mexican debt crisis. This growing discontent with the internal economic situation and the awakening of a political consciousness culminated in major defections from the ruling PRI in the 1988 presidential elections, and ended the PRI's unchallenged domination of Mexico's politics. It also stimulated an increasingly autonomous response from the PRI controlled Mexican state. It is with the development and consequences of these internal political changes that the bulk of this thesis is concerned.

The thesis will demonstrate how the 1982-88 debt crisis in Mexico generated a growing tension in Mexican politics between nationalist and institutionalist forces. It stimulated both a greater democratisation of political debate and a latent repression in state structures unable to cope adequately with these democratic pressures. By documenting and analysing both the democratic and authoritarian reactions to the debt crisis, the thesis hopes to throw light on the ways in which single party authoritarian regimes may make (or fail to make) a transition to another, democratic, type

of regime, while keeping the same structure of economic relationships.

The thesis will use the phenomenon of the debt crisis which developed between 1982-1988 in Mexico as a case study from which to establish general propositions about the character of the Mexican state, and the determinants of its practice. There are also important practical concerns that can be illuminated by a thesis of this kind, such as the nature of the role of the state in Third World societies, and their possibilities for political changes and development. These concerns cannot be central to what follows here, but each will be commented on at an appropriate stage.

The thesis therefore has two main aims:

1. to document the development inside Mexico of the political crisis due to the debt repayment issue, and
2. to use the case study so described to develop certain general points about the Mexican state, in particular about the role of a single dominant party (in Mexico, the PRI).

II

The 1982-1988 debt crisis became central to the totality of Mexican life, and generated responses across the whole of the Mexican social, economic and political structure. In this wide mobilisation, we are able to see the full potential range of social actors and forces shaping politics at a national level in Mexico. Through the examination of this full political mobilisation, it will be possible to uncover the underlying determinants of state policy within the debt crisis and beyond.

The thesis will examine the politics of the debt crisis in Mexico by following a particular route. First, it will provide the historical background to the development of the external debt, with particular reference to the negotiations made by the López Portillo and De la Madrid governments. Then the thesis will outline the different political forces in Mexican society, and document the pressure they exerted upon the state during the debt negotiation process. Here, the thesis will attempt to explain why public opinion, and the ongoing political debate in society, did not significantly influence the negotiations which the Mexican state held with its international creditors. This in its turn will also assist in revealing the nature of

the Mexican state; the thesis will return to a discussion of this in its concluding chapter.

This work has therefore been divided into three parts. The first examines the debt crisis and how the state responded to it, giving also an account of the social forces involved in the crisis. This part will also explain the way in which the Mexican political system works, emphasising the role that the PRI plays and its connections with the state. It will also explain how the debt crisis arose, and the negotiations between the senior financial members of the state and the international banks between 1982 and 1988. Throughout the first chapter, it will be seen how the historical formation of the contemporary Mexican state has been a conflict between a nationalist and an internationalist perspective. Both currents of thought will appear divided later on when formulating potential solutions to overcome the external debt problem.

The second part examines the political debate which arose in Mexico concerning the negotiations between the state and the IMF. It also describes the reaction of Mexican civil society to the debt issue. Three chapters analyse the public opinion of leaders of all political parties, financial institutions, business organizations, workers' and peasants' organizations, and the Church. The

opinions were collected directly from the national newspapers throughout the six-year period. This section ends with an account of the 1988 presidential election, and an overview of the strengthened political opposition. The role that the nationalist group (FDN) played in this election is presented in some detail.

The third part attempts to explain the nature of the Mexican state, and what the political debate tells us about its character. It also offers an explanation of the political outcome of the debt crisis. It shows how the debt issue provided the space to confront clearly the nationalist perspective with the internationalist one. When it became a matter of the external debt, everybody had something to say. The outcome of all these opinions generated the confrontation and opened the space for a more democratic political debate, as the more nationalist groups were seeking.

As has been seen in the last two years, the internationalist perspective finally managed to impose itself on a country in which privatisation, fiscal reforms, private investment, and the attraction of foreign capital have become the norm.

A number of writers whose work will be outlined in chapter eight have reached similar conclusions to those

found in this thesis. However, it is possible to distinguish two main positions: on the one hand that of the majority, who agree that there is a political crisis in Mexico, and some of whom think that this political crisis resulted from the debt issue; and on the other hand the few who argue that the debt crisis is a new experience for Mexico but that the state has been able to manage it successfully without allowing it to become a political crisis. If indeed there is a political crisis, some other writers make a serious attempt at describing the nature of the political crisis.

The former position will be argued in this thesis, as my original hypothesis was that Mexico was facing not only an economic crisis but also a political crisis as well. This work will try to argue whether this political crisis was solely due to the debt and the financial crisis or has deeper roots and causes, trying to include the political internal debate between those who sustain a nationalist perspective against those who argue for an international perspective.

III

This thesis has attempted to sustain a specific hypothesis. Nevertheless, it needs to be recognised that

carrying out research in Mexico is not an easy task due to the lack of first-hand documents. It may be difficult for the western European mind to understand that in Mexico much original research material is not available. Archives do not exist. Memoirs are seldom written, as it is not a common practice for Mexican statesmen to write their own memoirs. Therefore, it is only through newspapers, and other ephemeral publications, and mainly through oral history that it is possible to reconstruct events. The culture is not a written one; it still remains very much an oral culture. In this thesis we have tried to make the story coherent by recovering the events through the main national newspapers; however, it has to be said that this work has substantial limitations and that to gather the story was indeed very difficult. Thus, the conclusions that have been put forward here are of a very limited nature and a very provisional type. The conclusions reached would have been different if only more archive sources were available, and certainly the space is still open for more research and deeper interpretation of the complex reality of the debt crisis in the period 1982-1988.

CHAPTER ONE
The PRI and the Mexican State

This chapter describes the main characteristics of the Mexican state and its government, with the object of identifying those characteristics which were subject of change in the period 1982-1988.

I) The 1910-1917 Mexican Revolution

The 1910-1917 Mexican revolution destroyed the bases of the old liberal oligarchic state and established the bases of the new liberal democratic state. This revolution has been characterised as liberal democratic, agrarian, popular and anti-imperialist. It was liberal democratic in so far as it destroyed the Porfirio Diaz dictatorship and established a political regime which attempted to guarantee people's political rights of freedom and democracy to choose their governments. It was an agrarian movement in that peasants and farm workers struggled for their right to possess the land they worked. It was popular in that the Mexican people and workers fought to change the "status quo" of injustice which oppressed them. It was anti-imperialist in as much as it rescued the country's natural resources from foreign hands, after the dictatorship had based the country's development on giving away its natural

resources to foreign capital. Thus, this revolution was a political revolution seeking democracy and the formal equality of all citizens. At the same time, and from the point of view of economic structure, the Mexican revolution destroyed the oligarchic regime, which had maintained the old social structure of privileges and blocked the development of capital.

The Mexican revolution was, from the beginning, a mass phenomenon. It was prepared by the people through peasants' uprisings and workers' strikes everywhere in the country. Originally, these peasants' uprisings were only small, but gradually they spread until they became a real threat to private property in the countryside. The workers' strikes, at the same time, showed the beginning of a mass proletarian movement in Mexico. The Mexican revolution thus had a popular revolution.

However, class tensions endemic to a revolution of this type were resolved, in the case of Mexico, in a conservative way. The popular nature of the revolution organised by peasants and workers was suppressed. The peasants' movement, commanded by Zapata in the south and Villa in the north, was militarily destroyed. The workers' movement was subordinated to and integrated into a new social regime. The revolution was carried out by the popular masses, but it was promoted and guided by

members of the rural and urban middle classes. These middle class leaders (the "constitucionalistas", the group which finally controlled the outcome of the revolution) started to proclaim the liberal values of a democratic society, and ended up creating a different sort of political revolution from the one envisaged by the popular movement. What the "constitucionalistas" wanted was to create an independent country with capitalist development. They soon realised that the revolution was not the movement of a small intellectual minority; on the contrary, it was the result of a mass movement. The "constitucionalistas" realised that if the revolution was to fulfil their own aspirations, they had to lead the mass movement and satisfy some of its demands. An exclusively political programme for the new Mexico was not capable of satisfying the demands of the poorest, most severely exploited Mexicans. Thus some of the demands of the mass movement were reflected in the 1917 Mexican constitution.

The outcome was that the constitution included agrarian reform (article 27) and welfare for the urban working class (article 123); but at the same time Carranza and the "constitucionalistas" ensured that it also included the defence of private property and a capitalist development strategy for Mexico. Furthermore, they eroded the independence of the popular movements by

creating a strong state which could guarantee agrarian reform and the welfare of the urban working class, while controlling and even suppressing these popular movements. The "constitucionalista" revolutionary leaders created their own brand of populism, not in order to struggle against the oligarchic system which by 1914 was already dead as a political power, but to keep the independent peasants' movements led by Zapata and Villa at bay. The "constitucionalistas" tried to prevent the mass movement from entering a further social struggle; thus they incorporated into their set of new political values some social reforms. This is why Mexican populism has a marked anti-revolutionary character. The new social regime created by the "constitucionalistas" followed the strategy of incorporating the masses, aiming by this means to end the social struggle. They manipulated the popular classes through the satisfaction of limited demands: e.g. land for the peasants and better working conditions for the urban workers. Later on, between 1929 and 1938, the masses of people were organised into three large national confederations: CTM, CNC, CNOP, through the official party (PRI) and the official union organizations. It was through these corporations that social problems were channelled and solved.

The new social regime was founded with a paternalist and authoritarian government, which became gradually

institutional. This government had a very powerful executive with permanent powers, which ended up regulating property (article 27) and the conflicts between union workers and private enterprise (article 123). From the charismatic authoritarianism originally displayed by the revolutionary "caudillos" (military leaders of the Revolution) the Mexican state moved to the authoritarianism of the presidency as an institution.

The new government was committed to the full development of capitalism in Mexico. The society they sought to bring into existence was founded on the principles of private property, prosperous enterprise and a belief in the conciliation of the different social classes. The development of the country was based on the progress of the new capitalist class, with the support of the new state and under its supervision. With this development model, Mexico passed from a period of political institutionalisation to one of industrialisation, which became a national priority. At the same time, industrialisation developed parallel to the promotion of social reforms.

It is important to point out that the process of industrialization was not autonomous. From the very beginning, economic development in Mexico was heavily dependent on foreign investment, particularly by

corporations and banks based in the USA. Up to 1938 foreign investment was mainly concentrated in the oil industry. After this time foreign investment penetrated all spheres of economic activity, forming partnerships with national capital. Mexican nationalism has therefore always tried to find harmonious relationships with the international economic system, and in particular with the private capital institutions based in the USA.

II) The History of the PRI's Formation

The roots of the Institutional Revolutionary Party (Partido Revolucionario Institucional, PRI) are found in the National Revolutionary Party (Partido Nacional Revolucionario, PNR) which was created in March 1929. Originally, the official party was not the centralised institution that it later came to be. It began by attempting to join in a single body the majority of local forces scattered around the country. These local political forces were headed by local "caudillos" and "caciques". The PNR was created to centralise the different political powers, and to discipline the

regional military leaders under a national executive committee.

In 1938 the PNR reconstituted itself as the Party of the Mexican Revolution (Partido de la Revolución Mexicana, PRM), incorporating into its ranks the majority of workers, peasants and middle sectors. The transformation of the PNR into the PRM was a direct result of growing militancy by the Mexican working classes, their organizations and their coalitions. It was also a response by the union's senior members to the demands of their rank and file members. Between 1932 and 1938, large numbers of workers and peasants started to pressure the PNR with violent and spontaneous actions, demanding land reform and improved working conditions. The majority of these protest movements were organized outside the party and the state organizations. The union leaders started to divide between those who wanted to lead the mass movements, and those who wanted to repress them. The workers tried to recover their own union organizations, and formulated their demands in national and popular fronts, as well as in other party organizations. The political parties were not able to lead the movement. The Mexican Communist Party was illegal, underground and practically destroyed. Younger leaders inside the unions emerged, advocating a new direction and leadership. These people were not part of

the state's corrupt unions. Their ideology was labourist and socialist; their programme demanded greater intervention by the state in the economy, real land reform, and the creation of a real union system. Thus, the transformation of the PNR into the PRM was due to an organized movement of workers and peasants, who were originally organized by the workers' organizations. The middle classes did not manage to organize themselves in any similar way. The history of the PRM is the result of the pressure of workers and peasants, controlled by the political class during different stages of the success and failure of their more progressive leaders.

In 1933 an alliance was made by the leaders who were prepared to mobilize the popular movements, to propose General Lázaro Cárdenas as a presidential candidate of the PNR. Cárdenas was one of the peasant generals who were most closely identified with the new labour organizations, with the demands made by workers and with the interest of leaders of these new organizations. Cárdenas remained loyal to his campaign promises, not least because working class and peasant militancy continued unabated. Workers continued formulating their demands, as did peasants. Together they stirred up the population, endorsed by their organizations and their leaders, who originally helped Cárdenas to become president. Against this background, a repressive

political strategy would have been unlikely. It was the beginning of a new state policy which contemplated coalitions as a key political factor. Cárdenas was strongly criticized for having far too much tolerance towards the workers' movement. In the end, the workers' movement proved to be a key source of his power.

In 1935 there was a new struggle to incorporate the workers' movement into the PNR. Originally, the workers' organizations wanted to create their own political party. They even thought about establishing alliances with the peasants. Cárdenas urged them not to do so, and pushed them to join the PNR. Peasants and workers demanded higher wages, land reform, and better social welfare conditions. For the most part these demands were satisfied and in return the peasant generals and the political bureaucracy demanded the control of the workers' and peasants' organizations.

The control of these organizations, together with the nationalist project of expropriating the oil industry, formed the base of a populist alliance. The expropriation of the American, English, Dutch and French oil investments in Mexico, created a national fervour that even the Church had to support. This populist alliance project culminated in the creation of the PRM in 1938, only 12 days after the oil expropriation. The PRM

incorporated into its ranks the workers and peasants from these organizations, and also the middle class sectors. These alliances have been described by Mexican historians as the "social-populist contract" of 1938. With this social-populist contract, the official party became an institutionalised body, and at the same time the process of consolidating the populist movement was completed.

In 1946 the PRM changed its name to Institutional Revolutionary Party, the PRI. The PRI has clearly been the institution which has totally incorporated the masses of Mexican workers into the state. Its corporatist character has conciliated different social classes. The transformation of the PRM into the PRI was led directly by the President. This time authoritarianism played a more relevant role than coalitions. This time too, the civil and military institutional hierarchies of the president were more important than the old system of loyalties and personal clientele. The state had the support of the old and new bourgeoisie, and through negotiations won the sympathy of foreign capital, in particular American capital. There was no need for a political alliance between the political class and the economically dominant class; there was a sharing of common interests between these two sectors. Groups of the middle classes joined the ranks of the state. The

workers' organizations played a defensive role. The state took on an authoritarian and institutional character.

In spite of this new institutional-authoritarian character, the Mexican state did not leave the working class behind. Rather, senior political figures continued to negotiate regularly with trade unions and peasants' organizations, thus continuing to lock the official structure of the popular movement into a subordinate but persistent relationship with the governing party. The state did not have to use repressive methods. The government used old paternalist forms together with religious conciliation, and appealed to civic consciousness. Gradually, the revolutionary symbols were replaced by the symbols of a democratic and conservative state. During the 1940's the state consolidated the revolutionary process, giving importance to the market economy and the accumulation and concentration of capital. In the political arena, the alliances were reshaped, combining repression and paternalism, and authoritarianism and negotiation. The state passed officially from a socialist project to a democratic one in tune with the international context of the Second World War. Mexico passed from the popular front to national unity. In the economic arena the state was not liberal; it preferred state intervention at the same time as creating cooperative alliances with the capitalist

sector. In its international policies, the Mexican state was nationalist, wanting to win the recognition of its political class and its ability to negotiate with other nation-states. The government of 1940-46 also slowed down the land reform of the Cárdenas years, and contained strikes and wage demands, weakening the strength of the workers' unions.

These changes in state policies also affected the state party and its organization. The correlation of socio-economic forces changed in favour of private capital groups. The new state party modified itself according to the new correlation of socio-economic forces. The new name of the party had a particular significance: Institutional Revolutionary Party (Partido Revolucionario Institucional, PRI). The name itself claimed the defence of the existing institution. At that time it was even said that in Mexico the revolution was already an institution under the care of the state and the state party. On 31st December 1945, the Union Congress approved a new electoral law, and this formalized the political system that would rule in Mexico, and the bases for the new PRI.

On 18th January 1946 members of the PRM held a convention in which the PRM disappeared and the PRI was formed. In one single day, the convention approved the

declaration of principles, the action programme, and the regulations of the new party. It was an outstanding act of bureaucratic-political discipline. The next day, the convention nominated Miguel Alemán as candidate for the PRI's presidential election. At this moment, the PRI left the ideals of the old party which struggled for a "democracy for the workers", to adopt the new ideal of "democracy and social justice". The values were shifted from preparing the people for socialism, to educating the people for authentic democracy. The party erased the idea of defending "socialist education" in favour of an "nationalist and advanced education". The new PRI did not talk about the "alliances" of workers, peasants, military and popular sectors as the base of the party; instead it spoke of the "political association of citizens".

According to the new party's rules, the faculties of the general assembly and of its bases were gradually taken away one by one. Instead of the four delegates of the original sectors (workers, peasants, popular sectors, and military), there were seven secretaries. Thus, the workers' secretary lost a lot of the power he had originally held. The workers stopped having proportional representation at all levels. They lost the right to choose their party candidates from their workplaces. The change from the PRM to the PRI represented a shift in the balance of power held by the workers and the popular

sector. The working class, from being a considerable force -even taking into account the degree of control that the party had over it- lost the direct influence that it had as a organization. Consequently, internal political debate disappeared from the workplaces. Workers were mixed up with other classes and sectors. Workers were treated as individual citizens, no longer a class, in line with the liberal-democratic spirit.

The new government was more in favour of the development of the capitalist sector. The project of stabilizer development ("desarrollo estabilizador") was created and remained dominant in Mexico for several decades. This was the time when small entrepreneurs started their businesses. The government created a centralised and authoritarian state. In December 1946, following the President's suggestion, the Union Congress accepted a reform to constitutional article 27. This reform gave exclusive property rights in land, and extended the legal definition of "small private property". With this modification, the bases of a neo-latifundio system were created. It was the beginning of a whole set of policies that determined the boom in the rural bourgeoisie and agricultural enterprises. In the same month of December, there was a series of attacks on the workers' union organizations. The leaders of the oil workers' union were arrested and accused of having burned

the Atzacapotzalco refinery. Later on during the same month, the Union Congress reformed constitutional article 3: after twelve years education was no longer "socialist".

From then onwards, the government gradually weakened its ties to the working class movement. It created the offence of "social dissolution", which allowed the government to find people guilty solely because of their ideas and their intentions. The union leaders were accused of having communist ideas and of preparing communist subversive movements. The independent leaders were co-opted into the CTM. The railway workers' union offices were occupied by the army, their leaders sent to jail and a repressive leadership installed. The miners' union was also severely limited.

On 2nd February 1950, the PRI held a convention to approve the new status, the action programme and the declaration of principles. The family, the individual and his/her rights, and the municipal system was proclaimed. All of this derived from an action programme which stimulated free enterprise and with its development attempted to solve national problems. The structure of the party became more functional. The party adopted the sector system, as a more educated division of political labour, particularly now that the sectors were controlled

at the top by functionaries (civil servants). The PRI became a party of representative functionaries, in which the principal bosses nominated the functionaries below them. The lower represented the higher ones, in a personal and bureaucratic way. The masses were also represented as a group.

Thus, the existence of the official party and the real control that the state has over organizations and individuals have made possible in Mexico the maintenance of the appearance of a populist government and state; an appearance which is based on a populist party and its three sectors: agrarian, labour, and popular. In the end, the main roots which have enabled Mexico to have the political stability it has enjoyed over the last 62 years, lie in the cooperation of the different social groups; these groups, as has been seen, have been integrated into a very rigid political structure, based on the institutionalisation of the different groups and their conflicts.

The PRI groups peasants, workers and middle classes into three sectors, at the same time separating them as classes. The workers' sector incorporates organised workers. The peasant sector incorporates the majority of poor peasants and organised agricultural workers. The popular sector includes the public sector bureaucracy,

citizen associations and organised professional groups. Each of these three sectors belongs to one or several confederations. The majority of the workers belong to the Confederación de Trabajadores de México (CTM, Mexican Workers' Confederation), as well as to one of the large industrial trade unions (for example, the oil workers' union, electricity workers' union, railway workers' union). These large unions are associated to the PRI. The peasants, in particular the ejidatarios (peasants working "ejidos" or communal land), small and medium landowners, and agricultural workers belong to the Confederación Nacional Campesina (CNC, National Peasants' Confederation). Civil servants and the military in the federal, state and municipal governmental offices, managers and functionaries and workers of state companies, industrialists and entrepreneurs, and citizens in civic associations belong to the Confederación Nacional de Organizaciones Populares (CNOP, National Confederation of Popular Organizations). The owners of large enterprises belong both to the CNOP and to business confederations and chambers of commerce, which do not have direct representation in the PRI.

III) Presidentialism

The fundamental role that the state has played in the economic development of Mexico has been possible due to the strong position that the presidency has held. In the Mexican case a different sort of political system with a democratic parliament might have caused a permanent civil war with constant fighting between the different local and military groups. Alternatively, a military dictatorship might have caused a popular revolution. Instead, the Mexican state was built upon a coalition of politically led forces. As pointed out earlier, these forces included all the politically organized sectors of Mexican society, and reported directly to the president. Mexico is thus a state with a strong executive, combined with elements of democratic representation and some features of a dictatorship.

As has been argued earlier, the post-revolutionary regime has created a system of relationships in which social classes promote their own interests, with the public powers providing the balance. All the groups know that social stability depends on the good balance maintained by the state. These groups are legally recognized by the state, and their leaders have a very important role to play. The size of the private organisations is smaller than that of the agrarian and

labour organisations; nevertheless, in both cases they are always treated as institutions which negotiate with the state through their representative leaders. This system allows the practice of favour and privileges, a practice which has been institutionalised.

Governmental corruption is a widely accepted and understandable practice in this kind of political machinery. Negotiations between the government and the agrarian, labour, and middle class organisations are always made through the leaders and inside the legal framework of the particular institution. The alliance is understood as a commitment and union between the state and the organisations, and it implies that the state has to offer some public sector appointments, seats in the Union Congress, economic subsidies, allowances for workers, land and rural credits for peasants, to these organisations. In exchange for these grants, the workers', peasants' and middle class organisations give support to the state through adherence to it and profession of loyalty to the political regime. Throughout this process of negotiation, any sort of political manoeuvring is permitted, including the extreme of bribing the leaders. The 1938 "social-populist contract" mentioned earlier has been responsible for the consolidation of social and political stability in Mexico. The state is the centre around which all the

social interests revolve, and the PRI is the institutionalised party in which all the sectors are represented. The Mexican state has adopted the social and economic interests of the different social forces and created the political space for these forces to exist and have representation. Political programmes have been modified according to changes in the correlation of the social forces involved.

Mexico is characterised by strong government. Presidentialism is the present-day manifestation of the "caudillismo" of the Revolution. "Caudillismo" and presidentialism have played an essential role in their respective periods. "Caudillismo" was a feature of traditional society, while presidentialism is a phenomenon of modernisation. In Mexico, presidentialism has existed only since it destroyed "caudillismo" and replaced it. The final and physical destruction of all the "caudillos", the professionalisation of the army, the expansion of the communication system which gave unified power to the centre, the transformation of military chiefs into business leaders, the incorporation of the popular masses into the official party, the intensification of the land reform, are all signs of the death of the "caudillo" period and its replacement by presidentialism. Presidentialism represents the

modernisation of the country and the beginning of a strong government in Mexico.

Generally speaking in Mexico, the government and the state form a single constitutional body. To fight for the government means to fight for power. The government does not constitute a separate unit from the state, and the state has relative autonomy from the different social classes, although it tends to lose it in its relationship with the bourgeoisie. The head of the state is both the head of the government and the head of the state party. The president holds an enormous degree of juridical, political, and economic power. The limitations on him are those imposed by the development of a late and peripheral economic capitalism, by the pressure of the social classes and their class struggle, and by political prudence with regard to himself and his party.

All levels of the bureaucracy obey the president. The president possesses extensive executive, legislative and juridical powers. He faces a government whose legislative and juridical powers are very weak. He nominates and removes all the members of his cabinet. He is the head of all the armed forces. He has the power to decide international policy without having to ask the legislative power for approval. He determines fiscal policy, international borrowing and the public debt

without having to ask Congress. Since 1951 he has had the power to increase, decrease, suspend and prohibit imports and exports previously decided by Congress, in order to regulate the country's trade and commercial stability. The president further exercises wide control over industry, communications and the media through state-owned companies, mainly in the areas of oil, electricity, railways, road and air transport, telecommunications, and the food, fertiliser, building and steel industries. He also controls social security and health facilities for the majority of Mexicans.

The president is also in practice the supreme leader of the state party (the PRI); as such, he controls its functions and appointments. The party in power is the party of the president, government and all sectors including the public sector bourgeoisie. The president and his aides have the main influence on party policy. They rely on the discipline of the different sectors of the PRI and the mass organisations, and control these through manipulation and mediation, for example, by confronting the interests of one with those of another using means such as negotiation and sometimes repression.

It is very clearly written in the Constitution that the President in Mexico can only stay in power for one period of six years. Re-election is forbidden in Mexico.

In this way the party is not committed to any particular set of policies for more than six years. This allows the party to be moderately flexible in changing direction every six years. Some presidents design a set of policies which are more conservative or liberal than those of their predecessor. However, the system finds a nice balance when the next president in turn may like to introduce policies which are more progressive or reactionary. This has been a key factor in the political life of contemporary Mexico, enabling the balance of forces to adapt every six years to new circumstances with a new presidential style and able to disown previous incumbents' positions.

This chapter has sought to sketch the major characteristics of the Mexican state and its system of government. It is obviously far from comprehensive, but the Mexican system is already quite well analysed in English language works (see note 1), and this chapter has sought only to identify the characteristics which were subject to the possibilities of change in the period 1982-88.

CHAPTER TWO
The Debt Crisis and the Mexican Economy

I) Mexico and the International Economic Context

The debt crisis is a global phenomenon that has affected most of the world's societies. Countries in the advanced capitalist world have been affected as well as countries of the Third World. There are different ways of exploring both the general crisis and Mexico's involvement in it, some explanations deriving from liberal economics, some from various kinds of dependency theory, and some from more conventional forms of Marxism. What many of those theoretical frameworks do not explain is that the debt crisis is not merely a financial or monetary one, but has deep structural roots. One purpose of this section will be to establish what these roots are.

Dependency theory and the theories of underdevelopment focus on the impact of capitalism as a global system, holding an externalist perspective. As a contrast there are the theories of modernisation and underdevelopment, which focus on Third World countries themselves, holding a more internalist perspective. These are based upon the belief that social forces within Third

World countries hold back modernisation. Underpinning this view there is a liberal conception of development, in which it is a normal pre-condition that the middle classes gain hegemony (1).

Defining development in a political way very often involves the concept of planning, but the political will is often directed towards different groups in society. Thus, different interpretations of the debt crisis are often underpinned by a populist rhetoric of the nation and the different class interests within society. Therefore, what will be argued here is that directing the economy of a nation inevitably involves making political choices, which are often not necessarily the result of a particular political will but the outcome of the political struggle and its results. No person or group, even in a presidential system, can determine the economic policies of their nation without having to confront the pressure exerted by the different political actors in a particular society.

For many years, it was thought that the external debt problem was a result of the lack of internal savings by Third World countries. During the Second World War, many economists attempted to explain the lack of development in Third World countries as due to a lack of internal savings. According to this argument the low

levels of income and productivity in Third World countries were responsible for the lack of savings there, and it was difficult to increase these levels without an adequate rate of capital formation. From this point of view, there appeared to be some justification in inviting direct foreign investments and foreign credits as an attempt to solve the problem of the domestic scarcity of capital investment.

This explanation of the lack of internal savings was used in Mexico as an argument to open the doors to foreign investment and credits in the past, and took on a new emphasis in the eighties. The 1982-1988 economic adjustment programme launched by President Miguel de la Madrid's government through its National Development Plan, was based upon the idea of creating sufficient internal savings as a way out of the debt trap. According to the government, the origin of Mexico's external debt was to be found in the old imbalance between internal savings and planned investment; the lack of the former pushed the country to find international credits. Hence, for the top civil servants concerned with the economy as well as for the president himself, the problem of the external debt was defined as the incapacity of the country to generate enough liquidity to pay for its imports and its foreign debt servicing. These economic

arguments were the basis of the neo-liberal economic policies of the 1982-1988 Mexican government.

The 1982-1988 National Development Plan had two instruments to guide economic policy: the adjustment of domestic interest rates and the foreign exchange rate. It was believed that if the rate of interest was maintained above the internal rate of inflation (a so-called positive interest rate), and a flexible and realistic rate of foreign exchange, stimulating exports and avoiding capital flight, was maintained, the economy would increase its internal savings. This was the neo-liberal economic practice followed by the then government in order to increase its internal savings. It was a practice which closely paralleled the economic advice of the IMF and the international private banks.

It is important to point out here that the level of economic activity in Mexico is high. Although not as high as is achieved in fully industrialised countries, it is still high enough to maintain steady and regular annual economic growth. However, in the case of Mexico, as in that of many other Third World countries, the productivity of the national economy is not consolidated in the form of new investment. Instead, a very important part of economic output generated internally is transferred abroad through individual remittances of

capital, and through the repayment of foreign investments. In addition to this, rapid and wholly new economic development is impaired in Mexico because of the inability of national industry to establish a coherent productive system. This inability may have its structural roots in the high degree of dependence on American industry. Therefore, Mexico's external debt was not only a consequence of a lack of internal savings. What we are seeing is a chronic transference of economic resources from a peripheral country to the most developed one.

Among Latin American countries, Mexico was one of the very first to accumulate a large post-war external debt. At the end of the sixties, Mexico started to borrow in the Euro-currency markets. A strong relationship developed between the transnational banks, the Mexican government and the main Mexican private banks groups (BANCOMER, Banco de Comercio Mexicano; BANAMEX, Banco Nacional de Mexico; and Banca Serfin). This last group acted as intermediary between the first two. In 1970, for example, 57.2 per cent of the Mexican foreign debt was contracted with private banks, while the whole Latin American external debt contracted with private institutions was significantly lower at 44.4 per cent.

It is necessary to understand the emergence of the Mexican debt as including the long term structural

relationship between the Mexican economy and the whole capitalist world system. But it is also necessary to understand the debt crisis as the result of more short-term factors. For example, in the late 1970s, there were large amounts of capital, waiting to be lent, in the hands of the transnational banks. This money was the result of the increasing internationalisation of capital and the particular effects of the rises in oil prices.

From the point of view of Mexico, there was a need to overcome the barriers that were stopping the development of the productive forces, and the need to stimulate the import-substitution industrialisation process. Using external capital did this. However, two characteristics are important to note in order to understand the debt that the Mexican public sector acquired. Firstly, the state fiscal deficit, which is the result of: a) the participation of the state in the process of reproduction of capital in Mexico, b) the existence of an inefficient economic infrastructure that could not recycle productive surpluses quickly and effectively, and c) the subsidies that the state had to pay in order to relieve state-owned enterprises from the competition that domestic and international private groups could represent. The second characteristic is the structural tendency towards an external imbalance, due to: a) the existence of a potentially unequal

international trade exchange system, b) the absence of the international integration of the productive system, and c) the disbursement of national financial resources to foreign capital by individuals and organisations.

To sum up, the external debt in Mexico should be seen as a device that was used by the government to counter the structural difficulties of the economic system. Originally, the external debt helped to stimulate the economic growth of the country. Later on, when this device did not succeed in countering the structural contradictions, the external debt ceased to be a factor promoting the growth of the productive forces. Mexico's external debt was linked to both domestic and international structural causes. Mexico's debt crisis was linked to the process of widespread industrialisation and economic development that the world has experienced since the post-war period. This massive process has changed the relationship between economies. Through the lending of international credits, the interests of international financial capital, the interests of national oligarchies, and the interests of other states have been intertwined.

II) Strategies of Economic Development in Mexico

This international economic context has shaped the two strategies of economic development adopted by the Mexican State since the post-war period. These two strategies are the expression of a double interaction between the Mexican private capital sector and foreign capital interests. Both exercise a great deal of economic power and pressure the Mexican state to adopt certain economic policies: sometimes they act in alliance, while at others they compete with each other. These two forces have generated two main competitive strategies of development: one takes a nationalist form, while the other is connected with international interests. The nationalist strategy of development aims to expand the internal market, protect national industries, generate employment, and limit foreign economic penetration. The internationalist strategy of development has as its aim that Mexican firms should become more competitive in the international market, and gain as a result access to foreign capital and technology. In the nationalist strategy, the state plays an active interventionist role in the economy, while the internationalist strategy leaves economic forces to act in free market competition.

The nationalist strategy of development has its roots in the 1910-17 Mexican revolution; to be more

precise, the Mexican constitution (1917) established the principle of state intervention in the economy. This strategy was followed particularly during the 1930's, when the 1929 economic depression caused a decrease in Mexico's export earnings and led the government to import-substitution industrialisation policies. This period of temporary decline in the foreign economy was characterised internally by a stronger state which directed the economy at the need of a coalition of forces: the state itself, industrialists, and the emerging working class. Peasants and rural and urban workers were mobilized to support the state's policies, through the incorporation of major peasant (CNC, Confederación Nacional Campesina) and labour (CTM, Confederación de Trabajadores Mexicanos) confederations into sectors of the government party (now the PRI) in 1929. The private industrialists and the state, with its populist support coming from peasants and rural and urban workers, were leading a structural transformation of Mexican society. It was the first real transformation after a long period of more than 30 years of dictatorship (the regime of Porfirio Díaz, 1876-1911), 8 years of revolution (1919-17) and 12 years of political instability and alliances within the state (1917-29).

There are three further factors to note during this period in which the nationalist strategy of development

predominated. Firstly, as a result of the 1910-17 revolution, the Mexican agrarian reform (27th Constitutional Article) gave land to individual peasants and peasant communities. This reform broke the economic and political power of traditional landowners, removing obstacles to an agricultural modernisation led by the state. Secondly, the newly organised working class started using its constitutional guarantees (123rd Constitutional Article), challenging the pre-revolutionary social hegemony exercised by the landowning and export interests connected with foreign trade and capital, particularly in the mining sector. Thirdly, the nationalisation of the British and US oil companies in March 1938 restructured Mexico's relations with foreign capital and reinforced the economic role of the state, which took control of oil production. Thus, state intervention in the economy and import-substitution industrialisation were the key characteristics of the nationalist strategy of development.

The internationalist strategy of development has however been an increasingly important policy since the 1940's, as agriculture and industry have become increasingly dependent on foreign capital, technology and markets, particularly those of the USA. There has been a clear internationalisation of the production process, or to be more precise, an increase in economic dependence on

the US market, as well as on capital and technology supplied from the US. In the case of agriculture, for example, small producers and "ejidal" (cooperative) communities that originally oriented their production to the domestic market, have been supplanted by large-scale farms. These large-scale farms rely on finance and technology from abroad and sell most of their production overseas. The great majority of them are located in the north of the country. These large-scale farms have gradually made it harder for small producers and "ejidal" communities to continue profitably either domestically or internationally as they use traditional and relatively inefficient low-capital methods and tend to restrict themselves to supplying the domestic market. A similar process has operated in industry, with on the one hand large capital-intensive firms (sometimes partially foreign-owned) which receive state aid, capital from local private banks as well as foreign loans, and on the other hand a large number of small and medium-sized firms which are labour-intensive and receive minimal or no assistance from outside bodies. The large capital-intensive firms are in many cases joint ventures between private domestic capital and foreign capital, and they produce for high-income groups and for export. The small and medium-sized Mexican firms are mainly owned by private national capital and produce inefficiently for the local market.

This distinction between large capital-intensive firms on the one hand, and small and medium-sized labour-intensive firms on the other, has created a major division within the Mexican private sector, and has developed incompatible economic and political interests which constantly put pressure on the Mexican state, particularly when economic policy decisions have to be taken. The first group has organized itself in a national confederation called COPARMEX (Confederacion Patronal de la Republica Mexicana), whose power is concentrated in the northern industrial city of Monterrey and which is opposed to state-interventionist policies. The second group (which brings together small and medium firms controlled by national capital including a majority of manufacturing firms) has created the National Chamber of Manufacturing Industry, CANACINTRA (Cámara Nacional de la Industria y la Transformación), which has traditionally represented nationalist elements within the state, and which supports state intervention in the economy.

It is thus clear that, on the whole, the internationalist strategy of development is linked to the more powerful private economic groups, which benefit from direct access to foreign capital and technology. They also have close relations with the state financial sector and before the nationalisation of the banks, they had their own financial institutions.

The nationalist strategy of development includes policies oriented towards protecting national industry, increasing employment and state economic intervention, including the nationalisation of key industries, as happened in Mexico with the oil industry in 1938 and the private bank system in 1982. These policies are promoted by small and medium firms (CANACINTRA) and even by some elements of the working class, particularly by the major labour confederation CTM which, as was seen above, is linked to the state through corporate membership in the government party. These policies might seem to be likely to produce steady growth in the economy and a self-reliant development programme, but the nationalist strategy of development has to face severe criticism. Among the more relevant critiques are that government protection of national industries has encouraged inefficiency, waste and high costs, and that the nationalist model depends too heavily on the state and political interests. This dependence might appear to indicate a great deal of state autonomy in relation to capital and foreign interests, but this is not so due to the economic pressures that the state bears, the close links between state and private banking sectors, and the fact that the Mexican state is largely run by the people who have close connections with the owners of industrial enterprises.

To sum up, although the two strategies both persist, since the 1940's the internationalist strategy of development has become the dominant one politically and economically. However, the nationalist one still has substantial political support and is an arguable alternative economic strategy.

III) The Mexican Economy Prior to the 1982 Economic Crisis

After the increase in oil prices in 1973, the international commercial banks had large sums of money which had to be recycled. This money was lent to countries with the aim of supporting development programmes. Those countries, which in some cases did not have the urgent need to channel the money to specific programmes, accepted the loans, which in some cases were for hurriedly designed development programmes. Once the money was available, the "need" was quickly generated. In most cases, the amount of money borrowed (or offered) was, with hindsight, larger than the real ability to repay it. Nevertheless, the offer was a real temptation and the interest rates were initially low or even negative. So the international commercial private banks

supported almost any sort of government sponsored development project, because they wanted to channel the money available to "safe" areas. The industrialised countries did not want to use this money, sometimes because they were carrying out anti-inflationary economic policies.

The same phenomenon happened in 1978 when oil prices were increased for the second time. It is clear that there was money available to be lent, while, at the same time, the less developed countries were increasing their commercial debt, because their exports were not being sold in the international market partly as a result of the industrialised world's anti-inflationary and consequent low-growth economic policies. That was particularly the case of many Latin American countries, where it is remarkable that the value of exports did not increase significantly after 1980. To be more precise, the Latin American region's exports were worth US\$89,000 million in 1980, and almost the same amount five years later, US\$92,000 million in 1985.

Mexico was not an exception. With such an international atmosphere, and from 1976, when it was made public that Mexico had large oil reserves, the Mexican state applied to the international private banks for loans destined to finance an expansion of its existing

oil industry. The answer from international private banks was immediately positive, although it is important to say that by that time, Mexico had already undergone one severe financial crisis in 1976. But that did not stop the North American banks from lending Mexico more money; in any case the proven oil reserves were there. Therefore, in 1977 and 1978 money was lent to Mexico to develop its extractive oil industry.

By 1976 Mexico's foreign debt (including private banks and multinational financial organizations) was US\$19,659 million. What is more, exclusively for the service of that debt, Mexico had to pay US\$11,000 million over a period of five years. Hence, in 1977, Mexico already depended on borrowing in order to repay interest on debt alone. At that time, it was estimated that by 1982 the public debt could reach US\$30,000 million without further borrowing, that is, simply as a result of having to service the debt without repaying any capital. As will be explained, the Mexican state continued to borrow, -not only to develop the oil industry but also to keep the government going- and ended up with a much larger debt.

Despite gloomy predictions from some observers, Mexico's economic future seemed relatively secure in 1977-78, as its known oil reserves increased rapidly.

Furthermore, a 1978 IMF report on the country praised its economic policies because it had maintained strict control of public expenditure, dismantled import restrictions, and controlled domestic consumption by moderating wage demands. Meanwhile, the international economic situation became more difficult. The world economic recession worsened, and interest rates increased rapidly, while at the same time international trade became more unfavourable to Third World countries. In the particular case of the majority of Latin American countries, during this period they found severe difficulties in adjusting their economies to the new international situation. They continued to borrow more money in order to compensate for the loss of foreign income derived from exports, and to be able to meet the higher rates of interest. From 1978 to 1982 the debt of Latin America countries more than doubled: from US\$150,000 million to US\$318,000 million. This money came mainly from international private banks.

Once more Mexico was not an exception. In 1979 the government had to ask for more credit in order to compensate for the loss of foreign income from exports. The United States recession badly affected Mexico's trade revenues, as at least 60% percent of Mexico's exports went straight to the USA. At the same time, the interest payments that the state had to meet were over US\$20,000

per year. Mexico chose to borrow more money, which was quite easy at that time. Moreover, Mexico's credit rating went up with each announced increase in oil reserves. But this international attitude was extremely dangerous, because the burden of Mexico's external public debt was increasing rapidly. Its annual payment liabilities were certainly increasing faster than its current income. Caught in this debt trap, Mexico took the only avenue open to it at that point, which was to boost export earnings substantially. The only practical and available sources for such an increase were oil and gas. Hence, this was the economic policy adopted by the Mexican government in spite of the opinion of the more nationalist political groups, and in spite of the economic awareness that the economy should not become a mono-exporting one. This policy, however, led to the import of high-technology equipment for the petroleum industry. In the 1979 public budget, the petroleum industry received 80 per cent of the total government investment in industry.

In mid-1979 and at the beginning of 1980, Mexico was in the middle of an oil-led boom in industry. At the same time, the external debt was US\$27,939 million; inflation was growing and reached 20 per cent; imports increased from US\$12,500 million in 1979 to US\$19,500 million in 1980; agricultural production showed no significant

increase; unemployment was high; and public sector companies showed large deficits. Furthermore, and more dangerously for the long term viability of the economy, the country was turning into a mono-exporter: oil jumped from 45 per cent of all exports in 1979 to 74 per cent in 1980; and there were even attempts to circumvent the oil production limit which had been 2.7 million barrels per day. This was a politically sensitive point for the government, as the opposition accused it of selling the country's resources to no avail.

Up to the beginning of the 1980s the Mexican government had policies which controlled the economy with some difficulty. The international atmosphere was not unfavourable for oil-exporting countries, and Mexico was receiving loans as well as selling oil abroad. But the difficulties began in the spring of 1981, when the international oil price fell and the Mexican government was forced to announce a reduction in the price of oil of US\$2 per barrel. In early 1982 a government report admitted that oil-spurred growth had been a failure; even so, the report also said that the only remedy for the nation's ills was to discard the national energy programme's limits on exports.

In February 1982, the Mexican peso was devalued by 30 per cent. In April 1982, Finance Secretary Jesús Silva

Herzog promised an 8 per cent cut in public spending. In the same month, the "Grupo Industrial ALFA", Mexico's biggest private sector concern, owing US\$2,300 million to foreign banks, asked the government for help. In July 1982, substantial price rises were announced and subsidies eliminated; for example, tortillas, a basic food, went up by 100 per cent, and petrol (for domestic use) by 60 per cent. Further devaluation took place and austerity measures were taken. Citizens lost confidence in the government and capital flight reached enormous proportions; US\$30,000 million, well over a third of the total foreign debt, left Mexico between August 1980 and August 1982.

On 20th August, 1982, with a foreign debt of US\$78,000 million, the Mexican government unilaterally declared a 90-day moratorium on debt payments. Also, trying to control the monetary reserves and to avoid further capital flight, on 1st September, in the annual State of the Nation speech, the outgoing administration of José López Portillo announced its decision to nationalise the banks. These two have been outstanding historical decisions.

As soon as the moratorium on external debt payment was declared, the IMF sent a mission to Mexico. As it was an urgent case, and trying to avoid a worse crisis of

indebtedness, the IMF asked the private commercial banks to lend US\$6,500 million to Mexico, in an agreement linked to the IMF's US\$4,000 million package. This was the first-ever such co-financing venture between the IMF and private international banks. In this case the IMF acted in an emergency, without doubt due to fears of the catastrophic consequences that Mexico's moratorium (and fears of potential default) might cause in the international financial system. Furthermore, the US government had a particular interest in solving Mexico's debt problem, as Mexico's international debt was mainly contracted with North American private banks; so the US government used its influence on the IMF to be sure that Mexico would receive a new loan-package. Moreover, the US government may also have foreseen the threat to Mexico's political stability which would have been posed by the social unrest which could have arisen in the case of a collapse in the Mexican economy.

Consequently, on 10th November 1982 the Mexican government wrote a first letter of intent to the IMF. The latter's 1982 loan-package to Mexico was made subject to conditions which determined the country's internal economic policy. It was linked to the new Mexican President Miguel De la Madrid's new economic programme, which marked a switch to a recognition of the power of market forces. In his inaugural speech, De la Madrid

argued for "realism", as opposed to "populism", which he thought had been practised during the last administration.

The world economic recession, which started at the end of the 1970s, affected the Mexican economy badly, and was, together with internal policy choice, responsible for the 1982 Mexican financial crisis. One immediate consequence of the world economic recession was a decline in Mexico's export earnings, which came mainly from oil revenues. In addition to this, in the early 1980s, real interest rates rose to high levels, making it impossible for Mexico to meet its debt repayments. At the same time, the world economic recession debilitated Mexico's already weak domestic economic structure. Caught in this trap, Mexico did not respond early or sensibly and eventually had to revert to the IMF and accept its conditions and austerity measures.

Notes.-

(1) For a more detailed analysis of the post-colonial state in Third World countries, see: Thomas Skidmore and Peter Smith, Modern Latin America;
P. Cammack, D. Pool, and W. Tordoff, Third World Politics: A Comparative Introduction;
C. Thomas, The Authoritarian State;
James Petras, Political and Social Structure in Latin America.

CHAPTER THREE

The Negotiations on Debt Repayment 1982-1988: An Over-View

As a background to the detailed documentation of the political crisis in Mexico between 1982-1988, this chapter provides an overall description of the economic crisis and the stages of debt negotiation which that crisis made necessary.

I) The Phases of the Crisis

In the development of the Mexican debt crisis, we can observe different periods or phases. In the first part of this chapter, I will indicate briefly and in general what those phases are, before (in part 2) examining the development of the Mexican debt crisis in each period in more detail.

(i) We can recognise a first period of Mexican indebtedness in 1940-1970, when the money which was borrowed from international institutions helped to stimulate economic growth, without causing difficulties in covering its servicing. This period is characterised by the constant growth of industry and a process of deep transformation in the productive system of the whole

country. During these twenty years, the Mexican industrial sector grew spectacularly, and the state was heavily involved in this process. The money which was borrowed came mainly from public international organizations such as the IMF, the World Bank, and the IDB (the Inter-American Development Bank). This money was mainly oriented to public programs and services. Unlike other Latin American countries, Mexico did not sign any stabilization programme with the IMF during this period.

It is remarkable that during this period the country's national product grew at an annual rate of between six and seven per cent, and the prices of goods also remained stable with a rate of inflation lower than three per cent. A fixed rate of foreign exchange was also maintained from 1954, when the Government fixed the Mexican peso at 12.50 to a dollar. Due to the support of the state's central bank, the money and internal capital markets grew very quickly, stimulating the formation of Mexican private banks, which managed to concentrate and centralise capital and to participate in investment in the entire Latin American area.

In spite of the dynamism of the domestic financial system, the state took on a heavy and growing debt to support the public budget. In 1942 12.5 per cent

of public investment was supported by external financing, but by 1970 that figure had risen to 25.3 per cent. However, during this first period in which the state's budget had a deficit, that deficit remained under control. During all this time Mexico never needed to sign any stabilisation programme with the IMF, as many other Latin American countries had to do.

(ii) The second period in the development of the Mexican debt crisis can be detected from the end of the sixties to 1982. A series of basic weaknesses in the structure of the Mexican economy began to manifest themselves between 1968 and 1975. These basic weaknesses (which we will discuss in detail later) were both agricultural and industrial in character. Productivity in the agrarian sector remained low, because both the social and technical relations of production in the Mexican countryside remained in need of extensive reform. Industrial output in key sectors remained heavily dependent on the U.S. economy, locked into a relationship of dependency both on U.S. technology (for essential pieces of capital equipment) and on U.S. markets for its industrial output. At the same time, inflation began to increase considerably between 1968-75, with annual rates well above ten per cent. The value of imports vastly exceeded that of exports, the state had a serious

taxation crisis, and the growth of the internal financial market halted.

Because the Mexican government under Echeverría's administration (1970-1976) failed to introduce tax reforms and to increase exports, the state had to seek foreign loans as the only way to maintain positive rates of growth, though these rates of growth were never as high as previously. The country lived through a period of economic recession. The external debt quadrupled, from approximately U.S.\$5,000 million in 1970 to U.S.\$20,000 million in 1975. The cost of servicing this debt also grew significantly, from U.S.\$985 million per year in 1970, to U.S.\$2,525 million per year in 1975. The servicing of the debt represented approximately 30 per cent of the value of exports.

1976-77 were years of economic recession and balance of payments deficits, a recession and deficit which forced Echeverría's government to devalue the Mexican currency in 1976, and López Portillo's government to sign the first agreement with the IMF in 1977. In spite of these problems, foreign debt was paid to the international creditors under the original conditions. Then, in 1978, Mexico began to benefit from its recently discovered new huge oil reserves. Between 1978 and 1981,

the country experienced major economic growth, with the oil industry as its basis. López Portillo's government expanded the production and export of oil, thinking that international oil prices would continue to rise or stabilise at a new high level. It was thought that the foreign revenue coming into the country from oil exports would convert the country into an intermediate industrial power, and would help to eliminate the external trade deficit and the social conflicts accumulated in the past.

On this basis, Mexico abandoned the guidelines imposed by the IMF in its 1977 agreement on the amount of money that Mexico could borrow from international lenders. It has to be said that this abandonment was not just the decision of the Mexican government. Rather, senior executives from the IMF and transnational financial institutions went to Mexico several times to offer loans. This happened at the time when there was a surplus of money created by the oil wealth of the Arab States, and negative real rates of interest, so to accept a loan appeared to make sound economic sense. Between 1978 and 1981, Mexico acquired a new debt of U.S.\$43,600 million, almost three times more than the U.S.\$18,200 million of the four previous years. A large proportion of these new credits were due for repayment within a short period of time, and this seriously affected the scale of

the external debt repayments. The amount of money that Mexico borrowed during this four-year period of the oil boom (1978-1981), represented 59.8 per cent of the whole accumulated debt of U.S.\$72,900 million at the end of 1981.

During the oil boom, Mexico recorded higher rates of growth than ever before and invested heavily in the industrial and energy sectors. The development of capital and intermediate goods manufacturing was initiated by transnational capital and by large-scale private capital groups within Mexico, as well as by the State. The oil and energy sector was quickly developed, absorbing a large proportion of the public debt. In spite of all this successful growth, basic problems in the structure of the Mexican economy were not solved by the boom; on the contrary, they were exacerbated by it. Inflation increased, the balance of payments deficit grew, and the internal financial system had a serious liquidity problem. So the country's massive economic expansion was built on the false foundation of the ever-increasing foreign debt, until the servicing of the debt became too heavy a burden to carry.

This four-year process of economic growth based upon ever-larger foreign loans culminated in recession in

1982. This time the recession was deeper than the one in 1976-77, as was clearly shown by the rate of inflation, which went to over 100 per cent. During 1982 the Mexican currency was devalued by more than 250 per cent, and there was a massive flight of capital that contributed to the financial crisis, which was announced internationally in August 1982, when Mexico declared its inability to meet its foreign payments.

(iii) The third period in the development of the Mexican debt crisis started in 1982 and continues up to the present day. This period is distinguished from those which preceded it primarily by the neo-liberal economic policies adopted by the Mexican state and encouraged by the IMF, by the World Bank, and by a number of private American and European banks. These economic programmes transformed Mexico into a net exporter of capital, through the servicing of its debt. During this period, Mexico restructured its productive system, orientating it towards the production of manufactured goods for export, opening its doors to foreign investment, and practising more liberal economic policies in internal and external spheres. The economic stabilization policies adopted by the state in Mexico since 1982 have functioned within an increasingly difficult international context, characterised by reductions in the prices of raw

materials, the contraction of international trade, and stronger protectionist economic policies adopted by the First World.

II) The Development of the Crisis: The Four Steps in the Renegotiation Process of the Mexican Foreign Debt

As early as the 1950's, the IMF began to recommend economic stabilisation programmes to Third World countries. Particularly during the 50's and 60's, countries in Latin America received strong advice to adjust their economies with specific economic measures. Nevertheless, it was not until the 70's that these economic programmes included a package of foreign debt renegotiation, precisely when fears arose that these countries might not be able to pay the debt they had contracted with private banks. Before the 1970's the foreign debt of the Latin American countries was very small compared with the amount of their debt in the 1980's. At that time, fears of defaulting were actually regarded as very small. However, as Latin American debts grew, this changed, and the inability of governments to service the foreign debt became a general problem for Latin American countries and for some other Third World

countries, to the extent that from 1975 to 1983 there were 84 international debt renegotiation programmes.

Mexico was no exception and in its case there have been four periods of debt rescheduling: firstly, in 1977 when the first letter of intent was signed with the IMF; secondly, in 1982 after the August crisis, a rescue programme and an agreement with the IMF; thirdly, in 1984 when a long-term rescheduling agreement on debt servicing was negotiated with the transnational banks; and fourthly, in 1986 with a new rescue programme and a new agreement with the IMF.

a) The 1977 Agreement

In 1977 the Mexican government signed its first agreement with the IMF. Unlike other Latin American countries, the Mexican economy was not subject to any economic stabilisation programme during the whole post-war period. The signs of the crisis built up during the 70's, and at the end of Echeverría's government the rate of inflation rose sharply compared with the rate that was maintained during the "stable development period". The

budget and external deficits rose considerably, so at the end of this government period, senior state financial figures decided to ask for foreign loans for the first time. These loans allowed the Mexican economy to maintain its capital accumulation process. Although there was no shortage of available money, the servicing of the foreign debt started to represent a heavy burden. The total servicing of the external debt, which in 1970 had represented 12.9 per cent of total external remittances, in 1977 rose to 26.1 per cent.

In 1976-77 Mexico suffered its first cycle of recession since the crisis of the 30's. It was accompanied by monetary and financial problems. These problems were aggravated by political factors. Three in particular are important: the opposition generated among the propertied classes to the active and progressive foreign policy towards Third World countries practised by Echeverría's government; the emergence of rural and urban armed movements which, though never posing any serious threat to the stability of the government, provoked a repressive backlash which discredited the political regime; and the government's implementation of land reforms which expropriated the latifundia in the rich northern federal state of Sonora.

In 1977, as economic difficulties intensified, and as these provoked the first large flight of capital during the 1970s, the government devalued the peso by more than 100 per cent against the U.S. dollar. In this context and during the time when President Echeverría was leaving the government and López Portillo was just about to become the new president, an understanding, which was never made public in Mexico, was signed with the IMF. Up to the present day, very little is known about the economic advice given by the IMF to Mexico at that time. However, this agreement was soon abandoned as the oil boom began. What we do know is that the understanding established that López Portillo's government should not borrow more than U.S.\$3,000 million per year from abroad. As a result of this agreement, a wage policy was introduced to ensure that the rate of increase of salaries would be below the rate of increase in the price of commodities. With this policy came a deterioration in the real income of workers, peasants, professional groups, and marginalised sectors of society. Its signing also signalled the beginning of a neo-liberal economic policy, although during the golden years of the oil boom those signals were hidden from public view by the government's pursuit of a more expansionist economic policy.

The 1977 agreement with the IMF was not a debt renegotiation agreement, unlike the one later signed in 1982. It was just a conventional stabilisation programme consisting of reductions in public spending and attempts to increase imports. This stabilisation programme resulted from the extreme imbalance in the fiscal and external sectors of the economy. This large imbalance produced an exchange rate crisis which was solved by devaluing the Mexican currency. Since that time, Mexico has had no fixed exchange rate. Nevertheless, the external debt was serviced according to the original conditions, which meant in practice that the cost of debt-servicing became more onerous.

b) The 1982 Agreement

During the four years from 1978 to 1981, Mexico experienced one of its most rapid periods of economic growth, based on the discovery of rich oil fields in the south-east part of the country. The government pursued an expansionist economic policy, not least by allowing by the growth of public expenditure and the accumulation of massive external loans. The amount of

money borrowed during these four years was U.S.\$43,600 million, which constituted more than twice the amount that was borrowed in the previous eight years.

It was thought in governmental circles that with plentiful supplies of Mexican oil, increasing prices on the international oil market, and with the scale of credits available from the transnational banks, it would be possible to stimulate the industrialisation of the country. Senior figures of the Mexican government at the time also thought that the oil would bring enough foreign currency to meet the debt service payments and thus avoid problems in paying the external debt. Hence, Mexico was ready to exploit its vast reserves of oil by developing its oil industry.

A policy of accepting the revaluation of the exchange value of the Mexican peso was adopted during these four years by the government, so the national currency did not lose its value against strong international currencies in the floating exchange rate. This monetary policy allowed profit rates to rise as it also cheapened the imports of intermediate and capital goods needed to continue the expansion of the economy. This policy of allowing a high exchange rate for the peso

also stimulated the import of food (basic grains), and allowed the entry of luxury goods into the country.

At the same time, two underlying basic weaknesses in the Mexican economy intensified, since both were left untreated: namely, its underdeveloped level of agricultural productivity, and its heavy dependence on imported goods for the development of industry. It was thought within government circles that each of these was the result of the previous crisis, and that the oil boom would be able to solve them. Yet since inflation was high and the trade and fiscal deficits steadily increased, it was impossible to maintain steady growth. The entire economy started to depend on oil exports. Aiming to maintain steady growth, the government adopted two economic measures: it introduced a new tax system (IVA, Value Added Tax) which in practice had regressive features, and it adopted a policy of maintaining low prices for the services and goods produced by the state. These measures, in addition to the high revenue that the government received from oil exports, kept the economy growing artificially.

So there was a four-year period of economic growth based on oil exports at a time when the international market was paying high prices for oil.

However this period came to an abrupt end with the significant drop in the international price of oil in the middle of 1981. At the first signs of economic contraction and of the lack of confidence in the profitability of future domestic investment, the government reacted by asking for more foreign credits. This policy was initially supported by the IMF and the transnational banks: short-term credits were seen as the solution.

In 1982 in spite of tight economic policies and a restrictive wage policy, the government insisted on trying to maintain a high rate of growth. Nevertheless, confidence had been shaken at all levels. Capital began to be moved out of the country, facilitated by a free exchange market and an increasingly overvalued rate of exchange. Approximately U.S.\$17,321 million left the country between 1980 and 1982. This represented half of the capital flight from the country in the previous ten years, and it continued with the massive devaluation of the peso in February 1982.

As part of the strong role that the president plays in Mexico (the phenomenon of presidentialism which was mentioned in chapter one), it has been common practice for each president to formulate his own economic policies

until the very last day of his period of office. Mexican presidents act in the way they wish to be remembered by history. Accordingly, in facing the debt crisis and the lack of confidence in keeping the national currency inside the country, in August 1982 the Mexican President exercised his presidential power. As a result, on August 20th 1982, the Mexican government - left without monetary reserves, and unable to control the flight of capital - declared its incapacity to meet its debt service payments, and on 1st September nationalised the private banks.

As was described in the previous chapter, to avoid what could have been an international financial crisis, the IMF came to the rescue. The process of renegotiation with the IMF lasted a year, culminating in the signing of a new agreement on 20th August 1983. This agreement involved the restructuring of the sovereign debt that should have been paid between 23rd August 1982 and 31st December 1984, and the renegotiation of U.S.\$20,000 million (approximately a quarter) of the accumulated debt at the time the crisis was announced. The agreement also provided a credit of U.S.\$5,000 million from the transnational banks, a contingent credit for U.S.\$3,800 million with the IMF for three years, and new credits from the multilateral banks (the World Bank and the

Inter-American Development Bank) of U.S.\$2,000 million. The conditions of the agreement were very strict for Mexico in terms of length, interest rates, and commissions.

The 1982 agreement also renegotiated the large private external debt, which was in fact one of the biggest in Latin America. In 1981 and including the debt of the private banks which were later nationalised, it reached U.S.\$20,000 million. This debt represented approximately a third of Mexico's total external debt, a high proportion of which was repayable in the short term. The interest rates payable on this private debt were higher than those on the loans to the public sector. It is worth noting that the external private debt had been contracted mainly by the big national groups mainly based in the northern city of Monterrey, (such as Alfa, Vitro, Visa, and Desc.) and by the subsidiaries of transnational enterprises. It is also worth noting that this debt was owed to the most important North American banks.

Although the Mexican state did not absorb the whole of the private debt, it created the appropriate conditions to support the enterprises which were having difficulties in paying. For example, the state created a financial instrument called "Ficorca", through which the

enterprises registered their debt in foreign currency but deposited the money in Mexican currency in the central bank. Under this arrangement the central bank became responsible for providing the enterprises with sufficient foreign currency to repay the enterprises' loans to the foreign creditor at the appropriate time. The impact of the continuing devaluation due to the floating exchange rate was thus eliminated for the enterprises, as the central bank sold the foreign currency to the enterprises at the controlled exchange rate in effect when the enterprises made the deposits in the central bank. These deposits could be made in cash as well as through credits; so this "Ficorca" financial instrument could also give credit in Mexican currency to the enterprises for the amount of money that corresponded to their foreign debt. When this financial mechanism started working, 94 per cent of the debts registered used this credit service. At the same time, the large private enterprises with a better financial position, renegotiated their debts directly with their international creditors. This meant, in the more severe cases, the capitalisation of part of the enterprises' debts, so that the foreign creditors became owners of part of the enterprises' shares. This was the case of the enterprise called Alfa.

The 1982 agreement with the IMF obliged the Mexican government to follow neo-liberal economic policies. This was clearly expressed in the 1982-1988 government programme created by the newly-elected President De la Madrid, called the National Development Plan (Plan Nacional de Desarrollo), and in another economic instrument called the Immediate Programme of Economic Re-ordering (PIRE, Programa Inmediato de Reordenación Económica). The main techniques of the new economic policies were: the reduction of public expenditure, and the introduction of adjustments to prices and tariffs in the public sector; an increase in taxes on goods for consumption; tighter wage controls; free prices in the internal market; positive rates of interest; and a flexible rate of exchange to stimulate exports and discourage imports. The main purpose of these economic adjustment plans was to end inflation, reduce the external and fiscal imbalance, and re-establish the economy's capacity for growth.

The economic policies adopted by Mexico after signing the 1982 agreement with the IMF slowly altered the country's production structure. As time passed, these changes restructured the Mexican economy, orientating it towards the export of primary and manufactured goods, while reducing its trade barriers and opening it to

foreign capital investments. This restructuring was in line with suggestions made by the World Bank, and approved by the seven major developed capitalist countries at the Tokyo summit in 1986.

At the time the 1982 agreement was signed, the Mexican government, as well as its international creditors, were convinced of the advantages of the arrangement, and of the capacity it would have to re-establish a healthy economy in Mexico. It was thought that this programme would be a very rapid and radical way to move out of the crisis and would immediately be successful. The general comment from members of the international financial community was that the restructuring of the foreign debt, and the authorisation of more credits according to the conditions and programmes agreed with the IMF, were the most prudent and effective way for debtor countries to regain a good image among the international creditors, thus protecting the interests of both parties. In 1982, the general opinion in international financial circles was that the Mexican government's new economic programme would work well.

In similar terms it was thought in senior circles of the Mexican state that Mexico was facing a serious but transitory problem, and that the economy's

recovery would take two years at the most. In fact, in the Immediate Programme of Economic Re-ordering (PIRE) steps were established to move out of the crisis, and its text actually stated that the recovery would take two years. The truth was that the 1982 agreement was just the beginning of a series of other needed credits and agreements. Instead of being a recipe for solving Mexico's underlying debt crisis, the agreement simply acted as the alarm which told the international financial community (and particularly the IMF) that Mexico's foreign debt might be unpayable. All that the Mexican economy could do was to continue making the service payments on its debt, which was very important in maintaining the value of the loaned capital, and important to the international banks because the money would continue bringing very high profits on account of the high interest rates and commissions which were charged. It was estimated that by 1985 Mexico should have repaid U.S.\$9,758 million of the capital and about U.S.\$10,000 million in interest, but - as became clear in the exchanges between the Mexican government and the IMF Director General - the IMF knew that this would be impossible for the country, even allowing for a good balance of payments and steady economic growth. Hence, for Mexico, the 1982 agreement only represented a

temporary solution with little benefit for the bulk of its population.

c) The 1984 Rescheduling Process

Although the Mexican economy experienced a small recovery, it was certainly not enough to pay the foreign debt under the conditions established in the 1982 agreement. A new rescheduling process became the alternative for the government at the time. In 1984 the Mexican government therefore rescheduled the servicing of its foreign debt, in direct negotiations with the IMF and the transnational banks involved.

In 1984 the national economy began a slow and limited process of recovery which was shown by a 3.7 per cent increase in the gross national product. This was due to a limited increase in private and also public investment. The implementation of the IMF stabilisation package which began in 1982 had very severe consequences on wages, living standards and the industrial structure. Because of the deep recession in 1982-83, and the associated reduction in living standards for the majority

of the Mexican population, it was possible to reduce the public deficit. This reduction was 18 per cent in 1982 and 8.5 per cent in 1983, while at the same time there was an accumulated trade surplus of U.S.\$33.057 million between 1982 and 1984. This turn around in the balance of payments was the result of the economic recession which reduced the 1981 level of imports by two thirds. This surplus was vital to ensure at least the servicing of the foreign debt. The rate of inflation fell back to only 60 per cent in 1984, a reduction of 40 per cent on the 1982 rate of more than 100 per cent. Nevertheless this inflation rate was far from the 35 per cent required by the IMF, and this caused serious tensions in the internal financial system and in the rate of exchange.

Even in the context of a small economic recovery and a substantial trade surplus, it was difficult to pay the external foreign debt under the conditions established by the IMF in 1982. The first 1982-83 agreements had established short-term repayment dates, but these proved impossible to meet given the accumulation of debt from earlier years. The need for long-term restructuring became clear.

The effects of the foreign debt on the internal capital accumulation process became more and more

negative. The costs of the adjustment programmes were very high in political, economic and social terms. As a result, the possibility of cancelling the foreign debt became the preoccupation of some political, union and academic organizations, not only in Mexico but elsewhere in Latin America. The governments of the Latin American countries that were most affected by the same debt crisis started to discuss jointly the economic situation of the region. In 1984 there were two regional meetings on the foreign debt. The first, held in Quito, Ecuador in January, 1984, was attended by the presidents and representatives of all Latin American countries. They produced the Quito Declaration. The second meeting in July 1984 in Cartagena, Colombia brought together the twelve most indebted countries of the region. This second meeting generated the so-called Cartagena Consensus.

The final statements from both meetings agree in their diagnosis of the problem as well as in their strategy for dealing with it. Leaving aside the existence of specific problems in each country, it is clear that all the countries wanted a common response to the economic crisis that was affecting them. The representatives of each government argued that the internal debt crisis in each of their countries was a result of external factors, and in particular a result of

the economic policy followed by the United States in recent years. All the countries rejected as a solution the adjustment and recession policies suggested by the IMF, and proposed instead to renew economic growth.

The Quito Declaration said that economic adjustments which produced prolonged recession in production, affected the level of employment, and impoverished the living standards of the majority of the population, were not compatible with the objectives that each individual government wanted for its economy. Therefore it was necessary for the international community to create a common front which would allow the countries of the region to re-establish rapidly the conditions for internal economic growth and development. In both declarations, Quito and Cartagena, the governments of the Latin America countries argued that there was an intimate relationship between the external debts they owed and the trade of the goods they exported. Therefore they argued that there would be no solution to the foreign debt problem unless the conditions of international trade improved for the products sold by the countries of the region, and unless protectionist barriers were eliminated. They argued that since the debt was a political problem of an international magnitude, so

it was the responsibility of both parties, debtor countries and creditors, to solve the problem.

In both meetings, Quito and Cartagena, a set of concrete measures was put forward for the renegotiation of the debt under different conditions from those proposed by the IMF, measures which were more favourable to the Latin American countries. Among these measures it is important to highlight: the limitation of debt service payments to a reasonable proportion of export earnings; a substantial reduction in interest, commissions and spread; a long-term and more flexible agreement for repaying the debt; the renewal and maintenance of a constant flow of credit towards the region, and the linkage of debt renegotiation to foreign trade problems. In spite of their limitations, the declarations at Quito and Cartagena represented a significant step forward in the effort to try to find a different and fairer alternative for the renegotiation of the debt of the Latin America countries to the policies proposed by the IMF. At the same time, it served to make some members of the IMF and the American government more aware of the need to find solutions which allowed the continuing economic growth of Latin America.

It was in this international context that in 1984 Mexico started new negotiations with the IMF and the international commercial banks, aiming to reschedule the debt over a longer period. The 1982 agreement represented an emergency programme that could help only the more immediate problem of short term liquidity. Yet by making new arrangements in 1984 the Mexican government broke ranks with other Latin American countries, choosing instead once more to accept bilateral agreements with the IMF and the transnational banks, - agreements which represented a retreat from the regional Cartagena spirit. In this way, the Mexican government accepted conditions which were very convenient for the transnational banks, even if they were better conditions for Mexico than those agreed in 1982. It was better for the transnational banks to reschedule Mexico's foreign debt than to find themselves in a position where unilateral and more radical measures could be taken by the Latin American countries as a block and Mexico obtained better terms and prospects than by fighting on behalf of others in an uncertain campaign.

The 1984 agreement did reschedule the public debt over a longer period. It included a reduction of the spread and the elimination of the commissions in the case of the capital renegotiated. There were also other

changes of minor importance such as the substitution of the Prime Rate by Libor, and the possibility of changing some credits that had originally been fixed in U.S. dollars to some other foreign currencies. Nevertheless, there were no major changes in the agreement in the direction of the Cartagena proposals. In particular, there was no reduction in the rate of interest, or in the limitation of debt service payments to a proportion of exports.

The 1984 agreement covered U.S.\$48,500 million, which represented the whole of the public debt contracted with the commercial banks, and also included a rescheduling of the amount of money that was renegotiated in 1982, but did not include the debt that was contracted with multilateral organizations. With this agreement it was also possible to secure a new U.S.\$3,800 million loan from the international banks.

d) The 1986 Agreement

It was the agreement of 1986 more than any other which became the focus of the political debate with which

the bulk of this thesis is concerned, so for that reason we need to preview it here in greater detail than we have the preceding three agreements. As was pointed out earlier, in 1984 the Mexican economy began a process of recovery, after more than two years (1982-1983) of recession. In 1984 the economy started to grow again, though at a much slower rate than in previous years. In 1984 the gross national product rose by 3.7 per cent. The inflationary process slowed down considerably, the state's deficit diminished, and the balance of payments continued to register a steady surplus (as it had since 1982). In Mexico senior figures in the economic administration of the state, and representatives of the chambers of commerce and industry, thought that 1985 would continue with the same positive pattern of growth and recovery. They believed at the time that the economic policies and strategy being implemented by the government were correct, and that the foreign debt crisis was on its way to being solved. In government circles in the highly industrialised countries, it was also thought that the recovery initiated in the United States and Japan in 1983, and extended to Western Europe in 1984, would create suitable conditions for the expansion of Third World exports, and that the countries of the Third World would then be able to service their foreign debts through an improvement in their balance of payments.

Hence the official recommendations from the international financial community to Mexico were to keep reducing the imports of inessential products, and at a suitable time to take the political risk of cutting some social and development programmes. The international financial agencies argued that the Mexican state should adopt austerity measures to reduce the public deficit, subsidies, and inflation. Throughout 1984 and the first six months of 1985, senior figures in the Mexican financial ministry continued to be very optimistic, considering that the evolution of the Mexican economy since the adjustment programme had been adopted had been very satisfactory. These senior State figures declared publicly that the balance of payments had improved substantially, public finances had been strengthened, the rate of inflation had been significantly reduced, and the country's economic activity had gradually recovered. It was officially accepted that there were unsolved problems and targets which had not been reached, but it was thought that these problems would be solved by strengthening public finances and adjusting monetary policy.

However, in the event, this "recovery" in the Mexican economy did not turn out to be permanent. Serious problems started to be seen again as early as the

beginning of 1985. Although in 1985 there was a 2.7 per cent increase in the gross national product, other economic indicators told of a deterioration in the economic situation from the second quarter of 1985. As had happened in 1976 and 1982, in 1985 problems started to appear in the monetary, financial and commercial spheres, and were transferred later to the area of production. Among the more obvious symptoms present in 1985 were: a sharp increase in the rate of inflation; a steady increase in interest rates in the last three-quarters of 1985; low receipts in the banks; a deterioration in the balance of payments; an increase in the transfer of money out of the country, and a progressive deterioration in the rate of exchange in relation to the U.S. dollar. In 1985 the government tried to explain these problems away as a consequence of other external factors which were beyond the control of the Mexican state, such as the decrease in the international oil price, and the September 1985 earthquake. However, these were just two other factors which intensified the crisis in 1985, and made worse a deteriorating economic situation which had internal Mexican roots as the stabilisation programme faltered.

The behaviour of the foreign rates of exchange is a useful indicator of the Mexican economic situation

(the rate of exchange included two different rates: a preferential one, used by government and industry, and a free one, which was used for all other purposes). Already in December 1984, the controlled rate of exchange could not be held, and in March 1985 a regular flotation was imposed. The annual rate of devaluation moved from 38 per cent in 1984, to 116 per cent in 1985, well above the rate of inflation. Another reliable indicator of the behaviour of the economy is the interest rate, which began to rise sharply well before the fall in the international price of oil.

The aggravation caused by these financial problems was soon reflected in production. During the second six months of 1985, economic growth was maintained. However, the rate of economic growth was significantly less than the levels reached during the first six months of the same year. The crisis deepened and the economic adjustment policy began to show its incapacity to solve the problems which it was supposed to solve before the earthquake and the drop of the international price of oil. These last two problems certainly complicated and aggravated the crisis, but they were not its cause.

During 1985 Mexico did not receive foreign credits apart from the few that were lent by the multinational financial organisations. As the debt crisis worsened at the end of 1985, even some senior figures in the Mexican government began to argue for an alternative way of paying the foreign debt, by changing the system of foreign debt payments. Meanwhile, in the IMF meeting held in Seoul, South Korea, in October 1985, the US Treasury Secretary, James Baker, through the so-called Baker Plan, also proposed a new strategy of payments, to ensure that the 15 biggest debtor countries (including Mexico) would be able to meet their foreign payments. The Mexican government thought that the Baker proposal was insufficient for the economic development of these countries. In January 1986 the Mexican Financial Minister, Jesús Silva Herzog, openly criticised the Baker Plan, arguing that the U.S.\$40,000 million allocated to finance the 15 biggest debtor countries would not be enough to stimulate the economic growth of these countries, or to pay the heavy servicing of their foreign debts. The Baker Plan would certainly help to achieve the second objective, but not the first, and without economic growth the debt crisis would never be overcome.

Several times during the first six months of 1986, some other senior members of the Mexican government

made similar declarations to the one made in January by Silva Herzog. In February 1986, President De la Madrid himself declared that Mexico should adjust its foreign debt service payments to the country's ability to pay. In national and international newspapers a moratorium was frequently mentioned as a possibility. The option of defaulting on the debt was supported by the main national workers' union (the CTM, Confederation of Mexican Workers), and even by some private industrialists.

By June 1986 it was evident that Mexico would not meet even the interest payments due on its debt, and that the policy for dealing with the foreign debt was a cause of conflict and disagreement among senior members of the Mexican government. It was also evident that the economic recovery in the highly industrialised countries would not resolve the debt crisis in the bigger debtor countries; at least this was seen as true in Mexico's case, where the drop in the international price of oil was making it less possible to pay the country's foreign debt. Senior figures in the US government (Treasury and Federal Reserve) as well as senior members of the IMF were alarmed at the possibility of Mexico declaring a moratorium. But in the event, as we will see in detail in later chapters, the Mexican government did not default. Instead, it made a deal with the international financial

community within the term of the Baker plan. It signed an agreement which maintained the financial solvency of the international banks and reduced Mexico's burden regardless of the economic growth of the debtor countries. For the third time, the Mexican government was prepared to accept the conditions of the international financial community in bilateral negotiations, instead of accepting the risk of acting in concert with the rest of the Latin American debtor countries.

The debt negotiations with the IMF in 1986 were about the government's financial deficit. In line with the new spirit of the negotiations and aiming for the minimal growth which could increase the diminished level of international trade, the IMF agreed to use the "operational deficit" concept, which deflates debt service in the State's budget. It also included a "relative contingency clause", through which the international community committed itself to lending more money to Mexico if the international price of oil fell below U.S.\$9 per barrel, and to reduce this latest loan if the price exceeded U.S.\$14 per barrel. Both measures were recognized as particularly helpful by senior members of the Mexican government concerned with financial administration.

Once the IMF agreement was signed, negotiations with the commercial banks started. These went on until the end of September 1986. It was reported that there were basic disagreements between the Mexican government and its creditors. There were even rumours that the negotiations could fail. The Mexican delegation proposed a payments scheme on the servicing of private debts which involved a substantial cut in the rate of interest, as had been agreed at the Cartagena meeting. Nevertheless, the negotiations finished with positive results for the international commercial banks. The Mexican government received new credits from the commercial banks but under orthodox economic policies, and withdrew its original proposal to cut interest rates.

The completion of the agreement was regarded as important by the U.S. government. During the 1986 annual IMF meeting in Washington, President Reagan himself urged the commercial banks to give new credits to Mexico, in order to support Mexico's new economic programme. The official position of the American government was that the Mexican government had made great efforts to recover economic growth, and that the only way to repay its foreign debt was through the adoption of new economic development programmes of a conventionally liberal kind. There were very special reasons why President Reagan

urged the commercial banks to give Mexico new credits. Apart from the fact that it was vital for the creditor banks to ensure the repayment of their previous loans, Mexico shares a 3,000 km. border with the U.S., it is also the main supplier of oil to the U.S., and was its third most important commercial client. For the government of the U.S.A., the political stability of Mexico was of paramount importance, and might be compromised by economic chaos.

Therefore, on 30th September 1986 an agreement with the international commercial banks was signed. It included the rescheduling of U.S.\$52,200 million of the public debt previously contracted with these banks, a new credit for U.S.\$6,000 million which was to be disbursed between 1986 and 1987, and U.S.\$2,000 million as a contingency credit in case the oil market conditions worsened. Regarding the U.S.\$43,700 million contracted before 1983, the term for payment was extended by 20 years with a 7-year period of grace, and for the debt contracted after 1983 and the new credits, the term for payment was to be 12 years with a 5-year period of grace. The spread on all of them was fixed 13/16 per cent over the Libor rate, which was less than the rate agreed in 1983, and no commissions would be charged. This meant an annual saving of U.S.\$200 million. The private debt

registered in "Ficorca" was also rescheduled. Apart from all this, the IMF agreement also involved a contingency credit from this organisation for U.S.\$1,600 million, and credits for U.S.\$6,000 million from multilateral organisations and the governments of the U.S.A. and Japan.

A new element in the 1986 agreement was that the World Bank was to play a more active role, as it was to verify that the new credits went straight towards "structural change", which meant the promotion of manufactured goods for export, thus reinforcing the free market economy. At the same time, the World Bank was to act as a guarantor of the new credits given by the transnational banks.

With the 1986 agreement, Mexico followed the lines laid down by the Baker Plan. Financiers such as William R. Rhodes, Vice-President of Citicorp. and director of the committee of advisers to the creditor banks, referred to the Mexican package as the first successful example of the "steadily growing" programme presented by James Baker, as this package linked the new loans to projects which reinforced the free market economy.

In 1987 the accumulated Mexican debt reached more than U.S.\$112,000 million, a figure that exceeded the U.S.\$106,000 million target suggested in the 1982-83 agreement. What was worse, there were not enough resources to re-establish the rates of economic growth or the levels of investment reached in earlier years. The concessions obtained in the extension of terms for repayment in the 1986 agreement were not really significant, as the commercial banks were by then convinced that they would never recover their capital. They were no longer mainly concerned about the maturity dates of the loans they had made. What concerned them was ensuring that the debt service payments would continue. The interest rates agreed in 1986 were far from those suggested by the Cartagena agreement; and the 1986 agreement still retained the repayment system which had proved a failure in 1982 and 1984. Once again, the resolution of the problems of Mexican indebtedness was postponed, in favour of an agreement which satisfied the short term interests of Mexico's international creditors; in other words, the agreement reassured the creditors that there would be no default on the Mexican debt, and enabled Mexico to continue to receive commercial credit and additional loans.

The adjustment policy put into effect by the 1986 agreement left the economy seriously weakened and the already alarmingly low standard of living of the majority of Mexican population further jeopardised, as shown, for example, by the decrease in purchasing power of the minimum wage. This policy also failed to get the country out of the crisis or to overcome the basic structural weaknesses of the Mexican economy. The letter of intent given to the IMF in 1986 was full of neo-liberal economic policies, such as flexible exchange rates, and positive interest rates. At the same time, the fact that the few credits which were destined for production (as was the case with the World Bank's loans) had to be orientated towards the so-called "structural change" (the Baker Plan proposal), meant a restructuring of the domestic productive system towards the production of goods orientated to the international market and not the national one. This can be illustrated by the growth of in-bond plants in the northern cities of the country. This process led the Mexican economy towards a still more vulnerable and dependent position in the international economy, a dependence which had lain at the root of Mexico's economic weakness from the very beginning of the debt crisis in the view of the "nationalist" opposition. However, from the perspective of the "internationalist" presidency, the Mexican economy needed precisely such an

opening and restructuring. The internationalist view was to ease the pain of this process and the agreements of 1984 and 1986 (on debt contracted before 1982) were measures to achieve this objective, by deftly playing on the strengths of Mexico and the US and international interest in coming to agreements.

CHAPTER FOUR
Reactions of the Political Centre

This chapter is a narrative account of the main arguments used by the Mexican government to justify its refusal to default on the country's external debt, and of the ways it found to reopen the debt negotiations. Thus, a selection has been made of the political speeches of President Miguel de la Madrid Hurtado and of those made by the Ministers of Finance, Jesús Silva Herzog Flores and Gustavo Petricioli, as representative voices of the government's official position during the six-year period of government of the President (December 1982-November 1988).

It will be argued that although the position of the Mexican government towards the external debt payments changed during this six-year period, it always recognised the country's external financial obligations and tried to avoid confrontation with internal creditors. The official message was very clear and coherent throughout these six years: Mexico would pay; Mexico would not default; Mexico would not take unilateral decisions; Mexico wanted to avoid counterproductive confrontations; Mexico wanted to negotiate with the international financial community. The official political speeches constantly reiterated these messages. The variation in the message lay in the precise

reasons why renegotiation was desirable, and why previous courses of action did not have the success hoped for them.

Thus, although there certainly must have been a great deal of internal debate among the members of the economic cabinet, the official speeches always presented a single coherent voice which accepted Mexico's external commitments and its intention to negotiate new terms and conditions of payment.

When on 1st December, 1982, de la Madrid took power, he announced his economic programme, which was called the Immediate Programme of Economic Reconstruction (PIRE). The first point of this programme called for an austere economic budget to allow the government to meet the payments to its international creditors. The sixth point of PIRE particularly expressed the intention to raise public income to avoid a high government deficit and to avoid increases in the already huge external debt. So on 11th December 1982 the Minister of Finances, Jesús Silva Herzog Flores, had to justify to the Chamber of Deputies of the Congress (el Congreso de la Unión) an initiative for a 1983 tax reform law (leyes de Ingresos de la Federación y del Departamento del Distrito Federal para 1983). In his speech to the Congress, Silva Herzog

announced that President de la Madrid's government wanted to restructure the external debt payments over a longer period of time.

Silva Herzog stated that due to the impossibility of meeting the payments of the foreign debt on 20th August 1982, Mexico had to ask its international creditors for an extension, at the same time that the first restructuring of the debt was prepared in coordination with the IMF. In fact, this restructuring programme was consolidated a year and a half later, involving US\$48,700 million.

At that time Silva Herzog made explicit the strategy of Miguel de la Madrid's government towards foreign debt; that is to say, renegotiation and no confrontation. It was the intention of the new Mexican government to pay, and so it was expressed when on 11th December 1982 the Minister of Finance declared to the Chamber of Deputies of the Congress that: "If the payment extension had not been negotiated with the international financial community, Mexico would have had to revert to the less desired option, that is, temporarily to stop its international payments"(1).

On 15th December 1982, just four days after this declaration, the IMF said that there was a positive intention to negotiate with Mexico, and meanwhile the debt was restructured. The IMF gave to Mexico a credit for US\$3,900 million.

It was a matter of not losing face with the international community, and that is how the new Mexican government understood it. The strategy of negotiation and payment was applied from the first year of government in 1983. An evaluation of this strategy was made and expressed during his first State of the Nation Speech on 1st September 1983 by President Miguel de la Madrid. He said there: "The arrangements of the external debt were indispensable to re-establish commerce, tourism, and technology, and generally speaking economic links abroad. Our prestige abroad had seriously deteriorated. After a complex negotiation with the international financial community, it was possible to restructure the public sector external debt and there have also been improvements in the debt of the private sector"(2).

In his second appearance in the Chamber of Deputies at the Congress on 22nd November 1983, Silva Herzog said that "Mexico had recovered its international prestige and with this it has strengthened its capacity

to negotiate in the international markets of capital"(3). At that time the external public debt accounted for US\$60,009 million, and the restructuring undertaken was only of short-term loans which had fallen due, which would allow the postponement of the payment of US\$8,000 million in 1983.

During this second appearance in the Chamber of Deputies, Silva Herzog rejected a moratorium. He said: "A lot has been said about our country forming part of a group of other countries to seek not only a moratorium, but also a collective programme of debt renegotiation... I want to stress here that our point of view is that the moratorium would not be a satisfactory solution" (4).

The government's position of not seeking a moratorium, as expressed by Silva Herzog in November 1983, was ratified by President Miguel de la Madrid during his second State of the Nation Speech, on 1st September 1984. He then said: "I reiterate Mexico's decision to meet our international commitments. An irresponsible attitude towards our international creditors will bring severe damage to the country, as it will affect our economic relationships abroad and Mexico's prestige for many years. We will not accept adventures that will destabilise the international

economy, which will damage the poor countries more than the rich ones. On the other hand, we are negotiating seriously and firmly, with reason and reality as our weapons, to change the present conditions of the international financial system and of world trade, aiming to overcome the deep crisis that is affecting us, so we will be able to develop again and re-build our capacity to pay and to import necessary goods" (5).

Meanwhile, as will be seen in later chapters, the opposition political parties, trade unions and leaders of public opinion were declaring that Mexico should have taken a more aggressive position towards the payment of the external debt.

The government's strategy of paying and renegotiating the debt continued throughout 1984. Mexico was regarded by the international financial community as a serious country which was making a significant effort to pay its external debt. The President and the Finance Minister continued with the same line. In fact, on 20th September 1984, Silva Herzog was invited as a guest speaker to the American Bankers' Association's meeting in Washington. There he said: "Mexico will meet all its payment commitments" (6). Nevertheless, a new idea started to appear in the public statements of the Mexican

government, which was to seek the further cooperation of the international creditors. At this same meeting in Washington, Silva Herzog said that "Mexico will pay, but more time is needed for the country to be able to meet its payments" (7).

It was Silva Herzog himself who began to publicise the notion that the debt repayments required the creditors' cooperation, in particular a long-term rescheduling. On 18th October 1984 he appeared before the Chamber of Senators and, referring to the country's external debt, he said: "It is everybody's problem, so the solution must involve everybody, with shared responsibility. As far as the Mexican government is concerned, the reality is that we all have a degree of obligation in this problem"(8). Nevertheless, even with this new notion, the idea of paying the debt and thus avoiding confrontation remained a very strong element in the Mexican government's official discourse. During his same speech to the senators, Silva Herzog said: "It is clear that initiatives such as a debtor nations' club, which in practice means a regional moratorium or a search for a joint renegotiation of the Latin American external debt, are impracticable and self-defeating"(9).

Silva Herzog made this declaration in the Chamber of Senators at the same time as the second (10) debt restructuring was being negotiated with the international financial community. The Minister of Finance stated at every available opportunity that Mexico was the first country to achieve a satisfactory renegotiation of its external debt, and that it was thus able to convince the creditors that it was necessary to help the rest of the debtor countries. Later in the same month of October 1984, Silva Herzog went for the third time to the Chamber of Deputies to explain the 1985 income law initiatives (leyes de ingresos de la Federación y del Departamento del Distrito Federal para 1985). There he said that this second restructuring of the debt should end by 1985, and although this restructuring process would not solve all the troubles, it would certainly bring necessary relief. He also rejected out of hand the accusations made by opposition deputies that President de la Madrid's economic policies were designed in the headquarters of the IMF in Washington.

It was during Silva Herzog's third appearance before the Deputies that the debt issue began to acquire political significance. During his fourth appearance before the Deputies, on 21st November 1984, he said: "What was obtained with the debt restructuring was just

an alleviation of the problem, a breathing space. The problem is not solved. To be able to solve it, it is necessary to eliminate the external debt, and the only way to do this is for the country to receive more foreign currency income to be able to pay the debt. The problem of the external debt now has political overtones" (11). In spite of this remark, the original idea of paying the debt, not defaulting and not forming a club of debtor nations, was still present in Silva Herzog's speech. He said: "What the government has said is that a global renegotiation is not to be recommended. Thus the negotiation should be bilateral, each country with its creditors, each debt negotiated individually, with no debtor nations' club, no moratorium, no non-payment, no creation of a common front" (12).

The Minister of Finance's constant anti-moratorium declarations and his remarks about sharing the responsibility of debt payments between creditors and debtors, had the effect desired by the Mexican financial authorities. In 1985 Mexico renegotiated with its international creditors the largest-ever external debt restructuring in the world's financial history. On 29th March 1985 the sum of US\$28,600 million, due to mature in the short term, was renegotiated, and a period of grace of 15 years was obtained. Five months later, on 29th

August 1985, a second contract was signed for US\$20,100 million due to mature between 1985 and 1990, with another extension of 15 years. On 29th August 1985, when Silva Herzog signed the second contract in New York, he said to the international creditors: "We hope and believe that we can continue to find solutions like this, adjusting differences and bringing common efforts into line, as we have done in the past"(13). Nevertheless the main idea of non-confrontation was also present in his speech. Once again he stressed that the most productive way to solve the debt problem was to avoid confrontation.

Three days later, on 1st September 1985, during his third State of the Nation speech, President Miguel de la Madrid referred to this 15-year debt renegotiation of US\$48,700 million saying: "I do not believe that the solution to these problems is confrontation or to ignore agreed obligations. We will insist on dialogue and negotiation, and the search for new forms that will satisfy equitatively and pragmatically the real interests of the international economic system, making it clear that to be able to pay, it is necessary to grow. We will not climb down in this effort"(14). It was in this third State of the Nation speech that President Miguel de la Madrid dedicated a long section to the external debt problem. (During his first two State of the Nation

speeches he had just mentioned the problem briefly. Later, during his fourth, fifth and sixth speeches he again dedicated a whole section to the debt issue, and its importance became steadily graver.

Considering the international pressures which were bearing upon the Mexican State, it is understandable that up to September 1985 the government tried very hard to negotiate a solution, asking the international creditors for better financial facilities. However, after the natural disaster of the September earthquakes, there was a moment of international solidarity that could have been an opportunity to change positions in the international debt negotiating system. After the earthquakes of the 19th and 20th September 1985, the international community was prepared to accept a more radical view from the Mexican financial authorities. The natural disaster was huge and could even have justified a partial moratorium. Nevertheless, the Mexican government did not take this opportunity. The President himself and some members of his cabinet clearly felt that the country should pay. It was perhaps for them a moral matter rather than a negotiating strategy.

What will be referred to here as the "missed opportunity of September 1985", could have shifted the

balance between debtor and creditor nations. Several Latin American countries were expecting Mexico to take such an initiative. The natural disaster put Mexico in a potential position to change the rules of the game. The Mexican authorities did not take this step, in spite of the support particularly given by Spanish President Felipe González and some Latin American leaders to President de la Madrid. Instead, Mexico used the earthquakes as an argument to start negotiations for a new loan with new terms, but without implying that a moratorium was the natural consequence of a failure to find acceptable new terms.

During the six months after the earthquakes, Mexico did not pay interest due amounting to US\$950 million. The international creditors did not even argue about this , due to the gravity of the state of emergency declared by the Mexican government. The earthquakes caused a general public outcry about resolving the problem of the external debt. This protest included the governmental unions and even the Federal State governors, who on 30th September 1985 said to President de la Madrid that it was necessary to handle the debt issue with special attention. On that day in September, the President replied: "Mexico will act to negotiate and reach agreement, not to confront and create conflicts"(15). Then he mentioned to the state

governors that Mexico was seeking a new format for the management of the external debt. The President emphasised Mexico's prestige as a good payer, and he said that this prestige had been the reason for the international support received during the emergency caused by the earthquakes. Furthermore, the IMF lent Mexico US\$300 million for reconstruction after the earthquakes.

A month after the 1985 earthquakes, when Mexico demonstrated a need for new loans in order to achieve new economic growth and thus pay its debt -as had been established by the Baker Plan- Mexico started to negotiate a new loan for US\$7,150 million, which was not authorized until 1987. To negotiate this loan, the Mexican financial authorities sent a telex to the IMF, agreeing on a new internal economic adjustment programme. The telex also asked for the creditors' understanding, and support and help from the rich countries. The financial authorities convinced the international financial community and the negotiating procedure started. It was then said that this new loan was to pay the debt. Once again, with this application for a new loan, there were a number of official declarations against a moratorium. The Finance Minister made such a declaration before the Workers Congress (el Congreso del

Trabajo) on 23rd October, three days after the application for the new loan. He added that a moratorium was not an appropriate course of action, as it would bring hyperinflation to the Mexican economy, as well as reactions such as the seizure of Mexican aeroplanes and oil tankers abroad.

However, 1985 saw potential moratoria in many other countries. In August 1985 in Cuba there was a meeting about the Latin American and Caribbean external debt. 1,200 delegates from different countries attended the meeting. People from Mexico attended, but none of them were official delegates. The meeting agreed to cancel the debt payments, as a result of Fidel Castro's arguments about the impossibility of paying the debt, although few in practice did so. Another element to add to the Latin America context, is the inauguration of Alán García as President of Peru on 29th July 1985. On the day when he took power, he declared that his country would only pay 10 percent of the value of his country's exports towards the debt. There were continent-wide movements in favour of a moratorium and the cancellation of the debt. These movements had an impact in Mexico; nevertheless, the government's position remained the same: it would pay. It should be borne in mind here that by then the

official position was that Mexico needed new credit to be able to grow; it therefore had to pay its external debt.

On 22nd November 1985 during his fourth appearance in the Chamber of Deputies, Silva Herzog said once again that the moratorium was not an appropriate measure to take. He added that: "A country like ours will not be able to stand drastic interruptions in its financial, commercial, and political relationships abroad because of a unilateral decision to stop its external payments. Confrontation and isolation are not the best way to protect the wealth of the majority of the population. To cancel the debt would bring severe repercussions upon the economy's capacity to grow" (16). On this occasion Silva Herzog spoke of the Baker Plan, saying that it was necessary to have more new credits to be able to grow and pay. The tone of his speech then became more dramatic: "Someone has to surrender, and the debtor countries are paying a very high price for a problem, the responsibility for which should be shared with the creditor nations. To pay the debt cannot be and has never been above people's fundamental needs" (17). With this last sentence the Finance Minister gave a stronger connotation to the political debate. This sentence was regularly quoted by the media and gave rise to many comments among different political organizations. This

was the last time Silva Herzog appeared before the Chamber of Deputies as Minister of Finance, as he resigned on 17th June 1986.

Suddenly, and to the great surprise of the international financial community, Mexican public statements concerning the debt changed. The international price of oil dropped; thus the Mexican government had to follow a different strategy to be able to meet its external obligations. Indeed, the third oil crisis in 1986 brought a significant change. The price of a barrel of oil fell from US\$25 to US\$12. This happened at the same time as the failure of Mexico's international creditors to lend Mexico more money. President Miguel de la Madrid had to handle this problem himself. So, on 21st February 1986, he asked all the political representatives of the different social groups and political organizations to go to the National Palace. Many of them certainly expected a moratorium to be announced. However, instead of this, another economic programme was presented, based upon the same 10 economic points of the original plan of 1st December 1982 (PIRE). Nevertheless, the modification in the government's public position was evident when President de la Madrid said that in the short term Mexico would negotiate again, with the sole intention of paying according to the country's real

capacity, and included in this negotiation would be a contingency clause to ensure that the country's payments would take account of the behaviour of international oil prices. At that time, President de la Madrid said: "Mexico has been an exceptionally responsible country with its external financial relations. It has not had recourse to confrontations which are no good for anyone, and it has rejected unilateral solutions. Mexico hopes now that this attitude will have been appreciated in the international context. We will revise the external debt finances, adjusting them to the country's capacity to pay. The adjustment will also require sacrifices from our international creditors, who have been jointly responsible in the process of incurring the debt" (18). At this same meeting at the National Palace, President de la Madrid explained the three criteria that the Mexican government would use to start the third debt renegotiation and acquisition of new loans: first, the adjustment of debt service payments to the country's capacity to pay; second, efficient financial mechanisms and the reduction of their cost; third, the opening of international markets which would allow Mexico to increase its exports, in order to strengthen the country's capacity to grow and to pay the debt, this last one in an international atmosphere conducive to quick and

practicable solutions in the cooperation of different areas in the international economy.

After this speech by President Miguel de la Madrid on 21st February 1986, there began a period of very difficult relations between the Mexican financial authorities and the international creditors. The Finance Minister, Jesús Silva Herzog, stated that the negotiations were very difficult and that Mexico had not managed to convince international creditors. At this time Silva Herzog started to speak of the possibility of unilateral measures aiming towards a moratorium, and the impossibility of the country meeting its commitments under the conditions demanded by the international community. Finally, on 17th June 1986, Silva Herzog resigned as Minister of Finance. The reasons for Silva Herzog's resignation are a matter of dispute, which in the absence of formal statements by either Silva Herzog or de la Madrid cannot be resolved. Some argue that Silva Herzog's position of considering adopting unilateral measures including a moratorium, was far too strong for de la Madrid's governmental economic policies. Some others - such as Susan George (1988) - argue that there were personal power conflicts between them, which were the result of Silva Herzog's predominant position as debt negotiator with the international bankers. These

negotiations allowed him to develop close personal ties with senior members of the Reagan administration (19). Some Mexican press editorials even argue that Silva Herzog had a strong possibility of being nominated as a presidential candidate of the PRI in the 1988 elections. The view of the present writer is that on balance the central element involved was a policy dispute on the debt problem.

President de la Madrid chose another member of his cabinet as Minister of Finance, Gustavo Petricioli. With this appointment a new economic programme called "Programme of Encouragement and Growth" (Programa de Aliento y Crecimiento, PAC) was created. Gustavo Petricioli then started economic negotiations with the international creditors, stressing the idea of paying the external debt according to the country's real capacity.

On 16th July 1986, the newly-appointed Minister Gustavo Petricioli, sent a telex to the international banks to start the negotiations again. In gentle tones, he argued that Mexico and the international banking community had made considerable joint achievements, and he used the opportunity to re-affirm Mexico's intention to continue the negotiation process. This telex was

answered by the advisory group of international banks in the same gentle tone; they emphasised the importance of reaching a negotiated agreement. So Petricioli went to Washington and presented the new Mexican economic programme, (PAC), to the international financial community. When he came back from the USA, he personally declared that the PAC was welcomed by the international bankers, adding that the relationship between Mexico and its creditors had improved considerably. The talks went on for a long period, but the main aim of the Mexican government at this stage was to re-establish a dialogue with the IMF and the World Bank, to coincide with the beginning of the renegotiations with the international private financial community.

On 1st September 1986, during his fourth State of the Nation speech, President de la Madrid presented a brief account of the new negotiation. He dedicated a complete, long section to the debt problem; in this he gave an account of the previous renegotiation processes, and spoke of the dramatic fall in international oil prices, stressing that this factor was responsible for a decrease of US\$8,000 million in national income from oil exports. In the speech he said: "We are now at the stage of renegotiating with the creditor banks the concessions of the debt already contracted and the new debt which we

will need. It is a difficult stage, but we believe in the justice of our arguments, the capacity of our negotiators, and Mexico's seriousness and responsibility, which have always been in evidence when we meet our international obligations" (20).

Two months later, in November 1986, when Petricioli appeared before the Chamber of Deputies, he rejected a suspension of payments and said that a moratorium was not the solution, as the debt would not disappear. Then he informed the deputies that the Mexican government was trying to obtain a new credit for US\$6,000 million to pay the old debt. Later on, in February 1987 when he was negotiating this new loan with the international financial authorities, he once again emphasised that a moratorium was not a solution; nevertheless, international cooperation was necessary, as Mexico could not continue any longer with deflationary economic programmes, due to the high social cost that these represented for the Mexican population. Finally, on 20th March 1987 - thirteen months after President de la Madrid's speech in the National Palace - Gustavo Petricioli signed in New York the agreement for a new loan of US\$7,000 million. Petricioli said then that this loan was just a temporary relief.

After this last credit, President de la Madrid said during his fifth State of the Nation speech on 1st September 1987, that the debt crisis was continuing. Mexicans were living with it, and there had been no satisfactory solutions for it. He pointed out that the only long-term solution was the joint responsibility of creditors and an international context which would allow the Mexican economy to grow. "The vast majority of Mexicans do not want to declare economic war against the world" (21). He particularly asked for the following: the cooperation of the industrialised countries, support from the international financial organisations, more favourable conditions and time for Mexico to pay the debt. He stressed that the process of renegotiating the debt had not concluded.

In November 1987 the so-called Group of Eight consisting of Mexico, Panama, Colombia, Venezuela, Peru, Argentina, Brazil and Uruguay, met in Acapulco, Mexico. This forum provided an opportunity for President de la Madrid to talk once again about the joint responsibility of all those involved in the external debt problem. When de la Madrid received the seven other Presidents of these Latin American countries, he said: "The heavy burden of the external debt which obliges us to transfer net resources abroad, represents a high social and moral cost

for our countries. Until there is full acceptance of both joint responsibility and the urgency of political negotiations in which all those involved take part, a satisfactory solution will not be achieved. Today it is not possible to defer the adjustment of the debt services to Latin America's capacity to pay and need to grow. We are not denying our international obligations, but our first duty is to our people and their present and future welfare" (22). This Mexican position created a consensus and the Acapulco Declaration reflected these feelings. The Presidents of the eight Latin American countries signed a final agreement on 29th November 1987. This agreement established that: "The debt service has to be adjusted to each country's capacity to pay. There should be joint responsibility between creditors and debtor nations. It is necessary to establish contingency formulae which will diminish the negative effect of external factors. So far, the present negotiations have not reflected these three principles. If an agreement including these points is not reached soon, some countries, according to their particular circumstances, will be obliged to take unilateral decisions to allow them to limit their debt service payments according to their need for internal development" (23). This last sentence, speaking of unilateral decisions, may not necessarily have suited President de la Madrid's speech;

nevertheless, this was the agreement reached by the Group of Eight Latin American countries.

Later, on 19th January 1988, President de la Madrid attended the meeting of the Group of Seven (USA, UK, France, West Germany, Italy, Japan, and Canada) in Stockholm, Sweden. There he demanded an exact, just and definitive answer to the external debt problem. He went even further, pointing out that the production of arms was partly responsible for the imbalance and disorder in the international economic system. On 26th March 1988, there was another opportunity for President de la Madrid to express his point of view towards the external debt problem. At that time, President Marco Vinicio Cerezo from Guatemala went to Mexico and in Cancun signed a joint communique with President de la Madrid. This emphasised the urgency of changing the debt service payments of both countries according to their real capacity to pay, taking into account specific development perspectives. The joint communique also agreed to reverse the transfer of resources to enable the countries to expand their economic growth and social progress and that of the other debtor nations. They also gave all their support to the Group of Eight's Acapulco Declaration of November 1987 and the permanent mechanism of consultation

and political concertation that was created by these eight Latin American countries.

During the celebrations of the international workers' day, 1st May 1988, the Finance Minister Gustavo Petricioli announced that Mexico would seek the reduction of its debt service payments to no more than 3 per cent of its gross national product, that is, approximately 50 per cent less than what Mexico was paying at the time. Three weeks later, during a meeting organised by the American Chamber of Commerce, Petricioli said that the Mexican government would try to reduce the annual payment of the external debt service by between US\$3,600 and US\$4,000 million, through new arrangements that would also reduce the amount of capital.

During his trip to the USA on 14th June 1988, Gustavo Petricioli explained to the American Treasury Minister James Baker, that Mexico needed to reduce its high debt service by about 25 per cent, so that it could allocate more resources to internal economic development. No explanation of the 25 per cent figure was publicly given.

On 1st July 1988 Petricioli presented to the international financial community a plan for Mexico to

reduce its debt by US\$10,000 million. He proposed a guarantee fund in which the contributors would not give new money to Mexico, but rather a contingent credit, which would be used if Mexico was unable to meet its commitments. An alternative solution which he presented was a cooperative accord between governments such as Japan, the UK, France, Germany and Spain; this would permit the exchange of debt for new bonds, taking advantage of the secondary market discount to Mexico's benefit. Petricioli emphasised that Mexico would not take unilateral decisions, and that it would not stop paying, nor fix an amount of debt repayment unilaterally, as this was not a solution to the problem. Therefore the Mexican financial authorities would continue to look for ways of reaching agreement, and of achieving international cooperation through means such as the bonds. Two weeks later, during the 116th anniversary of the death of a national hero, Benito Juárez, Petricioli explained the same idea: that the negotiation with the international financial community, the banks, and the creditor governments, would involve a new mechanism of paying the debt with discount.

By August 1988 the political speeches of the opposition during the new presidential electoral campaign spoke increasingly of a unilateral moratorium. As a

reaction to this, on 4th August 1988 President Miguel de la Madrid made a remark during the inauguration of the Fourth National Banking Meeting in Monterrey (a large industrialized city in the north of the country). He said that the Mexican Government would maintain serious and firm negotiations to reduce external debt service payments, and rejected any possibility of "demagogic acts or irresponsible statements in favour of a unilateral moratorium which come from the electoral tactics of opposition parties and not from any responsible person"(24). Moreover, as the editorials of the national press started to speculate that the government would consider a moratorium if the rates of interest did not fall by 50 per cent, the Minister of Finance had to deny these speculations during the same national banking meeting. He stated once more that Mexico would look for ways of reaching agreement through new options of payment and if necessary by reducing these payments gradually, without going to unnecessary counterproductive confrontations.

A month later, on 1st September 1988 and during his sixth and last State of the Nation speech, President de la Madrid said that "the high external debt service represents a dead weight for the economic development of the country. The problem of the debt is not solved yet,

in spite of the great advances already made. It is necessary to insist on a greater degree of joint responsibility and understanding from the creditors, to solve the problem they helped to create" (25). President de la Madrid was then asking the international financial community for a more flexible attitude towards Mexico's external debt. This remark was wholly in line with all that he had argued for over his six years of presidency. It does, however, lead to a problem which in the end only the president can resolve: why did he not take the numerous opportunities for a change of policy, especially in September 1985 after the earthquakes? We can speculate that the factors involved include the international economic pressure which the capitalist world could have put upon Mexico's shoulders, such as trade isolation and economic boycott; nevertheless, a more important factor was the political pressure that the Reagan administration could have exerted upon de la Madrid's government. One way or another, the fact remains that the political centre of the president did not change even though a Finance Minister resigned with reservations about the policy.

To sum up, the Mexican government effectively agreed to continue repaying the debt. However, it insisted on the need to reduce capital and interest repayments,

emphasising the costly devastation caused by the earthquake in 1985. In other words, the government agreed to meet its obligations while insisting on the need to reduce them.

Notes.-

- (1) Silva Herzog Flores, Jesús, Speech given at the Chamber of Deputies, the Union Congress, Mexico City, 11 December 1982.
- (2) De la Madrid Hurtado, Miguel, First Presidential State of the Nation Speech, the Union Congress, Mexico City, 1st September 1983.
- (3) Silva Herzog Flores, Jesús, Speech given at the Chamber of Deputies, the Union Congress, Mexico City, 22 November 1983.
- (4) Silva Herzog Flores, Jesús, Speech, 22 November 1983.
- (5) De la Madrid Hurtado, Miguel, Second Presidential State of the Nation Speech, the Union Congress, Mexico City, 1st September 1984.
- (6) Silva Herzog Flores, Jesús, Speech at the American Bankers' Association's meeting, Washington, D.C., 20 September 1984.
- (7) Silva Herzog Flores, Jesús, Speech, 20 September 1984.
- (8) Silva Herzog Flores, Jesús, Speech given at the Chamber of Senators, the Union Congress, Mexico City, 18 October 1984.
- (9) Silva Herzog Flores, Jesús, Speech, 18 October 1984.
- (10) This second debt restructuring of October 1984 very often is called the first restructuring of the new government, as the previous extension of August 1982 was asked during the López Portillo's administration, though it was also Silva Herzog who negotiated it.
- (11) Silva Herzog Flores, Jesús, Speech given at the Chamber of Deputies, the National Congress, Mexico City, 21 November 1984.
- (12) Silva Herzog Flores, Jesús, Speech, 21 November 1984.
- (13) Silva Herzog Flores, Jesús, Speech given at the head offices of the City Bank before more than 600 international banks, New York, 29 August 1985.

(14) De la Madrid Hurtado, Miguel, Third Presidential State of the Nation Speech, the Union Congress, Mexico City, 1st September 1985.

(15) De la Madrid Hurtado, Miguel, Speech given before all the Federal State Governors, 30 September 1985.

(16) Silva Herzog Flores, Jesús, Speech given at the Chamber of Deputies, the National Congress, Mexico City, 22 November 1985.

(17) Silva Herzog Flores, Jesús, Speech, op. cit. 22 November 1985.

(18) De la Madrid Hurtado, Miguel, Speech given before the political representatives of national social groups and political organisations following the drop in the international price of oil from US\$25 to US\$12 per barrel, the National Palace, Mexico City, 21 February 1986.

(19) In her book: "A Fate Worse than Debt" - a radical new analysis of the Third World debt crisis - Penguin Books, England 1988, pp 208-209, Susan George gives us one example that illustrates the rumours about the personal power conflicts between President de la Madrid and Silva Herzog, and another example of the close personal ties that Silva Herzog developed with senior members of the Reagan administration. "Similarly, the Mexicans who bring off these deals are heroes at home - until the bubble bursts again. Thus the dapper, Yale-educated (now ex-) finance minister, Jesús Silva Herzog, practically ran the country from 1982 to mid 1986, leaving President Miguel de la Madrid in the shade. A joke about Silva ran: 'Why won't Jesus Silva Herzog be the next President of Mexico?' Answer: 'Because in Mexico re-election is against the law'"p.208.

"In the fine old tradition of killing the messenger or changing horses in the middle of a dangerous stream, Silva is suddenly sacked in June and replaced by civil servant Gustavo Petricioli, little-known outside Mexico. Petricioli is a friend of the President of Mexico; Silva is perhaps too close for his own good to Fed chairman Paul Volcker, with whom he is wont to take bone-fishing holidays off the Yucatán coast." p.209.

(20) De la Madrid Hurtado, Miguel, Fourth Presidential State of the Nation Speech, the Union Congress, Mexico City, 1st September 1986.

(21) De la Madrid Hurtado, Miguel, Fifth Presidential State of the Nation Speech, the Union Congress, Mexico City, 1st September 1987.

(22) De la Madrid Hurtado, Miguel, Speech given before the Latin American Presidents of the Group of Eight, Acapulco, Guerrero, México, November 1987.

(23) Agreement signed by the Presidents of Argentina, Brazil, Colombia, Mexico, Panama, Peru, Uruguay, and Venezuela about the Debt Problems of the Region, Acapulco, Guerrero, México, 29 November 1987.

(24) De la Madrid Hurtado, Miguel, Speech given at the IV National Banking Meeting, Monterrey, N.L., México, 4 August 1988.

(25) De la Madrid Hurtado, Miguel, Sixth Presidential State of the Nation Speech, the Union Congress, Mexico City, 1st September 1988.

CHAPTER FIVE
The Changing Character of the Political Debate within the
Union Congress

This chapter aims to demonstrate that in spite of the political debate and controversy which took place in different political organisations, the government did not change its economic policy. This debate, which went on in the Union Congress in both the Chambers of Deputies and Senators, did not influence the institutional executive power. Further, though it is written in the Mexican Constitution that the executive power must ask the Union Congress for authorisation before signing any international economic agreement, in practice, as this chapter will demonstrate, this principle made no difference to executive action. The remarks made and the debate led by the deputies representing the political opposition were an indication of discontent with the official economic policies. This discontent, by being channelled through official institutions, avoided the problems of confrontation outside them.

It should be stressed that the debate, though not affecting the policy of the government, did have a significant effect on government unity. It precipitated, inside the official party, different opinions which divided the members of the same party, to the extent that

a new party was formed after a fraction of the official party left it.

Finally, the chapter will also demonstrate that what began as a discussion of the debt crisis ended as a political crisis. It will be noticed that during the first five years of this political regime, the Union Congress debated the debt crisis and how to negotiate it with the international creditors; however, during the last year the deputies and senators were far more concerned with the forthcoming elections and in 1989 with the legitimacy of the newly-elected government and the allegedly fraudulent elections by which it gained power, rather than with the external debt payments.

The external debt debate took a particular shape in Congress. There, members of both chambers, deputies and senators, made individual and group declarations, according to particular circumstances. The nature of the debate here changed during the six-year period, fluctuating between positions which held that Mexico could borrow more money because its capacity to pay had not been exhausted, and positions which firmly urged a moratorium. It is most important to note here that up to 1988 the Chamber of Senators was exclusively monopolised by the ruling party, in other words, all senators

belonged to the PRI, while the Chamber of Deputies had a small representation of other political parties which had been reinforced after the political reform of 1979. Here follows a chronological account of the most relevant positions as published in the national press.

In an attempt to support both the government's economic policies set out in the Immediate Programme of Economic Reconstruction (PIRE, 1st December 1982) and the first external debt agreement with the IMF (which were discussed in the previous chapter) on 26th September 1983, just after President de la Madrid's first State of the Nation Speech, the secretary of the Chamber of Deputies' financial commission and member of the PRI, Ricardo Cavazos, declared that Mexico's debt limit had not been reached (1), and suggested that the country could borrow more money to implement the government's economic plan. Six months later, by 1st April 1984, the same deputy recognised that it was necessary to find global solutions to the debt problem; however, he asserted that those global solutions should not go to the extreme of forming a club of debtor countries (2).

Meanwhile, in the Chamber of Senators, members were in favour of the renegotiation of Mexico's external debt. This viewpoint was expressed by Américo Villarreal

Guerra, Heladio Ramírez López, and José Socorro Salcido in an interview given to the media on 10th April 1984 (3). They argued that it was important to negotiate the extension of payments according to Mexico's capacity to meet its commitments and without reducing its development programme. As the policy of the international financial institutions was at the time to raise the rate of interest considerably, the senators' observations touched on these points. They recommended support for developing nations by the international financial institutions, because to raise the rate of interest indiscriminately and unilaterally could produce an international financial collapse which would also affect the creditor nations.

Before going to the extraordinary assembly called by the Latin American Parliament Group for 8th July 1984 in San José, Costa Rica, the Chamber of Senators discussed and agreed on 6th June that the external debt negotiations would have to be "bilateral". According to the senators, each individual country would have to adjust its external debt negotiations to the characteristics of its own debt and economy (4).

As a result of the decision of the international financial organizations to re-structure and extend the external debt payment periods, the Senator Miguel Borge

Martín and the Deputy Bernardo Bátiz Vázquez, members of the PRI, declared in a newspaper interview on 7th June 1984 (5) that this re-structuring package was a recognition of Mexico's responsible behaviour in the international context. This debt re-structuring caused speculation among some radical political groups that there might be a moratorium later. As a reaction to this speculation, on 26th June 1984 Senator Renato Sales Gasque, another member of the ruling PRI party, stated that Mexico should not declare a moratorium; on the contrary, the country should try to maintain the bilateral and multilateral negotiation process until it was understood by international creditors that the external debt was a political problem as well as a financial one (6), in that the government faced internal political risks because of the debt.

Three months later, the nature of the dialogue changed. On 12th September 1984 the Secretary of the Finance, Currency, Credit and Credit Institutions Commission of the Chamber of Senators who was also an ex-Minister of Finance and ex-Ambassador of Mexico to the USA, Hugo B. Margain, stated that the external public debt renegotiations did not give the right to the international banks to interfere in Mexico's economic decisions; nor should it cause the subordination of

Mexico to any creditor group (7). A few days later he declared in a newspaper interview (25th September 1984) that in Mexico the economic readjustment had caused social problems, that social discontent was a reality, and thus it was important to contain this discontent so that it would not explode while the country was in an economic crisis (8). The political nature of the crisis, especially in terms of political destabilisation, was thus being emphasised.

More than six months later, on 17th April 1985, the secretary of the Financial Commission of the Chamber of Deputies, Ricardo Cavazos, stated that the country should base its development on its own resources, and should try to improve the industrial sector which had to improve and increase its levels of production and efficiency to be able to compete abroad (9). Thus an economic restructuring was also being encouraged as a response to the crisis.

On 23rd July 1985 the Minister of Finance, Jesús Silva Herzog, went to the Chamber of Deputies, as mentioned in the previous chapter. In a response to his message, deputy Ricardo Cavazos said in a newspaper interview that in fact the debt restructuring referred to by the Finance Minister the previous day was equivalent

to a partial moratorium, even if the financial authorities did not call it by this name. He said what was important in the renegotiation was that the country would be able to have the necessary economic resources for a minimum of economic growth, which would prevent the lowering of the standard of living of the Mexican people (10).

Deputy Abraham Martínez Rivero, representing the labour sector of the PRI said on 14th August 1985 that Mexico could not ignore its international commitments, as the country had so far shown the capacity, seriousness, and traditional prestige to face its external debt (11). Deputy Martínez Rivero was responding to the statement that Carlos Tello Macías had made in Havana, Cuba, during the external debt conference. At the same time Senator Patrocinio González Blanco, also of the PRI, declared on 2nd September 1985 that Congress would not approve an economic policy which would open the doors to further external indebtedness (12). A few days later, on 10th September 1985, and during the second day of analysis of the Third Presidential State of the Nation Speech in the Chamber of Senators, a Senator of the PRI from the federal state of Quintana Roo, Miguel Borge Martín, stated that the country was seeking international harmony by renegotiating its external debt payments (13). He

added that by renegotiating its external debt, Mexico wanted to introduce solid and consistent changes into the international financial system which would bring harmony to international relations.

Up to September 1985 the declarations made by deputies and senators to the media supported President de la Madrid's and Silva Herzog's external debt renegotiation strategies. In one way or another, deputies and senators provided an image through the media that the country's economy was prepared to borrow more money and pay it back, and that it was far better to renegotiate the debt and keep peace with the financial community rather than declare even a partial moratorium on payments. Nevertheless, the natural disaster of the September earthquakes made members of Congress think twice about the government's economic strategy, and in some cases even promote popular forums to consult the people about their feelings towards these external debt negotiations. To what extent these consultation forums had the support of the Executive, in an attempt to open the debate and give it a democratic face, or were an authentic outcry from the members of the legislative body, remains a matter of dispute, which we have not managed to resolve; but it was likely not to have had unambiguous executive support, because it opened the way

to increased criticism of economic policy. This was one way in which the debt crisis led to a political crisis. What is certain is that one way or another consultation forums were organized.

Thus, during the first week of October 1985, the Chamber of Deputies launched a convocation to establish a large forum for popular consultation about the management of the external debt. This convocation was announced by the leader of the PRI majority, Deputy Eliséο Mendoza Berrueto, on 2nd October 1985 --it should be noted that this day has a special meaning for the collective conscience of Mexican citizens, as it was the day when in 1968, just before the inauguration of the International Olympic Games in Mexico City, hundreds of students and left-wing supporters were killed by the army in Tlatelolco Square. This convocation elicited reactions among deputies from the different political parties. The PAN (Partido Acción Nacional) Deputy, José Angel Conchello stated that his party was against Mexico declaring a suspension of its debt interest payments. The PSUM (Partido Socialista Unificado de México) Deputy, Demetrio Vallejo, the PMT (Partido Mexicano de los Trabajadores) Deputy, Herberto Castillo, and the PRT (Partido Revolucionario de los Trabajadores) Deputy, Pedro Penaloza, insisted that due to the particular

emergency caused by the earthquakes, the financial authorities should use the opportunity to declare a moratorium (14).

The month of October 1985 was full of declarations from members of Congress on similar themes. On 7th October an anonymous deputy representing the workers sector of the PRI, declared to the media that Mexico was not able to ask the international banks for more loans, as it did not have sufficient capacity to pay back these loans, thus it was the right time to seek new economic strategies for recovery rather than new renegotiations (15). On the same day, the leader of the Chamber of Senators, Senator Antonio Riva Palacio López, stated that Mexico would pay its international debt, but in favourable conditions; thus it was determined that new negotiations with the international banks would be held (16). On 16th October members of the Senate, through its Commission on Economic Development, made a special declaration to support the financial authorities in their financial strategies by urging that a moratorium on interest payments would allow economic growth (17). At the same time, on 20th October the Deputy for the federal state of Aguascalientes, Eliseo Mendoza Berrueto, stated that it was not possible to talk about a moratorium on

the external debt as it was the people of Mexico alone who would choose the path to follow (18).

So controversial were the external debt renegotiations which the government agreed with the international community that on 24th October 1985 the opposition parties made a joint proposition in Congress demanding that the government should not ask the international banks for more credits, as it was the right of the Legislature and not the Executive to analyse and decide on the amount of money that came from abroad as loans. Members of the PAN, PSUM, and PRT expressed their concern. The PAN's (National Action Party) view was expressed through the Deputy José Ángel Conchello. He said that the Mexican financial authorities were using the September earthquakes as an excuse to borrow more money when they knew that the country was not able to pay it back. He stated that his party wanted people to acquire awareness, during the popular consultation, of the unjust origin of the debt, and to learn the economic cost of a moratorium, as well as to find new ways of achieving economic development not based upon external debt (19). The representative of the PSUM (United Mexican Socialist Party) Deputy Jorge Alcocer demanded that the Government immediately stop any negotiation aiming to obtain new external credits. He proposed that a

moratorium on the debt service payments should be declared as soon as possible, as a first step towards the elaboration of a new payment settlement (20). Finally, the representative of the PRT (Workers' Revolutionary Party), Deputy Pedro Penaloza, said that the Government should declare a moratorium and use the money that it would have paid to solve national problems (21).

Two days later, on 26th October 1985, the Chamber of Senators agreed a resolution that if the external debt payments involved an economic reverse, massive unemployment, the destruction of democracy, and widespread sacrifice of the Mexican people, the debt should not be paid. The Chamber of Senators added that even if Mexico's firm intention was to pay its external debt, the economic and social development process should not be halted (22). A couple of days later, on 28th October 1985, the Financial Commission of the Deputies' Chamber stated that a partial moratorium could not be ruled out if it was needed to achieve the country's recovery. The Commission recognised that it was not feasible just to pay the interest on the external debt, but it was also necessary for creditor and debtor nations to find joint solutions, without causing economic stringency which would halt the development of the nations involved. The Financial Commission rejected the

statements made by some parts of the private sector such as the declaration that Mexico's economic system was exhausted (23).

The first regional forum of popular consultation on the management of the external debt, organized by members of the Chamber of Deputies, took place in the northern city of Tijuana, Baja California Norte, on 8th November 1985. There, the President of the Deputies' Chamber's Great Commission, Eliseo Mendoza Berrueto, stated that debtor and creditor nations should make some sacrifice in an attempt to find a joint and more just solution to the debt crisis. In his view, both sorts of countries should promote steady economic growth, generate employment, and achieve the necessities of social development without impairing national sovereignty (24). This forum was attended by representatives of the private sector, workers, peasants, and federal deputies of the different political parties. 278 proposals concerning what might be done were received from five of the northwestern federal states: 97 from Baja California Norte, 156 from Baja California Sur, 56 from Sonora, 36 from Sinaloa, and 33 from Chihuahua.

The second regional forum of popular consultation was on 10th November 1985 in the city of Toluca, Estado de México. This regional forum included the participation of representatives of seven federal states, namely Estado de México, Hidalgo, Morelos, Puebla, San Luis Potosí, Tlaxcala and Querétaro. All of them presented proposals which were put forward by members of the different political parties, industrial and merchant representatives, professional associations, individual academics, and members of the Autonomous University of the State of Mexico (UAEM). There, the Deputies Pedro Armando Gómez, and Miguel Ángel Herreras stated that it was necessary to meet international commitments, without halting national progress (25). They basically supported the President's thesis on payment and growth at the same time as they declared that by doing this Mexico would act with responsibility towards those who believed in it.

On 11th November 1985, the Economic Commission of the Chamber of Senators recommended that Mexico should not ask the IMF and international banks for more loans, and also stated that a moratorium, as the opposition political parties wanted, would generate even more serious problems. Nevertheless, the commission pointed out that it was important to promote a partial and negotiated suspension of external debt payments, to avoid

reprisals from the international banks (26). It was also said that each country should solve its economic problem individually, though it was important to achieve solidarity among all the debtor nations in reaching a similar renegotiation. To achieve this, it was necessary to gain the understanding of the international banks and the developed nations. Meanwhile, the director of the institute of political, economic, and social studies of the PRI, Senator Ángel Accedes Sauced, declared on 12th November 1985 in a press conference, that the problem of the debt had not yet been overcome, and debt service payments represented a huge burden to the country, thus the PRI considered that Mexico should still look for a negotiated settlement short of a moratorium; in other words, the official party was still prepared to go along with the internal cost, rather than follow the option of declaring a unilateral suspension of payments (27).

Later on, during the month of December (20th December 1985), the President of the Foreign Affairs Commission of the Chamber of Senators and member of the PRI, Senator Alejandro Sobarzo Loaiza, stated in a newspaper interview that Mexico's level of debt did not represent any risk for the stability of the country. He added that the Baker Plan opened new prospects for the solution of the external debt problem, as this American

programme implied that the world powers accepted that the world debt problem had to be solved between debtor and creditor nations (28). A month later, on 22nd January 1986, a more critical view came from Senator Patrocinio González Blanco Garrison (PRI). He said that if the international price of oil fell more than the rate of interest, the Mexican government would be forced to cancel investment programmes and to renegotiate the external debt according to the country's ability to pay. He added that Mexico was prepared to meet its international commitments, but not if they represented the sacrifice of the economic development of the country and the people's wealth. He suggested that if negotiations were needed, these should be bilateral and in accordance with the capacity of the Mexican economy, not by sacrificing further the Mexican people (29). Later on, during the meeting of the Permanent Commission of the Union Congress (29th January 1986), on behalf of the PRI's majority, Senator Ángel Aceves Saucedo from Puebla, stated that the country's situation regarding the external debt was moving dangerously towards intolerable extremes; thus it was not possible to postpone projects of high social priority which were indispensable to the achievement of economic growth and social development. On behalf of the PRI's majority again, he declared that Mexico's position was in favour of negotiation, rather

than confrontation. Mexico had prestige, credit and a large negotiating capacity because of the way in which it had met its debt payment commitments (30). Senator Aceves Saucedo added that he shared the Finance Minister Jesús Silva Herzog's declaration that "Mexico's responsibility towards its people was the limit of its contract obligations".

However, members of other political parties had long held a different view. Deputy Alejandro Gascón Mercado from the Revolutionary Socialist Party (PRS) was of the opinion that Mexico should default and that this was the right time to do so. He made this statement on 3rd February 1986 before leaving Mexico City for Havana, where he was going to take part in the Third International Congress of the Cuban Communist Party. He emphasised that the solution would be for Mexico to default on its debt and not press for a moratorium, as this would only prolong the problem and the country's suffering. He argued that the financial crisis which most countries were suffering was due to an aggressive policy imposed by the international financial institutions allied to imperialism. He said that a moratorium was an option which would allow Mexico to postpone some of its financial problems and prevent the rates of unemployment and inflation rising further; but it would only be a

short-term solution, and in the long term the country would suffer its negative repercussions (31).

Three days later (6th February 1986), following the same line, a member of the ruling party PRI, the leader of the Mexican Workers Confederation (CTM) in the federal state of Nayarit, and Senator of that federal entity, Rigoberto Ochoa Zaragoza stated that it was no longer possible to keep sending money to the international banks, money which was the product of the effort and work of the Mexican people. He suggested the suspension of interest payments to avoid greater damage to the already damaged national economy. Senator Ochoa Zaragoza made clear that the working class could no longer stand major sacrifices. Its level of poverty had reached the limit and to continue could run the risk of social unrest. He added that since Mexico's external debt was unpayable, and as Mexico's creditors were intransigent, the country should start studying seriously the positive side of stopping interest payments, which would avoid major damage to the already poor Mexican population (32). Just a few days later (14th February 1986) another leader of the Mexican Workers Confederation (CTM) in the federal state of Guerrero, Senator Filiberto Vigueras Lázaro, stated in a newspaper interview that the working class was in favour of the moratorium, and that if members of

the private sector still thought that the external debt could be paid, it was because they had enough food to eat. He added that the workers' sector was in favour of the moratorium because it had been the one which had suffered most from the economic crisis. The majority of workers just received a minimum salary and could no longer stand the economic crisis (33).

As a reaction to President Miguel de la Madrid's announcement on 21st February 1986 - mentioned in the previous chapter - members of the Chamber of Senators gave their opinion on various occasions. President de la Madrid made clear that Mexico had been an exceptionally responsible country with its external financial relations; it had avoided confrontation and rejected unilateral solutions; thus he hoped that this attitude had been appreciated in the international context, as the country had the intention to carry on paying, but only according to its capacity. These presidential comments were picked up by some senators who individually expressed their concern. On 24th February 1986, Senator Alejandro Sobarzo Loaiza from the federal state of Sonora and member of the Foreign Affairs Commission of the Chamber of Senators, stated that the answer of the international banks to Mexico's external debt did not depend on the goodwill of one party, but it had a legal

base. International law allowed the revision and change of previously agreed laws in an international commitment (34). A day later (25th February 1986) a group of senators from the ruling party (PRI) demanded that international creditors should give a positive answer to what President de la Madrid proposed. Senator Patrocinio González Blanco from the federal state of Chiapas, Senator Armando Trasvina Taylor from Baja California Sur, Senator Ernesto Millán Escalante from Sinaloa, Senator Héctor Vázquez Paredes from Tlaxcala, and senator Andrés Valdivia Aguilera from Aguascalientes, indicated that the international credit banks should seriously consider Mexico's proposal to the international financial community; not only because that was the key for Mexico to overcome its economic problems, but also to avoid negative consequences that could even affect the highly developed nations (35). There was also a reaction from the deputies to the presidential message. Deputy Rodolfo Menéndez from the ruling party (PRI) and secretary of the Commission for Patrimony and Industrial Promotion of the Chamber of Deputies said that in fact President de la Madrid's proposal was a moratorium with a negotiable character, that is to say, a revision of Mexico's international commitments with the international financial community. It was a matter of adapting the external payments to Mexico's real capacity to pay, but

not as a unilateral decision (36). Criticism of the presidential proposal came from the opposition in the form of Deputy Jorge Alcocer from the PSUM (United Mexican Socialist Party). He stated on the same 25th February that the previous week's presidential proposal had a basic defect, namely, it did not say how to solve the financial crisis (37). Three days later the president of the Financial Commission of the Chamber of Deputies, Deputy Luis Orci Gandara (PRI), replied to Deputy Rodolfo Menéndez that the presidential proposal was not equivalent to the announcement of a moratorium, but was the result of serious negotiations now involving the international creditors (38).

Two weeks later in the Union Congress Permanent Commission, the left opposition stated that there was no coherence between what the Finance Minister, Jesús Silva Herzog, said to some deputies in a closed meeting in which he stated that there would be no new credits, and the negotiations abroad to find US\$2,000 million in addition to US\$4,000 that the Union Congress had already authorized. The opposition voiced its opinion through the leader of the PMT (Mexican Workers Party), Deputy Herberto Castillo, Deputy Jorge Alcocer member of the PSUM (Mexican Socialist United Party), and Deputy Jesús González Schmall of the PAN (National Action Party) (39).

Meanwhile, on 2nd April 1986, the leader of the Chamber of Senators, Antonio Riva Palacio López, said that Mexico had not envisaged adopting unilateral decisions regarding the debt service payments; nevertheless it might have to adopt them if conditions forced it to do so (40). A week later, Deputy Luis Orci Gándara (President of the Finances Commission of the Chamber of Deputies) in a newspaper interview said that the federal government did not have the intention of declaring a moratorium on the external debt, but would choose the best options to promote the economic and social development of the country (41). On 11th April, deputy Arnolando Martínez Verdugo (PSUM) said that Mexico, like many other debtor nations, should not carry on having its scarce economic resources removed to the international financial centres. He added that the postponement of the capital payments, which were the result of the negotiations, would just aggravate the economic crisis (42).

From then onwards, there were individual remarks made by certain senators during the month of April and June 1986. Among these, Senator Humberto Hernández Haddad (PRI) from the federal state of Tabasco, criticised the Baker Plan saying that it was insufficient. He said that the Baker Plan was a positive step although insufficient

because its initiatives were oriented towards achieving a cash flow so that Mexico could pay its external debt, and this was not the solution. The plan should instead design options for the country's economic development (43). Senator Alfonso Zegbe Zanen (PRI) from the federal state of Puebla, said that the international banks would have to give up their demands on the debtor countries, or these would lead to a worldwide financial collapse, in which the creditor nations would be the most seriously harmed (44). On 11th June 1986 Senator Gonzalo Martínez Corbalá from the federal state of San Luis Potosí, Senator Heliodoro Hernández Loza from Jalisco, Senator Ángel Aceves Saucedo from Puebla, and Senator Myrna Esther Hoyos de Navarrete from Yucatán, declared that Mexico was politically prepared to face a unilateral decision regarding the external debt, as it was no longer possible to divert economic resources which were needed to attend to the Mexican people's demands (45). Later on, Senators Luis José Dorantes Segovia from Hidalgo and Manuel Ramos Gurrion from Veracruz declared that Mexico would not limit itself to the demands made by the international banks, and that the government should give an answer to the needs and desperation felt by the people if it wanted to avoid the economic difficulties leading to political unrest (46).

To sum up, there were clear divergences within the PRI, and political opponents were developing a plausible alternative strategy. This situation continued later in 1986. After the 23rd June 1986 when the new Minister of Finances, Gustavo Petricioli, announced the government's new economic programme, the "Programme of Encouragement and Growth" (Programa de Aliento y Crecimiento, PAC) - as was mentioned in the previous chapter - there were reactions from members of both Chambers. Senator Rigoberto Ochoa Zaragoza, representing the workers sector (CTM) of the PRI, said that if the new economic strategy did not bring the results that the population wanted, it would be difficult to stop workers, the unemployed, the homeless and people without health insurance from protesting. He added that it was a pity that the Finance Minister's announcement gave more attention to supporting the private sector with new fiscal policies, than to workers' salaries (47). On the other hand, Senator Salvador Neme Castillo, secretary of the Great Commission of the Chamber of Senators, said that it was important to maintain austerity measures in order to prevent the economy from moving into a recession, and that it was vital to take all the necessary measures to revitalize industrial production (48). Supporting the same line of thought, Senator Guillermo Mercado Romero stated that the programme of development (PAC) was the path that in the

medium and long term would save the country's economy (49). Senator Armando Trasvina Taylor and Deputy Alfonso Reyes Medrano (CTM) supported the government by saying that the new economic policy would allow increased development and would open important options for meeting the external debt payments according to the Mexico's possibilities (50).

Meanwhile the opposition parties had a different perspective. Members of the Populist Socialist Party (PPS) stated that the Minister of Finances' new economic programme (PAC) proposed a search for new ways to pay what was possible for the country, but made clear that the debt was morally, politically and economically unpayable; and if the government did not wholly suspend interest payments, the external debt would carry on growing disproportionately (51). Members of the United Mexican Socialist Party (PSUM) declared that the anti-recession programme announced by the Finance Minister did not represent any new alternative for the Mexican economy, and that unfortunately it was not on the agenda of the Mexican government to declare a suspension of the external debt payments (52). Members of the political committee of the Revolutionary Workers Party (PRT) said that the new economic policies were totally removed from the real emergency situation which the country was living

through; thus they were destined to fail, unless the debt was totally cancelled (53).

Later on, once the chambers of senators and deputies resumed their activities, the deputies approved on 1st October 1986 the issuing of a summons to the financial authorities heading the external debt renegotiations abroad, to appear before the Union Congress. The financial authorities were to appear before deputies of the nine political parties to explain the agreement that the authorities signed in Washington with the World Bank and the IMF. There was a conflict of interest between the representatives of the nine political parties. While a member of the PRI (Deputy María Esther Sherman) presented this initiative, members of the opposition (PSUM, PMT, PRT, PPS, and PAN) represented by Deputy Jorge Alcocer, pointed out that the Chamber of Deputies "...always summon (cabinet members in charge of external debt negotiations) for an explanation of past events rather than future events" (54). The opposition (PAN, PSUM, PMT, PRT, and PPS) demanded a discussion of the implications of the negotiations held in Washington without the authorisation of the Union Congress; nevertheless, this demand was denied when Deputy Pablo Pascual Moncayo (PRI) proposed that the financial authorities should explain in

detail the agreements signed with the international banks on behalf of Mexico.

Deputies from the official party (PRI) refused to summon the Minister of Finance, Gustavo Petricioli, directly, while Deputy José Ángel Conchello (PAN) said that the Union Congress, using its legitimate constitutional power and representing a nation which had incurred a heavy debt, had to receive explanations not only from the team of financial authorities which renegotiated the debt in Washington, but also from the Minister of Finance himself, Gustavo Petricioli, so as to explain what historical responsibilities the Mexican people were being forced to face. He added that now an extra debt had been contracted behind the Mexican people's back without first consulting the Chamber of Deputies. Credits had been accepted for the next fiscal year, without authorisation from the Union Congress; and all this was anti-constitutional (55). After this, Deputy Jorge Alcocer (PSUM) asked how the President could endanger credits for the next year (1987) if the Union Congress had not yet authorised the amount of debt the country could afford for that year. The financial authorities had already made a pact with the international banks, and had left the Union Congress in

the sad and awkward position of having to endorse this decision.

Later on, Deputy Pedro Penaloza (PRT) criticised the financial authorities who felt proud of the negotiations conducted in Washington, although they had damaged national sovereignty and had once more struck a blow against the Mexican people. In an attempt to contest this view, Deputy Rafael López Zepeda (PRI, representative of the Union of Bank Workers) pointed out that the tone in which the opposition deputies were speaking denoted anger and resentment at the agreement signed in Washington, which in his view was innovative, would preserve national sovereignty, and recognised Mexican interests and the will of the Mexican population as heard in various regional popular consultation forums.

During the months of October and November 1986 the regional popular consultation forums continued. On 24th October social organizations, private business organizations, workers' unions, and various political sectors of the northern city of Monterrey, gathered to meet and discuss their general feeling about the debt issue.

As the Union Congress ended its sessions in December, very little was heard before July 1987. During this month (11th-14th) there was the celebration of the Mexico-Soviet and the Mexico-Austria Interparliamentary meetings. On these occasions, Senator Antonio Riva Palacio (PRI), President of the Permanent Commission of the Union Congress, emphasised that the payment of the Mexican external debt had a limit. He said that Mexico should pay but not at the cost of reducing its population to abject poverty (56).

On 1st December 1987, Senator Hugo B. Margain (PRI, Senator from Mexico City District and former Finance Minister) in a meeting with American legislators, former governors, researchers, lawyers, and politicians stated that Mexico was about to negotiate debt payments of up to 5% of its Gross National Product. He asked why, if Germany in 1945 had not been expected to pay more than 5%, the international financial community should ask Mexico for more than this percentage (57). In his opinion there was also a second possibility: to imitate President Alán García of Peru, in paying to debt repayments only 10% of the dollars received from the country's exports.

The Union Congress met again between September and December 1987. At the end of this period (28th December

1987) the political debate still centred on the conflict between the PRI, which was attempting to justify payment of the debt, and the left-wing opposition, which opposed payment. On the one hand, Deputy Jorge Alcocer from the PMS (Mexican Socialist Party, the new name for the party which resulted from the union of the United Mexican Socialist Party (PSUM) and the Mexican Workers' Party (PMT)) argued that the Mexican government was not able to continue reliably paying its external debt. He criticised the government, adding that it was no longer possible to make a new adjustment in the public budget without making more than 150 thousand civil servants redundant (58). On the other hand, the President of the Commission of Programming, Budgeting and Public Accounts of the Chamber of Deputies, Deputy Sócrates Rizzo (PRI) suggested that the financial authorities should seek better payment conditions for the external debt. He mentioned the urgent need to renegotiate the debt according to the real value of the market, and using the opportunity given by the discounts that the international markets were offering at the time. Jorge Alcocer answered that the stubbornness of the government in carrying on paying would cause a new economic recession and make it impossible to attend to the people's needs. He continued by mentioning that a year and a half previously the President himself, the Minister of Finance, and the Budgeting and Planning

Minister accepted that the country had reached the limited regarding an internal adjustment of the economy. Thus, in his view, it was impossible to modify the public budget and the government should make this clear to its international creditors. Mexico had made all possible efforts to pay; however it could not continue these efforts any longer as its limits had been reached.

In addition to this debate between the deputies of the PMS and the PRI, Deputy Gonzalo Altamirano Dimas (PAN) and Deputy Pedro Penalzoa (PRT) agreed that the Government was being unfair to the Mexican people in allocating 65 cents of each peso received from the oil export revenue to the payment of the external debt (59). Penalzoa (PRT) added that the debt crisis was only a variation of the economic crisis, and that if the suspension of payments was not declared, the national economy would continue impoverished. Highlighting a different perspective, Altamirano Dimas (PAN, the right-wing party) said that it was necessary to explore better conditions of payments, as it was not possible to burden the country with more heavy sacrifices. He added that it was impossible to pay the present magnitude of the debt either in the short term, nor in a longer one. Nevertheless, he said that it was not appropriate to end completely the external obligations, as this measure

would bring negative effects to the country's relations with the international financial markets. Therefore, it was necessary to use sufficient pressure to adjust the external debt payments to the country's economic condition.

The discussion during this period of sessions at the Chamber of Deputies ended up with a decision taken by the majority of the deputies who were members of the official party (PRI). They agreed that the Congress should set up "a new stage" of negotiating periods of the external debt payments, which would highlight the social priorities and the basic services of the population (60). Deputy Heriberto Castillo (PMS) reacted to this by saying that the members of his party would not approve the Expenditure Budget of the Federal Government for 1988. He explained that this budget was just a continuation of the same economic policies set out in the Immediate Programme of Economic Reconstruction (PIRE, 1st December 1982) which had already proved to be a mistake and had sacrificed the Mexican people (61).

Meanwhile, in the Chamber of Senators the majority (members of the official party, PRI) supported a governmental initiative to buy the external debt at 50% of its value. Senator Hugo B. Margain considered that the

transfer of part of the Mexican external debt into bonds was a good operation for the country. It was a decision, he added, that incorporated the feelings of the Mexican people to stop the drain of resources out of the country. This solution, he continued, would bring a new alternative to carry on with the country's development, and it also showed that the creditor nations understood that the debt problem had to be solved with the combined effort and contribution of both debtors and creditors. Following the same path, Senator Humberto Hernández Haddad stated that it was fair that the international creditors accepted that they were involved in the debt problems as much as Mexico was, so they would have to contribute to solving the Mexican debt crisis. Senator Margain added that he shared the President's thesis that in order to be able to pay, growth had to come first, as it was not possible to pay the debt by sacrificing the development and growth of the country (62).

After the Union Congress finished its sessions, individual remarks were made in newspapers. Among those there was one made by the President of the Great Commission of the Chamber of Deputies, Nibbles Reynes Berezaluce (PRI), who stated that the moratorium of the external debt payments would be a last resort; thus, for the time being, the economic authorities should try to

maintain a good reputation abroad through negotiations. At the same time, Deputy Porfirio Camarena Castro, who represented the workers fraction (CTM) of the PRI, stated that the workers' movement affiliated to the CTM and PRI did not agree on the question of a moratorium. Nevertheless, he insisted that the external economic policy should be changed so that the country would pay to the international banks only 10% of the revenue from oil exports (63).

A few months later there was a celebration of the XXVIII USA-Mexico Interparliamentary Meeting (5th-11th March 1988) held in New Orleans, USA. The deputies and senators who represented the Mexican delegation prepared in advance a working paper which established that Mexico was prepared to pay its external debt through new negotiations which extended the period of time when the payments fell due. This document also mentioned the importance of continuing with the policy which aimed to reduce the debt capital by selling this debt on the international secondary markets. The Mexican legislators made clear to the Americans that Mexico needed enough economic resources for its development; thus it was necessary to limit the money allocated to the external payments. On the other hand, they invited American

capital to make direct investments in Mexico in areas which were allowed by the law (64).

A month later there was the VIII Canada-Mexico Interparliamentary Meeting (17th-23th April 1988) held in Ottawa, Canada. Senator Humberto Hernández Haddad (PRI) said to the Canadian legislators that Mexico needed to reduce the burden of its external debt, so that it could recover its internal growth. He added that Mexico's position regarding its external debt was to demand the joint responsibility of both parties involved in the problem, as Mexico had supported the policy of paying its external creditors. Senator Hernández Haddad asked the Canadian legislators to cut down the trade protectionist measures, otherwise the Mexican people's effort would have been in vain (65). During the same month of April (13th), the 79th International Interparliamentary Conference was held in Guatemala. There, Deputy Javier Garduño Pérez (PRI) asked for a political negotiation of the external debt in which the governments of both creditor and debtor nations could express their opinions (66). A week after that, there was the Cuba-Mexico Bilateral Legislators' Meeting. In this forum Deputy Jorge Montufar Araujo (PRI) blamed the protectionist attitude of the industrialised countries - which neither allowed the free trade of Mexican raw materials, and nor

paid a fair price for the products that Mexico exported - for the greater burden of the debt on Mexico (67).

During the months of April, May, June, and July 1988 the national political environment was oriented towards the presidential electoral campaign. So the debate in the newspapers centred on the electoral campaign rather than the debt issue. Members of the Union Congress did not have a particular activity until they resumed their ordinary session on 1st September 1988. By then Mexico had a newly-elected President, Carlos Salinas de Gortari. During the 1988 sessions of the Union Congress both Chambers of Senators and Deputies had lengthy debates on the results of the election and the legitimacy of the new government. During the year the main focus of attention changed from the debt to vote-rigging. Once more the credibility of the government in holding clean elections failed in spite of a pledge to end the PRI's history of fraud.

To sum up, some PRI members were unhappy with the debt while others supported the idea of paying it. The political opposition was clearly opposed to repaying the debt. The result was a real debate between the different sides.

Notes.-

- (1) El Día, 27th September 1983.
- (2) Uno más Uno, 1st April 1984.
- (3) El Día and El Universal, 10th April 1984.
- (4) Excélsior and El Sol, 6th June 1984.
- (5) El Universal, 7th June 1984.
- (6) Uno más Uno, 26th June 1984.
- (7) Excélsior, El Universal, El Heraldo, 12th September 1984.
- (8) Excélsior, 28th September 1984, and El Día, 26th September 1984.
- (9) El Universal, 17th April 1985.
- (10) Excélsior, 24th July 1985.
- (11) El Día, 14th August 1985.
- (12) El Universal, 2nd September 1985.
- (13) Excélsior, 10th September 1985.
- (14) Uno más Uno, 2nd October 1985.
- (15) El Universal, 7th October 1985.
- (16) El Universal, 7th October 1985.
- (17) El Universal, 16th October 1985.
- (18) Excélsior, 21st October 1985.
- (19) Excélsior, 24th October 1985.
- (20) Excélsior, 24th October 1985.
- (21) Excélsior, 24th October 1985.
- (22) El Universal, 26th October 1985.
- (23) El Universal, 28th October 1985.
- (24) Excélsior and El Universal, 9th November 1985.

- (25) El Día, 11th November 1985.
- (26) El Universal, 11th November 1985.
- (27) El Día, 12th November 1985.
- (28) El Universal, 20th December 1985.
- (29) Uno más Uno, 22nd January 1986.
- (30) El Día, 30th January 1986.
- (31) Uno más Uno, 4th February 1986.
- (32) El Universal, 6th February 1986.
- (33) Excélsior, 15th February 1986.
- (34) Uno más Uno, 24th February 1986.
- (35) Uno más Uno, 25th February 1986.
- (36) Uno más Uno, 25th February 1986.
- (37) Uno más Uno, 25th February 1986.
- (38) Uno más Uno, 28th February 1986.
- (39) Uno más Uno, 13th March 1986.
- (40) Uno más Uno, 2nd April 1986.
- (41) El Universal, 11th April 1986.
- (42) Uno más Uno, 11th April 1986.
- (43) Uno más Uno, 18th April 1986.
- (44) El Universal, 4th June 1986.
- (45) El Universal, 11th June 1986.
- (46) El Universal, 25th June 1986.
- (47) El Día, 25th June 1986.
- (48) El Día, 25th June 1986.
- (49) El Día, 25th June 1986.
- (50) El Universal, 25th June 1986.
- (51) El Día, 25th June 1986.

- (52) El Día, 25th June 1986.
- (53) El Día, 25th June 1986.
- (54) Excélsior, 1st October 1986.
- (55) Excélsior, 3rd October 1986.
- (56) El Universal, 11th and 14th July 1987.
- (57) Excélsior, 2nd December 1987.
- (58) Uno más Uno, 28th December 1987.
- (59) Uno más Uno, 28th December 1987.
- (60) Excélsior, 23th December 1987.
- (61) Excélsior, 29th December 1987.
- (62) Uno más Uno, 31st December 1987.
- (63) Uno más Uno, 31st December 1987, and Excélsior, 30th December 1987.
- (64) Uno más Uno, 6th March 1988.
- (65) Uno más Uno, 18th and 21st April 1988.
- (66) Uno más Uno, 14th April 1988.
- (67) El Financiero, 21st April 1988.

CHAPTER SIX
The Deepening Debate in Civil Society

I) Financial Institutions

Up to 1st September 1982, the Mexican banks were private institutions which had their own regulations and decided their internal organisation, though they followed the national monetary policies dictated by the Bank of Mexico (El Banco de México). During his last State of the Nation speech, President López Portillo announced the nationalisation of the banks after the massive flight of capital from the country in August 1982. From that time, the banks in Mexico became autonomous governmental institutions whose general directors and senior members were appointed by the Mexican President. Even so, they were able to continue a tradition of independent observation on financial affairs.

The story of the financial institutions is one of growing resistance by Mexican-based banks to the terms imposed on Mexico by the international banking community. The Bank of Mexico was the slowest to adopt this critical stand, and initially none of the key banking institutions did. But by 1989 the Mexican banking system was united in its condemnation of the way in which the international

banking system was handling the question of Latin American debt.

Throughout 1982 the national financial institutions gave total support to the government in its handling of the debt crisis. In the first half of the year they repeatedly stated that there would not be any default on Mexico's debt, and that the external debt was not greater than the country's capacity to pay. On 21st April 1982, the President of the Administrative Council of the National Bank of Mexico said that although the external debt amounted to approximately US\$80,000 million this was not beyond what Mexico could pay. He added that in the short term there was no other solution than to renegotiate the debt; nevertheless, he thought that the payments could be met, as in the short term foreign currency would enter the Mexican economy, mainly from the tourist sector. In his view there were four things that had to be done to alleviate the situation: a) reduce the real growth of the economy; b) increase exports; c) increase the tourist sector; and d) diminish imports (1). Bank spokesmen gave no hint at all of the crisis which was to unfold four months later.

After the negotiation of the 1982 agreement with the IMF, the banks made very positive remarks about the way the financial authorities had managed to reduce the debt.

For example, on 11th June 1983 the representative of the Bank of America in Mexico, José Carral, said that it was excellent that Mexico had met its external obligations. He insisted that the effort made by Mexico was exemplary, as during the first six months of 1983 the economic indicators showed the success of the Immediate Programme of Economic Reconstruction (Programa Inmediato de Recuperación Económica, PIRE), launched at the beginning of 1983 (2). The Deputy Director of the National Bank of External Trade, Humberto Soto, said that the renegotiation of the private external debt with the foreign banks had allowed industry to receive the supplies of machinery, heavy industrial inputs, and raw materials which had been suspended during the first six months of 1983 (3).

By 1984 the banking sector was no longer united in its public positions on the debt crisis. There were people who held a different view of the same problem. On the one hand, the General Director of the National Bank of Foreign Trade, Alfredo Phillips Olmedo, said that although there was a long way to go, Mexico had consolidated the path towards sustained growth, based upon a firm foundation (4). A month later he also said that the restructuring of the external debt would give the country a breathing space and the potential to face up to its international commitments. He added that the

debt service payments absorbed a large proportion of the national budget; nevertheless, Mexico had decided to avoid irresponsible attitudes and fulfil its obligations faithfully (5). This was a position supportive of that of the government.

During 1984 the kind of statements made by key figures from the national banks changed significantly. They began to observe that the restructuring of the debt had not solved the external debt problem, and they began to question the value of economic sacrifice. In 1984 the Deputy Director of the Bank of Mexico, said that the economic austerity measures adopted by some of the great debtor countries (including Mexico), and the restructuring of the external debt, which was possible due to the cooperation of the international banks, were just palliatives. He implied that there would be no solution to the debt crisis until there was a major reform of the global economy (6). The Director of International Policy of the Bank of Mexico, Ariel Buira, stated that it was possible to pay and that Mexico would pay; nevertheless, the fundamental problem was to decide for whom Mexico was working and in benefit of whom the country was applying a strict programme of economic adjustment. It was time to ask why the solution of economic and social problems and the growth of the economy should be postponed in an attempt to meet debt

payments. The country was tired of working with the sole target of paying off the international banking system. He added that in Mexico there were numerous, multi-faceted problems, solutions to which had to be deferred in order to send abroad enough foreign currency to pay the debt. This was an significant drain of resources which made the recovery process more difficult (7).

The mixed comments of the banking institutions during 1985 were very similar to those of the previous year. The Bank of Mexico's information bulletin suggested that the existence of protectionist measures imposed by the first world nations and the heavy external debt would prevent the debtor countries from overcoming their crises (8). There were further comments in favour of more external loans. For example, the President of the Mexican Association of Banks, José Juan de Olloqui, said that it was convenient, for the time being, to ask for more loans. Mexico should increase its non-oil exports in order to attract foreign currency, which was vital to finance the import of capital and goods inputs, as well as to meet the payments of the foreign debt (9). The official position of the Bank of Mexico in 1985 insisted that Mexico's external debt represented "only" 3.8% of the value of the proven oil reserves of the country (10). There were two different responses from the banking system: one in favour of borrowing, the other against it.

By 1986 the bulk of banking sector comment and pressure was in favour of a moratorium, although the banks still spoke only of a negotiated moratorium. On 21st February the ex-president (11) of the Bankers' Association of Mexico (Asociación de Banqueros de México), Carlos Abedrop Dávila, said that taking into account that a moratorium was not about stopping paying but about when and how to pay, Mexico should negotiate a moratorium with the international financial community. He added that Mexico should negotiate a moratorium which would not consist of eliminating payments, so the country would be able to continue with an adequate rhythm of investment and economic growth. Not to go for a negotiated moratorium could block the healthy development that the population required (12). On the other hand, there were official opinions which aimed to diminish the problem by publicly giving different sorts of economic figures. On 13th May the Director of the Bank of Mexico (el Banco de México), Miguel Mancera Aguayo, affirmed through the media that the "operational deficit" of the public finances was corrected; that the internal debt had been reduced, and that more realistic interest rates would be introduced to stimulate internal savings (13).

After this sort of remark made by the Director of the Bank of Mexico, which to some of the public appeared

to contradict the claim of a 'crisis' in the debt problem, the criticism made in the editorials of the newspapers was the reflection of general feelings of discontent in society. The general tone of the criticism was that the Bank of Mexico was talking about "real rates" rather than "nominal rates"; using the "real rates" to prove what the Bank wanted. Thus, by using the "real rates" to demonstrate that the internal debt had been reduced, the Bank of Mexico made an obvious mistake which could be noticed by common sense, as in "nominal rates" the debt was bigger than ever before. After all, what people experience every day is the "nominal rates" and "nominal prices" of single commodities (14).

Thus, during 1984-86 the position of the Bank of Mexico continued to be strongly in favour of paying all the external debts, while the rest of the banks took up different positions.

In 1987 there was a unanimous call from the banks asking the financial authorities to adjust the debt service payments to the country's real capacity to pay. On 13th February the Director of the National Bank of Foreign Trade (Banco Nacional de Comercio Exterior), Alfredo Phillips Olmedo, stated that the debt problem was linked with a commercial and a financial problem; he suggested that the government should try to solve the two

aspects together: by expanding international markets for Mexican products, by finding more financial resources from international banks, and by trying to adjust the debt service to the country's real capacity to pay (15). At the same time key spokesmen for the Mexican banking system were complaining to the international community. On 3rd November 1987, the General Director of the Bank of Mexico, Miguel Mancera Aguayo, said to international financiers and economists in Washington that international cooperation was not enough to solve the debt problem. He blamed the fact that there were no policies to coordinate the behaviour of the industrialised countries towards the undeveloped countries, and that there was not enough flexibility to relieve the burden of the debt (16).

By 1988 the banks were insisting that the policies of the government - although valid in 1982 - were no longer appropriate to the changed conditions of the late 1980's. This position became clear in a report, prepared for the Bank of Mexico, which argued that the external debt strategies adopted in 1982 saved the international financial system from collapse. Nevertheless, the same strategies did not make sense in 1988, as they had not managed to improve the country's capacity to pay. In May 1988 a researcher from the Bank of Mexico said that the then current strategy of the external debt had had its

justification in the first years of the crisis; nevertheless, it did not continue to be feasible. It did indeed avoid a collapse of the international financial system; however, it had not improved the payment capacity and the possibility of an economic recovery in the debtor countries (17).

Some other bank institutions blamed the international system. In May 1988, the Director of "Banca Serfin" and ex-president of the Mexican Association of Banks, José Juan de Olloqui, said that Mexico had met its obligations to the international financial community, probably to an even greater degree than necessary, and in return the creditor banks had not responded as required. Thus, he pointed out that the next step was to renegotiate the external debt, but this time in a less cooperative frame of mind, as the creditor nations would not change their selfish position. In his view, it was important to convince the international banks that for their own interest it would be advisable to find a definitive solution to the debt problem (18). Thus, one of the stronger solutions that the financial authorities found in 1988 to renegotiate the external debt was the commercial exchange of debt, offered at a discount on the international market. Following this line, the General Director of "Nacional Financiera" (the institution which acted as a financial agent of the federal government

abroad), Ernesto Marcos Giacomán, announced on 25th May 1988 that, with the aim of reducing the capital and the servicing of the external debt, Mexico, Brazil and Argentina would soon launch such a new programme of debt discounting (19). The banks thus followed, with some doubts on details and especially on estimates of Mexico's ability to pay, the general approach of the government which owned them. The comments of the banks, however, indicate diverse internal doubts within the government.

II) Business Organisations

In this section we will set out the position of the private sector towards the debt crisis. From the beginning the private sector agreed that the government should repay the debt and not declare a moratorium or default. But within the private sector there were some organisations which pressed the government to ask for more money, and others which wanted to see the government change its internal economic policies, that is to say, make budget adjustments rather than borrow more money abroad. The position of the private sector did not change

significantly after the September 1985 earthquake -it continued to support repayment.

The reason why Mexican business in general did not want the moratorium was clear. They were afraid of losing the international support which they so desperately needed for the manufacture of their industrial products. Many Mexican businesses depended on the imports of raw materials, while others were trying to sell some of their products abroad. What is clear is that the infrastructure of Mexican industry depended heavily upon American industry, either in terms of the supply of raw materials or the export of manufactured products. So it is not surprising that the private sector wanted the Mexican State to face its international commitments.

The position of private enterprise during 1982 was of total confidence in the government; their argument was that although the external debt was a painful problem, it was a necessary one, because the alternative would have been for the economy to stagnate, and the country could not afford to do so. Leaders of different private organisations made this point. For example, in January 1982, Aurelio Tamez García, Vice-President of the National Chamber of Manufacturing Industry (Camara Nacional de la Industria de Transformacion, CANACINTRA) said as much in a newspaper interview (20). The same

happened later on when Alejandro Cobian, President of International Advisers, on 12th August, made public his view that it was the best strategy to renegotiate the external debt (21). There were, of course, some leaders of the private sector, like Enrique Madero, President of the mining enterprise "Ferroaliaciones Autlán", who did not hesitate to point out that the government was wrong in trying to accelerate the development of the economy using only the income from oil (22). But generally speaking the government received the support of the private sector. It is important to point out that around November 1982, - after the first debt renegotiation with the international financial community - a group of private sector analysts expressed their concern about the role of the State in the renegotiation of the private debt. They declared to the national newspaper "Excélsior" that it was not in the interests of the private sector for the state to play a double role: on the one hand negotiating the private debt with the international banks, on the other guaranteeing the external debt of the private sector (23).

In 1983 public expressions of business opinion continued along the same lines. In March three of the most important private sector corporations issued a public declaration. The Business Coordinating Council (Consejo Coordinador Empresarial, CCE), the CANACINTRA,

and the Mexican Republic Employers' Confederation (Confederación Patronal de la República Mexicana, COPARMEX) declared that the suspension of the external payments would have led Mexico to a catastrophe. They insisted that in the present economic circumstances Mexico did not have any choice but to renegotiate the external debt. They emphasised that the international institutions trusted Mexico as it had proved to be able to met its external payments, and that it was necessary therefore to maintain this image by honouring the economic agreements (24). On the same day, the President of the Confederation of Industrial Chambers (Confederación de Cámaras Industriales, CONCAMIN), Alfonso Pandal Graf, said that the restructuring of the external debt revealed the confidence in which Mexico was held by the international banks in spite of the huge level of foreign debt that was owed (25).

There were many other statements of that kind made by spokespersons for Mexican business throughout 1984; and the volume and regularity of business announcements is an indication of just how keen Mexican business was to retain easy access to foreign credit, industrial inputs, and capital. In May 1984, the new President of the Confederation of Industrial Chambers (Confederación de Cámaras Industriales, CONCAMIN) declared that Mexico was on the right path, and it would not form a club of debtor

nations nor declare the moratorium on its external payments (26). In June 1984, the President of the Mexico-USA Commerce Chamber (Cámara de Comercio México-Estados Unidos) and the President of the Mexican Business Council for International Affairs (Consejo Empresarial Mexicano para Asuntos Internacionales) publicly announced that the renegotiation of the Mexican external debt agreed by the international banks was a sign of confidence in President Miguel De la Madrid's government. This renegotiation would also allow the country to use some of the economic resources to attend to the basic necessities (27).

In September 1984, CANACINTRA said that the extension of the debt payment period would allow the private sector to use the foreign currency for imports (28). During the same month, the President of CONCAMIN, Jacobo Zaidenweber, stated that the Mexican debt renegotiation that was taking place in the USA would allow the country to have more time to overcome the economic crisis and inflation (29).

Holding a different opinion, the ex-President of COPARMEX, José Luis Coindreau, stated that rescheduling the external debt did not amount to renegotiating it. In real terms, he added, the government was now avoiding a responsibility and it was leaving it for the new

government and the future generations, which was shameful. The government was doing well abroad, but was not winning anything. To save the government did not mean to save the nation (30). He clearly wanted a more radical solution to the debt crisis.

The beginning of 1985 continued along the same lines, though emphases were divided within the private sector. On the one hand, the Confederation of the National Chambers of Trade (Confederación de Cámaras Nacionales de Comercio, CONCANACO), argued that although the external debt had been restructured on favourable terms, the level of internal indebtedness had shown an unprecedented rise (31). On the other hand, the President of CONCAMIN, Jacobo Zaidenweber, stated that there was no risk that the international financial community would buy strategic state-owned industries, as the Law of Foreign Investment protected Mexican industry. He added that the country had the capacity to pay on time, in spite of the sacrifices of all sectors of the Mexican population, thus there would be no need to find solutions different from the restructuring of the debt which was taking place (32).

Broadly speaking, between April and August 1985 the public sector opinion lay with the government. The moratorium was mentioned only as a "utopian" solution. The bulk of Mexican business seems to have agreed that

the renegotiation of the debt was the only clear solution. For example, in April 1985, the President of the National Association of Enterprise Directors (Asociación Nacional de Directores de Empresas, ANDE), Aurelio Tamez, rejected as utopian the idea that Mexico could declare a moratorium or default on the debt. On the contrary, what was important was to renegotiate fresh interest rates and ask for less protectionist trade barriers in the industrialised world (33). Four months later, at the beginning of August 1985, Tamez emphasised again that the private sector agreed that in the case of Mexico it was important to fulfil repayment commitments (34). Thus the private sector applauded when in August 1985 the governmental financial authorities signed in New York the second contract in the largest-ever external debt restructuring in the world's financial history (35). After the signing of this contract, the private sector gave its opinion through CANACINTRA. Its industrial coordinator, Rosendo Sainz-Trapaga, said that the restructuring of the external debt had rebuilt the confidence of the international banks and represented a positive step for the country. Along the same lines, the general director of COPARMEX, Gustavo Serrano, stated that the debt renegotiation signified a new beginning for Mexican public finance (36).

It is striking too that neither the natural disaster of the September earthquakes (19th and 20th September 1985), nor the associated rumours that the financial authorities might be forced to take more drastic action, made the private sector change its mind. Instead it continued to insist that Mexico should meet its payment obligations. As if to stiffen government resolve, and to build popular support for honouring of the debt, declarations to this effect appeared very frequently in the newspapers between mid-September and November. For example, the President of CCE, stated on 31st October 1985 that the earthquake had a sociological impact, that is to say "professional agitators have guided people who did not have information to propose extreme measures that only damage the economy of the country" (37). With the same sort of reaction, members of the private sector such as the President of CONCAMIN emphasised that to declare a moratorium would have been to the detriment of the national economy and the whole country (38). The Vice-presidents of the CANACINTRA and of the CONCANACO also said that it was not the right time for a moratorium (39). Many other commentators suggested that the financial authorities should go for another renegotiation and keep to the commitment of paying the service of the debt. Among those was the President of CANACINTRA, Carlos Mireles García (40), and leaders of

the regional private sector associations from Monterrey and Saltillo.

The private sector held this line into 1986 as well: long after the banking system started to take a more critical position. During the first week of February, the President of CCE, Claudio X González said that there were enough mechanisms to pay the external debt, and that it was urgent to renegotiate the external debt (41). This was followed by Carlos Mireles García, who said that the chamber that he presided over (CANACINTRA) was not in favour of a moratorium and that not paying would damage the prestige of the country (42). The President of CONCANACO, Nicolás Madahuar Cámara, also said that it was not advisable to delay the external debt payments (43); later, the President of the National Council for Foreign Trade (Consejo Nacional de Comercio Exterior, CONACEX), Fernando Gómez, stated that it was very important to be realistic and accept new renegotiations, as the present conditions for debt payments were not realistic (44).

We have to remember here that in 1986 the international price of oil fell once more. This third oil crisis brought a critical change. The price of a barrel of oil fell from US\$25 to US\$12. This also happened at the time of the failure of Mexico's international creditors to lend Mexico more money. The Mexican

government, through its newly appointed Minister of Finance, Gustavo Petricioli, was trying all possible means to obtain a new credit for US\$6,000 million to pay the old debt. In these new conditions the confidence that some members of the private sector had in the government began at last to evaporate. A few of them questioned the way the government was dealing with external financial matters and started suggesting different alternatives. Support for a moratorium began to grow among business leaders who had hitherto been among the most vocal critics of such a policy. On 28th March 1986 the President of the National Chamber of Trade (Cámara Nacional de Comercio CANACO), José González Bailo, stated that "the economy of Mexico has started to touch ground, and a moratorium is necessary". He clarified this by saying that a moratorium was necessary within a new formula, which understood it not as a unilateral suspension of payments but as a provisional suspension of interest and capital repayments (45). Some other members continued to support the idea of further renegotiations of the external debt. The President of CONCANACO, Nicolás Madahuar Cámara, said that it was imperative to renegotiate the external debt due to the fall in the price of oil (46). The new President of the National Chamber of Trade in Mexico City (Cámara Nacional de Comercio de la Ciudad de México, CANACO, D.F.), Ignacio Armida, stated that Mexico was living in an emergency

situation, thus it would require special treatment to pay its external debt (47).

Thereafter the whole tone of public pronouncements by the business sector changed: and what had once been a gale of support for government policy turned into an equally voluble pressure for a tough government stand against the international banking community. The Vice-president of COPARMEX, Ramón Corral Ávila, said that it was time to renegotiate the external debt because it was necessary to avoid chaos and the general lack of confidence (48). The American Chamber of Mexican Trade (Cámara Americana de Comercio de México, CAMCO) declared that it was urgent for Mexico to be able to count on new external finance, as the country was now trapped in deciding between using its foreign currency to import basic goods or paying the debt (49). CANACINTRA said that the new proposal to renegotiate the debt would allow the country to share the responsibility with the international financial community, and that it was not out of proportion to ask the international banks to defer half of the foreign debt (50).

The centre of gravity of opinion in the private sector during 1987 was to ask for a lowering of the amounts of interest and capital that Mexico had to pay to the international banks, not merely to allow for

rescheduling. Here it should be recalled that on 20th March 1987 the newly appointed Finance Minister, Gustavo Petricioli, signed in New York the agreement for a new loan of US\$7,000 million. At that time Petricioli said that this loan was just temporary relief. At another level President de la Madrid was saying that the only long-term solution to Mexico's debt crisis was the joint responsibility of creditors and debtor nations. It was also the time when the Group of Eight Latin American countries were gathering to present a common front on the debt issue. In this context the private sector began to speak of cancelling the interest and reducing the capital of the debt. For example, on 21st February 1987, the President of the Businessmen's Centre of León, Guanajuato, Luis Rodríguez González Fuentes, said that it was necessary to ask the international banks for a cancellation of the interest (51). Another strong remark came from the President of COPARMEX, Bernardo Ardavin Migoni, who on 24th December 1987 said in a newspaper interview that it was necessary that the international banks erase part of the capital of the external debt (52).

In fact opinion in the business sector was at this time as divided as in the rest of Mexican society. No longer did one clear line emerge from the business sector. Among these remarks there were many others

supporting the government in its process of external debt renegotiation. The new President of CANACINTRA, Juan José Moreno Sada, said that the renegotiation which concluded on 20th March 1987 would allow the private sector not to cancel its investment projects, and would constitute a financial breathing space for the industrial sector (53). There was also criticism of the government, such as that expressed by the American Chamber of Mexican Trade (Cámara Americana de Comercio de México, CAMCO) to the effect that the conversion of the external debt into new investment would generate inflation, and that Mexico was far from being able to offer the economic security that investors required (54). Others went to the extreme of suggesting that fifty percent of the external debt could be paid by selling the enterprises of private and state joint ventures. That was the view, for example, of the President of the National Association of the Industrialists of Transformation (Asociación Nacional de Industriales de la Transformación, ANIT), Ignacio Muñoz (55). The President of CCE Agustín F. Legorreta spoke in favour of a new negotiation of the Mexican external debt which would represent less sacrifices to the people and would avoid a long economic recession (56). One of the most remarkable statements came from the Director of the Chamber of Manufacturing Industry (Cámara de la Industria de Transformación, CAINTRA), Jorge Arrambide Garza, who declared that President De la Madrid sooner or later

would be obliged to announce the suspension of payments (57).

During 1988 some private sector organizations continued to support the government in its renegotiation plans while others emphasised the need to do more. Representatives of CANACO and CANACINTRA stated in January 1988 that Mexico should design more mechanisms to reduce the interest payments of the external debt (58). In the same way CAMCO said that the international banks would give a discount to Mexico of up to 40% if the Mexican government would exchange part of the debt for bonds (certificates) which could be redeemed in a period of 20 years (59). A month later, leaders of three private sector organizations (CONCAMIN, CONCANACO, and COPARMEX) declared unanimously that it was vital to negotiate with the international banks for a reduction of the capital which was owed (60), although two months later these same organisations made it clear that - in their view - a moratorium would ruin the economic opening that Mexico needed (61).

Later on, with half of the year gone and the new presidential elections in sight, members of the private sector started to point out that the new political regime would have to find new means of renegotiating the external debt. In May 1988 the President and the General

Director of CCE, stated that if the international creditors did not cooperate in a renegotiation, Mexico would be obliged to adopt a unilateral position; this meant limiting external payments to a proportion of the growth of the economy and exports (62). Along the same lines, the President of a regional chamber in Guadalajara, Jalisco, (Regional Chamber of Manufacturing Industry, Cámara Regional de la Industria de Transformación, CAREINTRA), declared that the Mexican government should tailor the external debt payments to the Gross National Product (63).

Thus, private organizations, while continuing to accept the overall need for repayment, not only supported the policy of rescheduling but called also for interest and capital reductions.

III) Workers' Organisations

In the case of the workers, the protests against the external debt payments started from the beginning of President De la Madrid's governmental period, although the main workers' organization which is affiliated to the PRI, the Mexican Workers' Confederation (Confederación de

Trabajadores Mexicanos, CTM), generally supported the presidential economic policy. As it was seen in chapter one, the two main workers organisations in Mexico are the CTM and the Labour Congress (Congreso del Trabajo, CT). As the Labour Congress nationally brings together all the workers' unions, it also dictates the policies that all the unions should follow. Nevertheless, the CTM only in theory follows the Labour Congress, as in practise it often finds contradictory positions between the independent Labour Congress decisions and its corporativist relationship with the PRI, which force it to support the PRI and the government policies.

Thus, on 5th October 1983, the President of Economic Affairs of the Labour Congress, Mario Suárez, pointed out that Mexico should seek new debt negotiations, in which the country could obtain a reduction in the amount of interest paid. He added that it was not possible to sacrifice the Mexican people any longer, just because the economic authorities wanted to pay. It was true, he continued, that with the present policy Mexico was gaining a good reputation abroad; nevertheless, the internal social costs were very high. He pointed out that the cost of food, basic products, and services had increased remarkably, and he gave as examples the prices of electricity, water, petrol, and tax rates, which had gone up by 50%. These increases, he

continued, were dramatically reducing the purchasing power of the majority of the population, and this could eventually lead to social conflict. Mario Suárez was also the General Secretary of the Revolutionary Confederation of Workers (Confederación Revolucionaria de Trabajadores, CRT) and threatened the governmental authorities that workers would demand wage increases, whether the workers' leaders wanted it or not, because their patience would soon be exhausted. He denied that all the social strata in Mexico had suffered an equal drop in their standard of living, citing the examples of capitalists and the upper bourgeoisie. The workers and peasants had had the worst of this economic crisis, he said (64). On the same lines, eight months later (27th June 1984), the General Secretary of the Revolutionary Labour Confederation (Confederación Obrera Revolucionaria, COR), Ángel Olivo Solís, stated that the rise of half a point in the interest rates imposed by the main American banks on the debtor countries, made the Mexican external debt practically unpayable (65).

Two days later (10th July 1984), the general secretary of the National Union of Professionals in the Service of the Workers (Sindicato Nacional de Profesionistas al Servicio de los Trabajadores, also incorporated in the CTM), Porfirio Camarena Castro, said that to pay the external debt with shares in national

enterprises, was a measure which should not be taken, as it ran the risk of surrendering to international capital the decision-making power of Mexican enterprises (66).

In a more regional context, in July 1984, union leaders of Mexico, Argentina, Ecuador, Peru, Brazil, and Costa Rica gathered to propose a moratorium on the Latin American debt. The union leaders of all these countries except Mexico, agreed to press for a moratorium. At that meeting Fidel Velázquez, national leader of the CTM said that in the Mexican case, it was up to the Federal Government to take that decision (67). It was clear either that the CTM wanted to support the government's economic policy, or that it did not feel able to challenge the President's decision. On 22nd July 1984, the CTM explicitly gave its support to President De la Madrid's international policy, and agreed that Mexico should not stop its external debt payments. In its view it was not advisable for Mexico to join the group of Latin American countries which had decided to suspend debt service payments, as this measure would have serious repercussions on the country's economy. The CTM said that the Mexican government had acted with responsibility; it had accepted a commitment and was fulfilling it. The Mexican workers' movement, the CTM continued, respected President De la Madrid's policy and it was acting in solidarity with him. The official speaker of the CTM

added that it was fundamental to strengthen the alliances around the President, in order to contribute to the solution of the country's economic problems. He warned that to act differently would weaken the Mexican state, which would only benefit American imperialism (68).

Disagreements about paying the external debt continued in 1985 because of its internal consequences. The CTM began to be radicalised by the internal social costs of the debt. Even CTM leaders were no longer inclined to back the government enthusiastically. In April 1985 the economic adviser of the CTM said that the debt problem had been transformed into a problem of financial speculation, which had been promoted by the international banks through the high interest rates imposed by them (69). This argument continued in July 1985 when Alfonso Sánchez Madariaga, the man in charge of the CTM while Fidel Velázquez was absent, said that the economic and financial policies adopted by the Mexican government should not affect the working class; instead they should have an effect on those who had the economic resources to bear the crisis. By then the CTM was more in tune with other workers' organisations. Also, the secretary of the Revolutionary Workers' Confederation (Confederación Obrera Revolucionaria, COR), José de Jesús Pérez, said that the economic policies proposed by the IMF and the devaluation that promised to stimulate

Mexican exports were not the right way to re-orient Mexico's economic development. The solution, he added, was for the Mexican state to take full command of the economy and introduce into the productive apparatus the necessary structural changes which the economy demanded (70). A few days later, the economic assistant of the Labour Congress Silverio R. Alvarado, said that it was impossible to continue paying the external debt: a searching revision of the problem was needed. It was as desirable, he continued, to renegotiate the debt as to impose a moratorium: in the end the foreign currency which was coming into the country was not enough to pay the debt, not even its service, and it was impossible to postpone indefinitely social conflict in the country. The same day, the General Secretary of the Revolutionary Confederation of Workers (Confederación Revolucionaria de Trabajadores, CRT), Mario Suárez, agreed with Silverio R. Alvarado, adding that the situation of the country had been more difficult than it had been before (71). In August 1985, the Labour Congress expressed its disagreement with the financial authorities, as the economic policy of paying the external debt was, in its view, preventing the development of the nation. Its President, Ángel Olivo Solís, said that in Mexico there was an unemployment rate of 10 per cent, and that the situation could deteriorate even further. The Labour Congress prepared a document (Ante la Crisis, Solidaridad

y Cambio Social) in which it demanded a policy which would support the social sector, regulate the foreign exchange market, and establish a new commercial policy based upon real administrative factors with a permanent and fixed price for all products (72). On the other hand, by the end of the month (31st August), the national leader of the CTM, Fidel Velázquez, said once again that the debt renegotiation was a breathing space for Mexico, as the country could then operate without pressure and with open doors to external credit to continue its growth. He added that he was glad that the Finance Minister, Jesús Silva Herzog, had considered that it was impossible to ask for more sacrifices from the Mexican people, as they were not able to give more (73). It is clear that there was an internal division within the leaders of the CTM. Some of them push forwards to support the Labour Congress propositions, while others were backing the government through their CTM national leader.

The disaster of the earthquakes of the 19th and 20th September 1985 introduced a new perspective into the political sphere. The effect that this natural disaster had on the demands from workers' organisations was of mass mobilisation. At the beginning of October, just two weeks after the earthquakes, there was a national conference of unions on the external debt problem. As a result of this conference 75 unions (74) agreed that the

only solution for the national economy was to declare a moratorium and a total suspension of payments. They announced this in all the national newspapers and also agreed to support the Latin American effort to declare a moratorium for the whole region. Thus, these 75 unions, in solidarity with unions in other countries in the region, declared the 23rd October 1985 the "Day of Continental Action Against the External Debt" (23 de octubre 1985, Día de Acción Continental Contra la Deuda Externa). As a result, on 23rd there was in Mexico City a huge protest march, attended by members of these 75 workers' unions.

After this mass mobilisation, the country's organised workers' movement gave President De la Madrid a "basic plan to face the natural disaster that affected Mexico City" ("plan básico para enfrentar la situación de siniestro que afectó a la ciudad de México"). In this plan it was explained that the earthquakes made the Mexican peoples' economic and social problems worse. The leader of the Labour Congress (Consejo del Trabajo, CT), Ángel Olivo Solís, when handing this document to the President added that the earthquakes had left thousands of Mexicans without work, and the housing problem, which was already severe, increased, to the old problems have been added new ones. Thus, the organised workers' movement demanded from President De la Madrid that Mexico

should negotiate the external debt on a different basis, asking for preferential treatment; even the international creditors were lead to expected new and different initiatives from Mexico, as after the earthquakes the international context was quite favourable to negotiating the debt along new lines. Furthermore, the group of Latin American countries in debt wanted to see a more radical decision from Mexico, the Labour Congress continued. Mexico had the solid support of most countries in the region for a change in its external debt policy. It was said that, as Mexico could count on this support, the USA would not be able to take economic sanctions against Mexico, if the country pressed for a moratorium (75). In other words, the workers' movement was trying to suggest that the government should take advantage of the international situation, what we have called in chapters four and five the "missed opportunity of September 1985".

A number of factors led the financial authorities to consider, or at least to speculate on the possibility of a partial moratorium or temporary suspension of payments. These factors included the workers' mass mobilisation against the external payments, the pressures from the middle classes who insisted on maintaining their standard of living and purchasing power, pressures from the upper economic groups which felt the insecurity caused by declining resources, the poverty and misery of peasants

and agrarian workers who had gradually been leaving the countryside hoping for a better life in the city, aggravated by the natural disaster of September 1985 and the anxiety of those who lost their homes during the earthquakes. In this context, the national leader of the CTM, Fidel Velázquez, said on 1st October 1985 that the Mexican government was considering action along the lines of a partial suspension of external payments, and that the CTM was supporting it. He added that this action would relieve the economic pressure and would open the door for a Mexican recovery (76). The initial position that the CTM and the CROM held, that is to say, in favour of paying the debt and not urging a moratorium, was abandoned after 28th September 1985, when in a meeting the CROM proposed a suspension of debt service payments for the following one or two years, due to the natural disaster (77).

As was shown in chapter four, during the six months after the earthquakes, Mexico did not pay interest, yet the international creditors did not argue about this situation, due to the gravity of the state of emergency declared by the Mexican government. Nevertheless, a month after the earthquakes the financial authorities felt that they could go ahead with new negotiations, thinking of a new internal economic adjustment programme, which is the standard IMF condition for renegotiations. Thus, a

month after the disaster Mexico started to negotiate a new loan for US\$7,150 million, which was authorized by the IMF for 1987. In this context, in which the government opted to negotiate rather than suspend the debt payments, the position of the CTM was rather ambiguous. On 5th October 1985 its national leader, Fidel Velázquez, said that the workers' sector rejected the IMF's conditions, although at the same time he said that "the organised workers' movement will support all negotiations on the external debt, provided that they do not imply increased costs and sacrifices for the majority"(78). On another occasion Fidel Velázquez said that the government should extend the payment periods of the external debt. He added that Mexico required not only a pause in its external debt payments, but also another type of renegotiation that extended the payment period for the time that was necessary to overcome the disaster caused by the earthquakes. He denied that the postponement of the debt service payments for six months was a moratorium; on the contrary, he continued, it was done to obtain better facilities for paying (79). It was obvious, once more, that the CTM, and Fidel Velázquez in particular, was not inclined to challenge presidential decisions. Nevertheless, on another occasion (16th October), after the Baker Plan was presented in Korea, Fidel Velázquez said, referring to this plan, that such an initiative was a very dangerous one, as it forced the

debtor countries to impose rigid economic programmes as a prerequisite for obtaining new loans (80).

In spite of the official position of the workers' movement expressed through the CTM, unions of different sectors continued to express individual positions in favour of a moratorium. The reaction of these unions after the financial authorities started negotiating the new loan, was of anger. A case in point was the National Union of University Workers (Sindicato Único Nacional de Trabajadores Universitarios, SUNTU) which on 6th October 1985 held a meeting attended by 50 university union organizations. At this meeting, the university unions agreed to support the moratorium. Through its leader, Nicolás Olivos Cuellar, the union said that the new loan would be given to Mexico just to guarantee that the country would continue to pay its external debt (81). Moreover, in October for the second time, members of the Labour Congress and independent unions, demanded the immediate suspension of the external debt payments, with the intention that those economic resources should be redirected to the reconstruction of the areas damaged by the earthquakes, and also to satisfy the primary needs of the country (82).

In addition to all this, demonstrations in support of the moratorium were organized by a whole list of

unions: by the Mexican Union of Electricians (Sindicato Mexicano de Electricistas, SME); the Authentic Labour Front (Frente Auténtico del Trabajo, FAT); the Workers' Union of the National Autonomous University of Mexico (Sindicato de Trabajadores de la Universidad Nacional Autónoma de México, STUNAM); the National Union of University Workers (Sindicato Único Nacional de Trabajadores Universitarios, SUNTU); the Independent Central of Agrarian Workers and Peasants (Central Independiente de Obreros Agrícolas y Campesinos, CIOAC); the Revolutionary Workers' Confederation (Confederación Obrera Revolucionaria, COR); the Fishermen's Union (Sindicato de Pesca), and the National Independent Union of Workers of the Baccalaureate Colleges (Sindicato Independiente Nacional de Trabajadores del Colegio de Bachilleres, SINTCB) (83). All of these had support from their members in asking for a moratorium.

1986 saw a more active and radical participation from the workers' organisations. As the financial authorities decided to ask the international banks for more loans, the resentment and anger of the workers showed even more. There were more demonstrations in support of the moratorium and in opposition to the adoption of the Baker Plan. Key spokespersons for organised labour regularly described this plan's conditions as negative for the country's economy; even

more, the adoption of the plan was seen as a disaster and catastrophic for the development of the whole nation. Even the leader of the CTM was very strongly against it. Partly forced by the workers' political involvement, Fidel Velázquez had to take a more radical attitude.

The first joint public statement came from electricians, telephonists, members of the CRT and of the CTM. They declared that Mexico should form a debtors' club together with other Latin American countries, suggesting that the moratorium should be declared by a bloc of countries. The leader of the CRT, Mario Suárez, said that his organization agreed to ask the federal government to limit the external debt payments to 30% of export earnings. The leader of the Union of Mexican Telephonists (Sindicato de Telefonistas de México), Francisco Hernández Juárez, said that the workers' leaders should adapt to the new critical circumstances and fight for their members, otherwise they would be overtaken by the masses, who would choose to take justice into their own hands (84).

On 5th February 1986 the General Secretary of the CTM, Fidel Velázquez, made a statement of a more radical kind. He said that Mexico was incapable of paying the external debt. Thus, the creditors should understand the situation and ask for the money later. In view of this

problem it was important, he added, first to look after the necessities of the majority of the population. National circumstances, he continued, did not made refusal of a moratorium essential, as it was totally impossible for the country to pay interest or the capital on the debt. He insisted that it was impossible for Mexico to pay the debt with the resources at its disposal (85).

Massive demonstrations continued. The first workers' demonstration organized in 1986 was on 5th February, the day of the commemoration of the Anniversary of the Promulgation of the Mexican Constitution. 14,000 people from 122 different workers' organizations gathered at the Independence Monument (Monumento a la Independencia) to protest against the external debt payments and to repudiate the Baker Plan (86). A few days later, on 28th February, 80 trade union organizations prepared a Forum of the Workers' Movement facing the Crisis and made a public statement in which they declared that the suspension of the external debt payments was an unavoidable necessity. They also criticised the Baker Plan, saying that it would devastate the national productive plan, increase unemployment, and diminish real wages (87). Another demonstration of 40,000 workers took place on 14th March in front of the National Palace to demand a total moratorium on the external debt. They

protested against the internal and external economic policy, and told the government not to ask for new loans and instead to redistribute what it had in a more equitable way (88). Later the miners expressed their discontent to President De la Madrid. In May 1986, Napoleón Gómez Sada, the miners' leader, said to the President that the external debt was acting against Mexican sovereignty (89). A month later still the vice-president of the Labour Congress, said that the financial situation of the country would force it to declare a moratorium. He added that the external debt was not just Mexico's responsibility but also the creditor nations' liability, as the Mexican population could not be subjected to more sacrifices due to the external payments (90).

A trade union round table was organized on 15th June 1986 to demand an immediate moratorium. 100 different workers' organisations protested against the debt renegotiation. The unions responsible for the organisation of this round table were: the SME, the CROC, the FAT, the university unions, and the SNTE. In the document produced by the round table, the workers censured the official economic policy which opted for fresh debt to pay the old debt (91). Even the CTM had, by July, come to the point at which it was prepared to insist that the negotiations in Washington should have

as a precondition the cancellation of part of the principal and a reduction in the interest rate (92).

As had happened the previous year, 23rd October 1986 saw the declaration of the Second Day of Continental Action against the external debt. The Labour Congress, the university unions, the electricians, the pensioners, and the agrarian workers, supported the continental movement in Mexico, striking for 24 hours (93).

In 1987 the workers' organisations in alliance with popular, peasant and left-wing organisations continued to protest against the government's economic policies. However, the CTM did not clearly support them. Officially at least, it refused to back their demands. The biggest demonstration was organised on 20th October 1987, when 95 workers' organisations marched in protest against the external debt payments. Prior to this occasion (10th October) Fidel Velázquez, President of the Labour Congress and national leader of the CTM, warned these workers' organisations that it was a risk to Mexico's sovereignty to stop paying the debt. He added that if Mexico were to stop paying the external debt, as some sectors of society wanted, it would be very difficult to sell Mexican products in the international market (94). Once more, the strategy of the leader of the CTM was to

mediate workers' demands and not to challenge the government's economic policies.

Nonetheless the protests against the external debt payments continued. On 4th November 1987 Samuel Ruiz Mora, leader of the National Council of Workers (Consejo Nacional de Trabajadores, CNT), said that the federal authorities had to take the decision to declare a moratorium. He added that the cost of five years of economic crisis had produced a decrease of 50% in the purchasing power of wages and the end of hopes for a better life for the majority of people (95). On the same day, Raúl Moreno Wonchee, Secretary of Political Affairs of the Labour Congress, said that the external debt payments were an obstacle to the country's modernization (96). Also Héctor San Román, in charge of the Social Security Commission of the Labour Congress, said that the peace of the country was endangered by the heavy external debt payments (97).

Meanwhile, workers' organisations in different regional provinces of Mexico were talking about a reduction in the debt payments. For example, in the State of Mexico (Estado de México), the Confederation of Workers and Peasants (Confederación de Trabajadores y Campesinos), and the Revolutionary Federation of Mexican Workers (Federación Revolucionaria de Trabajadores

Mexicanos) said that the interest payments should be reduced to an amount that would allow the country to recover its economic development path (98).

The same pattern of workers' protest and CTM moderation persisted in 1988. On 28th April 1988 the National Workers Council said that Mexico could not grow if it allocated 50 per cent of its national public funds to pay foreign debt. It added that the working class had dramatically lost its purchasing power in the last five years, and that unemployment had increased tremendously, to the extent that every day workers were being made redundant (99). In the headquarters of the electricians' union, there was a conference of the Federation of Electrician Unions' Organisations of Latin America. The conference made a final statement in favour of the total suspension of the external debt payments. They added that the payments represented a scourge for the Latin American people, as social programmes in health and education were reduced (100).

Yet once again the CTM supported the government's position. On 14th June 1988 Fidel Velázquez said to the media that the federal government had a plan to renegotiate with the international banks the external debt service payments, aiming to reduce the interest and capital of the debt. He added that what was necessary was

more dialogue, not confrontation. He added that it was not possible to continue weighing down the working class with the external payments, without risking the survival of the institutions of the Mexican state (101). It should be noted, however, that the CTM itself was divided on this. On 28th May 1988, Gilberto Muñoz Mosqueda, leader of the CTM, said to President De la Madrid that the economic austerity and other effects caused by the external debt were leading to the breakdown of the democratic system in Mexico. This time the leader of the National Confederation of Peasants (Confederación Nacional Campesina, CNC), Héctor Hugo Olivares Ventura, supported Muñoz Mosqueda's declaration (102).

On 4th July 1988 the president of the Social Security Commission of the Labour Congress, and also secretary of the same affairs in the CTM, Héctor Sanromán Arriaga, declared that due to the lack of economic resources, 80% of the Mexican population were undernourished. He explained that this undernourishment was being aggravated by the horrendous drain of economic resources leaving the country to pay the external debt. The government's economic policies had stopped the creation of new jobs for the new generation and the allocation of resources to social security (103).

On 8th August 1988 the leader of the National Federation of Union Groupings (Federación Nacional de Agrupaciones Sindicales, FNAS), Samuel Ruiz Mora, said that the decision to carry on paying the external debt was equivalent to holding up still further the progress of the growth and development of the nation. He added that it was regrettable to have to reduce by the federal budget by 75%, as it represented a neglect of public services and social demands that the public were claiming (104). A month later, on 10th September 1988, the general secretary of the Latin American Central Organisation of Workers (Central Latinoamericana de Trabajadores, CLAT), Emilio Máspero, said that the external debt problem was a political one, thus it should be politically negotiated with the international banks. He added that the Latin American workers were creating a common front, as they were the ones who most suffered the negative effects of the economic crisis (105).

The leader of the telephone workers, Francisco Hernández Juárez, proposed on 1st October 1988 to call a popular consultation about the external debt issue, which would end up as a national referendum. He said that finding a solution to the debt problem in this way would be acting with democratic legitimacy, which was the basis of the Mexican modern state (106).

Thus, with the workers' organisations, there was considerable discontent with presidential policies, though some leaders felt obliged to support their party's president in difficult times. The basis of discontent was the effects of the repayment strategy on the level of economic activity in Mexico, which severely affected the labour force, and in particular, the very large workforce in the public sector.

IV) Peasants' Organisations

The main peasants' organisation that exists in the Mexican Political System is the Peasants' National Confederation (Confederación Nacional Campesina, CNC). Due to the peculiarity of the Mexican political system previously explained in chapter one, the main peasants' organisations are incorporated in the official party, the PRI. This fundamental characteristic limits the degree of autonomy that the leaders of such organisations have when representing the interests of their members. These limitations are also reflected in the small number of public statements made by these organizations, and the lack of autonomous thought. Nevertheless, the fact that some statements were made publicly by the peasants' organisations, says a good deal about the magnitude of the debate going on in society regarding the external debt crisis. So too do the opinion of non-official peasants' organisations. Although the last group represents only a small minority of the agrarian population, their points of view are far more radical and give some indication of the range of feelings among the Mexican peasantry as a whole, although it is not obvious whether the individuals speak for the peasants organisations or for themselves.

During the first three years of the period analysed in this thesis (1982 - 84) there were no public statements of what the peasants' organisations thought about the debt crisis. It is in 1985 when we first start to hear about this debate. On 12th October 1985, the leader of the Independent Central of Agricultural Workers and Peasants (Central Independiente de Obreros Agrícolas y Campesinos, CIOAC), José Luis Hernández, said that Mexico, like many other countries, had an obstacle to development, as it had had to allocate astronomic amounts of money to pay its external debt. He added that the Mexican workers' task was to save the country and in this way to pronounce in favour of the cancellation of the foreign debt. In his view, it was an insane thought to attempt to pay or for the banks to expect to be paid. In strict justice, he added, Mexico did not owe anything to anyone, as it has been exploited by imperialism and through the transnational companies which plundered Mexico's natural resources (107).

On the other hand, and representing the official voice of the peasants, the General Secretary of the Revolutionary Confederation of Workers and Peasants (Confederación Revolucionaria de Obreros y Campesinos, CROC), an organization which is affiliated to the ruling PRI, supported the government idea of renegotiating the debt. The leader of the CROC, Alberto Juárez Blancas,

said on 1st November 1987 that it was important to renegotiate the external debt, to try to obtain fixed rather than floating interest rates; to try to reduce the principal of the debt to half its value; and to establish a limit to the amount of money to be paid, so that the popular classes would not have to be sacrificed any longer because of the external economic commitments. He added that the time had arrived for the debtor countries to take a more radical decision towards the debt issue, as even the creditor nations knew that debtor countries could not pay, particularly when the interest rate was not fixed. To carry on paying, he added, would involve risking the political and social stability of the Third World nations. In the case of Mexico, he continued, peasants and workers' standards of living had dropped dramatically in recent years, to the extent that Mexicans and foreigners were amazed that there was still social peace and national unity (108).

On the other hand, supporting the government's official position, the speaker of the National Confederation of Peasants (Confederación Nacional Campesina, CNC), an organisation which is affiliated to the PRI, said on 8th June 1988, that the external debt should be restructured. He added that only to pay the interest, Mexico was annually paying to the international banks the equivalent of the wealth generated by 4,000,000

agricultural day-labourers. A lot of these workers, he added, were in a precarious state of health due to the lack of adequate food and physical exhaustion. Many of these families migrated for 6 or 8 months every year, sleeping under trees, hardly eating, and without drinkable water. He declared that the government should solve all these problems in the countryside, before thinking of paying the external debt (109).

There always were far more radical voices speaking for at least part of the Mexican peasantry. On 25th February 1986, the General Secretary of the Independent Central of Agricultural Workers and Peasants (Central Independiente de Obreros Agrícolas y Campesinos CIOAC), Ramón Danzos Palomino, said that the Mexican government was making a historic mistake in trying to pay the external debt with the limited national resources. In his view, there did not seem to be any radical change in the economic policy followed by the government, in spite of there being a real need for it. He said that change was urgent and should have been made to meet the workers' salary demands, and to stimulate peasants and their food production. He added that the present antidemocratic and antipopulist policy followed by the government, was favouring national and international capital, allowing foreign investment to penetrate the national economy. On the other hand, the workers' purchasing power diminished,

as salaries did not keep pace with inflation. He observed that in the countryside the small producers and the peasants were going bankrupt, and unemployment was growing among agricultural workers, who were left with the option of going to the USA to find a job. In his view, the government should try to follow a populist and democratic policy, which required the declaration of a moratorium and total suspension of payments of both capital and interest (110).

A year later, on 24th June 1987, the leader of the "Zapata Front" (Frente Zapatista), Porfirio Palacios declared that his organisation was against the external payments. He said that the debt which the Mexican government had was with its people rather than with the IMF. He added that the resources which the government was using to pay the debt could have been used to stimulate the agricultural sector and food production (111).

In 1988, as in 1986, the General Secretary of the Independent Central of Agricultural Workers and Peasants (Central Independiente de Obreros Agrícolas y Campesinos CIOAC), Ramón Danzos Palomino, called for a declaration of the suspension of the debt payments for at least five years, in order to get out of the economic crisis and therefore to be able to reinvest all that money in the industrial and agricultural sector. If Mexico carried on

paying its external debt, he added, it would be impossible to maintain economic independence, technical and industrial sufficiency, and food self-sufficiency (112).

By the middle of 1988 the situation was drastic and even peasants' organisations which had a connection with the PRI adopted a strong line. On 18th September 1988 the General Secretary of the Revolutionary Confederation of Workers and Peasants (Confederación Revolucionaria de Obreros y Campesinos, CROC), Alberto Juárez Blancas, said that Mexico would not sacrifice its popular sectors to an even greater extent in order to meet its international financial commitments. He added that the country would not default, but it now demanded new and better conditions of payment. The creditors should recognise that the real value of the external debt was not what they wanted to charge, particularly when Mexico had paid in recent years billions of American dollars to service the debt (113).

Thus, even with a group not known for its willingness to oppose a PRI president, some pressure for change and evident discontent, was apparent.

V) The Church

Since 1857, after a long civil war, the Mexican Roman Catholic Church has kept apart from state matters. It is therefore very unusual for members of the Church to give their opinion on political and government affairs. The fact that this section is included in this chapter is due to a small number of significant statements about the external debt payments made by members of the Church in Mexico. It was as a result of the economic problems and their consequences in exacerbating the social conflicts that some members of the church expressed their opinions.

It was not until October 1985, that is to say, after the September earthquakes, that members of the Mexican Church started making official public statements about the consequences of paying or not paying the external debt. The earthquake incident sharpened the social and economic conflicts in the country to the extent that even the church had something to say. These open statements were of a different nature depending on whether they came from members of the senior or the junior clergy. As in some other Latin American countries, members of the junior clergy have taken a more critical position and even supported the Liberation Theology movement.

It is clear that there was a radical current of opinion within the Roman Catholic Church in the debt crisis. This manifested itself, for example in September 1985 and in a meeting organised by bishops of the Latin American countries in Madrid, the Mexican ex-bishop of Cuernavaca, Sergio Méndez Arceo, said that the most critical problem in Latin America, apart from the abuse of power by the USA, was the debt, and the best thing to do with it was not to pay it at all, but to cancel it (114). Méndez Arceo was a bishop in Cuernavaca, México, up to the time when he resigned from this appointment because of conflicts with the Mexican Catholic Church due to his support for the Liberation Theology movement in Latin America, particularly in Nicaragua. In this meeting held in Madrid, Méndez Arceo said that it was Christian to do what was possible, but if it was not possible to pay, the debt should not be paid. He added that in his view the mission of the Church in Latin America should be evangelical and liberating (115).

This is perhaps to be expected from a priest of his politics. More surprising was that a month later, on 8th October 1985, the Mexican Episcopate and the Archbishop of Mexico made declarations in favour of discussions on the external debt, which could even include a moratorium. When they made this declaration, they said that they were in agreement with the US bishops; and that all of them

were based upon the suggestions made by Pope John Paul II (116).

Then, on 21st February 1986, as was mentioned in chapter four, President de la Madrid presented to the political representatives of the different social groups and political organisations the new economic programme in the National Palace. In his speech President De la Madrid said that the Mexican government would negotiate the external debt again, but this time with the sole intention of paying according to the country's real capacity, and including a contingency clause to ensure that the country's payments would take account of the behaviour of international oil prices. After this presidential declaration, the reaction of Jerónimo Prigione, Papal Nuncio sent from the Vatican, was of total support for the President. Jerónimo Prigione said on 28th February 1986 that nobody was obliged to do the impossible, and Mexico had its right to re-structure its external debt payments according to its real economic possibilities. The Papal Nuncio said that the position of the President was serious, pragmatic and comprehensive. The President, Jerónimo Prigione added, had his feet on the ground and proposed what the country realistically could do. It is obvious, he continued, that the external payments have to be made according to the actual capacity of the country to pay them. This was also the position of

the Pope. He added that the Vatican would like to improve the dialogue between the Church and the state in Mexico, as in his view it was not possible to carry on accusing each other because of old, past conflicts (117).

The Church held to a middle position on the debt in terms of policy. On 12th June 1986, four of the main ecclesiastical leaders of the Mexican Church, Ernesto Corripio Ahumada, Carlos Quintero Arce, Jerónimo Prigione, and Carlos Francisco Enríquez, made a joint public statement against the suspension of external payments, although at the same time they recognised that it was not advisable to sacrifice the Mexican people, as there were risks of social conflict. They recommended taking measures to control the inflationary process which most affected the lower social classes. They added that the Church message to its parishioners was of peace and tranquillity, although it also invited them to ask for their rights without choosing violent options (118). Carlos Quintero Arce, Bishop from Hermosillo, Sonora, said that the moratorium was not a good option, as Mexico had always been a responsible debtor. "I am not an economist", he continued, "nevertheless I realise that people cannot suffer any more, as they are losing confidence in the government". This lack of confidence, he added, is because people are angry to see their purchasing power diminishing day by day (119).

The Church's position shifted all the time. Sixteen months later the position of the Mexican clergy was one of greater concern. On 15th October 1987, they said that the external debt was unpayable, and that the purchasing power of the population had been reduced by the government's external economic policy. The convenor of the Catholic Church in Mexico expressed the collective feeling of the Mexican bishops, when saying that one of the negative consequences of the economic policy adopted by the government was the reduction of the purchasing power of the population by a deliberate policy of freezing the minimum wage. As a consequence there had been an uneven distribution of the nation's wealth and a deterioration of the quality of life. Felipe Hernández, the speaker for the Church, said that it was impossible to continue the indebtedness, thus the Mexican Church supported a moratorium if people's future was at stake. Such a recommendation, he continued, was made by the Episcopal Commission (Comisión Episcopal de Pastoral Social) in a publication called An Ethical Consideration of the International Debt (Una Consideración Ética de la Deuda Internacional) (120). Father Felipe Hernández also referred to the Continental Working Day on the External Debt in which thousands of Mexican workers took part. He said that the Mexican Church supported all just struggles which aimed to question the severe consequences of the international external loans (121).

This document produced by the Episcopal Commission outlined the Mexican economy's loss of its self-sufficiency and the inflationary process as a consequence of the external debt payments. It pointed out the reorientation of the production process towards exports of both goods and services. To the contrary of the policy traditionally followed by the clergy, which would normally suggest austerity in the public budget, this document said that one of the negative effects of the external debt had been the reduction in public spending on the social budget, which had diminished the quality and quantity of social and public services. The same document argued that the Mexican people should make their past and present leaders responsible for what they had done, and that society should take steps to demand the clarification of this responsibility, in other words, to find out who was to blame. The document also pointed out that the external debt crisis had nullified the social mobility expectations of the middle classes, while it had increased taxation of the poor and helped the owners of capital to avoid taxation. The document ended by saying that the debt crisis had increased violence, crime and organised attacks. It had also been observed that a large proportion of the rural population had migrated to the big cities, particularly Mexico City. From the political point of view, the document points out that there had been a number of criticisms of the PRI for

its antidemocratic attitude and determination to remain in power (122).

On 8th August 1988, the church proposed a moratorium on the external debt payments as an extreme solution to this economic problem. In the words of the Bishop of Coatzacoalcos, Veracruz, Carlos Talavera, the Episcopal Commission considered it unjust that the heaviest burden should be borne by the weakest sector of society, without demanding greater responsibility from the international banks which had been the ones who had benefited from this crisis. Thus, the Commission exhorted the international banks to assume their co-responsibility, and proposed to the government that in any case the servicing of the debt would be conditional on internal economic growth. The Commission also suggested that an elementary moral principle was to restore what had been stolen from the nation and its people. It also criticised Mexican citizens who had managed to accumulate some money during this crisis and who had taken the money abroad, thinking more of themselves than of the nation. The Commission said that it was inhuman and anti-Christian to put private, entrepreneurial interests above the interest of survival of the population. The bishops who were members of this Commission ended by stating that economic growth did not mean development, and that the opportunity

offered by this crisis should be used to reorientate the economy along healthier lines (123).

The significance of this activity by the Church was two-fold: first, that the Church spoke out at all, and secondly that it became increasingly hostile to the government to which traditionally it had usually given tacit support.

Notes.-

I) Financial Institutions

- (1) El Heraldó de México, 21st April 1982.
- (2) El Día, 11th June 1983, and Uno más Uno, 25th August 1983.
- (3) El Universal, 8th October 1983.
- (4) El Universal, 8th August 1984.
- (5) Excélsior, 9th September 1984.
- (6) Excélsior, 15th May 1984.
- (7) El Universal, 8th July 1984.
- (8) El Universal, 11th April 1985.
- (9) El Universal, 30th May 1985.
- (10) Excélsior, 3rd November 1985.
- (11) Carlos Abedrop Dávila's opinion is an important one as he was the last president of the private banks, that is to say, the last president of the Bankers' Association of Mexico (Asociación de Banqueros de México) before the banks were nationalised by the Mexican State.
- (12) Excélsior and Uno más Uno, 21st February 1986.
- (13) Excélsior, 13th May 1986.
- (14) Excélsior, 14th May 1986.
- (15) Excélsior, 13th February 1987.
- (16) Uno más Uno, 3rd November 1987.
- (17) El Financiero, 5th May 1988.
- (18) El Financiero, May 1988.
- (19) Excélsior, 25th May 1988.

II) Business Organizations

- (20) El Universal, 12th January 1982.
- (21) El Día, 12th August 1982.
- (22) Novedades, 31st August 1982.
- (23) Excélsior, 12th November 1982.
- (24) El Día, 9th March 1983.
- (25) Excélsior, 9th March 1983.
- (26) El Universal, 27th May 1984.
- (27) El Universal, 7th June 1984.
- (28) Uno más Uno, 9th September 1984.
- (29) El Sol de México, 20th September 1984.
- (30) Excélsior, 9th September 1984.
- (31) Uno más Uno, 19th January 1985.
- (32) El Universal, 17th March 1985.
- (33) Excélsior, 16th April 1985.
- (34) El Día, 1st August 1985.
- (35) This second contract was part of the package of debt restructuring that the Mexican government negotiated with its international creditors in 1985. The first part was negotiated on 29th March 1985, when the sum of US\$28,600 million, due to mature in the short term was renegotiated, and a period of grace of 15 years was obtained. Five months later, 29th August 1985, the second contract was signed for US\$20, 100 million due to mature between 1985 and 1990, with another extension of 15 years.
- (36) El Universal, 31st August 1985.
- (37) Uno más Uno, 31st October 1985.
- (38) El Universal, 11th and 25th October 1985.
- (39) El Día, 17th October 1985.
- (40) Excélsior, 18th October 1985.

- (41) Uno más Uno, 14th February 1986, and El Universal 4th February 1986.
- (42) El Día, 5th February 1986, and El Universal 7th and 8th February 1986.
- (43) El Universal, 19th February 1986.
- (44) Uno más Uno, 24th February 1986.
- (45) Excélsior, 28th March and 23rd May 1986.
- (46) Excélsior, 28th March and 23rd May 1986.
- (47) Excélsior, 31st May 1986.
- (48) Excélsior, 7th June 1986.
- (49) El Universal, 22nd May 1986.
- (50) El Universal, 2nd July and 23rd September 1986.
- (51) Excélsior, 21st February 1987.
- (52) Excélsior, 24th December 1987.
- (53) El Universal, 31st March 1987.
- (54) El Universal, 17th June 1987, and Excélsior 1st July 1987.
- (55) Uno más Uno, 28th August 1987.
- (56) El Universal, 26th December 1987.
- (57) Excélsior, 30th December 1987.
- (58) Uno más Uno, 18th January 1988.
- (59) El Universal, 15th February 1988.
- (60) Uno más Uno, 14th and 15th March 1988.
- (61) El Financiero, 12th May 1988.
- (62) El Financiero, 26th May 1988.
- (63) El Financiero, 1st June 1988.

III) Workers' Organizations

- (64) Excélsior, 5th October 1983.
- (65) El Día, 27th June 1984.
- (66) Excélsior, 10th July 1984.
- (67) El Día, 8th July 1984.
- (68) Uno más Uno, 22nd July 1984.
- (69) El Día, 1st April 1985.
- (70) El Día, 12th July 1985.
- (71) Excélsior, 18th July 1985.
- (72) Uno más Uno, 2nd August 1985, and Excélsior 3rd August 1985.
- (73) El Día, 31st August 1985.
- (74) As it is quite relevant for this study, the list of the 75 unions that took part in the conference mentioned is as follows:

- 1.- Sindicato Mexicano de Electricistas (SME)
- 2.- Sindicato Único Nacional de Trabajadores Universitarios (SUNTU)
- 3.- Sindicato Nacional de Trabajadores de la Industria del Hierro y Acero (SNTIHA)
- 4.- Sindicato Obreros Libres (SOL)
- 5.- Central Independiente de Obreros Agrícolas y Campesinos (CIOAC)
- 6.- Frente Auténtico del Trabajo (FAT)
- 7.- Unión General de Obreros y Campesinos de México (UGOCEM-Roja)
- 8.- Coordinadora Nacional del Movimiento Urbano Popular (CONAMUP)
- 9.- Sindicato Nacional Único y Democrático de los Trabajadores de BANCOMEX (SINUDET)
- 10.- Sindicato Nacional de Trabajadores de Impulsora Mexicana de Telecomunicaciones (SNTIMTEL)

- 11.- Sindicato Independiente Nacional de Trabajadores del Colegio de Bachilleres (SINTCB)
- 12.- Sindicato de Trabajadores de la Universidad Nacional Autónoma de México (STUNAM)
- 13.- Sindicato Nacional de Trabajadores de la Secretaría de Desarrollo Urbano y Ecología (SNTSDUE Sección 33)
- 14.- Frente Nacional de Trabajadores de la Educación Normal
- 15.- Sindicato de Trabajadores de la Universidad Iberoamericana (STUIA)
- 16.- Sindicato de Trabajadores de Moore Bussines
- 17.- Sindicato Nacional de Obreros Agrícolas (SNDA)
- 18.- Frente Internacional de Defensa del Empleo y el Salario (FIDES)
- 19.- Sindicato Único de Trabajadores de la Secretaría de Pesca (SUTSP)
- 20.- Sindicato de Trabajadores Académicos de la Universidad Autónoma de Chapingo (STAUACH)
- 21.- Sindicato de Trabajadores Académicos de la Universidad de Sonora (STAUS)
- 22.- Sindicato de Trabajadores Administrativos y de Intendencia de la Universidad Juárez Autónoma de Tabasco (STAIUJAT)
- 23.- Sindicato de Trabajadores de Harper Wyman
- 24.- Sindicato Unitario de Trabajadores de la Universidad Autónoma de Nayarit (SUNTUAN)
- 25.- Sindicato Autónomo de Trabajadores de Imprenta Nuevo Mundo (SATINM)
- 26.- Sección Sindical de Académicos del SNTE del Instituto Nacional de Antropología e Historia
- 27.- Sindicato de Trabajadores y Empleados de la Universidad Juárez del Estado de Durango (STEUJED)
- 28.- Sindicato de Trabajadores Académicos de la Universidad Juárez del Estado de Durango (STAUJED)
- 29.- Sindicato de Trabajadores de la Universidad Autónoma de Zacatecas (STAUAZ)

- 30.- Sindicato Independiente de Trabajadores Académicos de la Universidad Autónoma del Estado de Morelos (SITAUDEM)
- 31.- Delegación D-111-22, Bellas Artes, del SNTE
- 32.- Sindicato de Trabajadores de "El Anfora"
- 33.- Sindicato de Trabajadores de la Industria Papelera Nacional (STIPN)
- 34.- Sindicato Único de Trabajadores de Fundidora Artística
- 35.- Sindicato Único de Trabajadores del Centro de Investigaciones y Estudios Avanzados del IPN (SUTCIEA)
- 36.- Sección "Ideal" del Sindicato Nacional de Trabajadores de la Industria del Hierro y el Acero
- 37.- Sindicato Unitario de Trabajadores de la Universidad Autónoma de Sinaloa (SUNTUAS)
- 38.- Sindicato Independiente de Trabajadores de Editorial UNO (SITEUNO)
- 39.- Movimiento Unificador Nacional de Jubilados y Pensionados (MUNJP)
- 40.- Asociación Única de Trabajadores Administrativos y Manuales de la Universidad Autónoma de Yucatán (AUTAMUADY)
- 41.- Sindicato Independiente de Trabajadores de Tránsito de México
- 42.- Sindicato de Trabajadores Académicos de la Universidad Autónoma de Guerrero (STAUAG)
- 43.- Sindicato de Trabajadores de Montacargas de México
- 44.- Sindicato de Trabajadores del Campo Emiliano Zapata
- 45.- Sindicato Único de Empleados de la Universidad Michoacana (SUEUM)
- 46.- Cooperativa de Trabajadores de Refrescos Pascual
- 47.- Trabajadores de la Fábrica de Costura "Tirole"
- 48.- Sección Sindical de Telecomunicaciones, D.F. del Sindicato Nacional de Trabajadores de la Secretaría de Comunicaciones y Transportes (SNTSCP)

- 49.- Trabajadores de SICARTSA II Etapa
- 50.- Coordinadora Nacional de Trabajadores Bancarios
- 51.- Sindicato de Empleados y Trabajadores al Servicio de la Universidad Veracruzana (SETSUV)
- 52.- Sindicato de Trabajadores de Refrigeradora Tepepan (STERT)
- 53.- Sindicato de Trabajadores de Cervecería Moctezuma, S.A.
- 54.- Coordinadora de Trabajadores de la Secretaría de Comunicaciones y Transportes
- 55.- Sindicato de Trabajadores y Empleados de la Universidad Autónoma Benito Juárez de Oaxaca (STEUABJO)
- 56.- Sindicato Único de Trabajadores del Centro de Investigación y Docencia Económica (SUTCIDE)
- 57.- Sindicato de Profesores de la Universidad Michoacana (SPUM)
- 58.- Sindicato Único de Trabajadores de la Universidad Autónoma de Puebla (SUNTUAP)
- 59.- Sindicato Nacional de Trabajadores de la Secretaría de Salud (Sección 5)
- 60.- Sección Nacional UPN y del SNTE
- 61.- Sindicato Único de Trabajadores del Centro de Investigaciones y Estudios Superiores en Antropología Social (SUTCIESAS)
- 62.- Sindicato Nacional de Trabajadores de la Secretaría de Agricultura y Recursos Hidráulicos (SNSARH-Sección 65)
- 63.- Sindicato de Personal Académico de la Universidad Autónoma de Zacatecas (SPAUAZ)
- 64.- Sindicato de Trabajadores y Empleados de la Universidad de Sonora (STEUS)
- 65.- Sindicato de Trabajadores Administrativos de la Universidad Autónoma del Estado de México (STAUAEM)
- 66.- Sindicato de Trabajadores de la Fundidora de Hierro y Acero, S.A. (STFHASA)
- 67.- Sindicato de Trabajadores de la Fábrica de Pinturas OPTIMUS

68.- Sindicato Único de Trabajadores de la Universidad Intercontinental (SUTUIC)

69.- Unión Popular de Vendedores Ambulantes de Puebla "28 de Octubre"

70.- Sindicato de Trabajadores Administrativos y de Intendencia al Servicio de la Universidad Autónoma de Guerrero (STAISUAG)

71.- Sindicato Nacional de Trabajadores del Transporte Vertical

72.- Sindicato Independiente de Trabajadores de la Escuela Superior de Agricultura Hermanos Escobar (SITESAHE)

73.- Intersindical

74.- Sindicato Único de Trabajadores del Colegio de México (SUTCOLMEX)

75.- Federación Sindical Revolucionaria

(75) Excélsior, 1st October 1985, and Uno más Uno, 2nd October 1985.

(76) El Universal, 1st October 1985.

(77) Uno más Uno, 2nd October 1985.

(78) Uno más Uno, 5th October 1985.

(79) El Día, 3rd October 1985.

(80) Uno más Uno, 16th October 1985.

(81) Excélsior, 6th October 1985, and Uno más Uno, 11th October 1985.

(82) Uno más Uno, 19th October 1985.

(83) El Universal, 24th October 1985; Excélsior, 4th November 1985; Excélsior, 16th November 1985; El Día, 17th November 1985, and El Universal, 9th December 1985.

(84) Excélsior, 2nd February 1986, and Uno más Uno, 4th February 1986.

(85) El Día, 5th February 1986; and Uno más Uno, 1st March 1986.

(86) Excélsior, 6th February 1986.

- (87) Uno más Uno, 28th February 1986.
- (88) Uno más Uno, 13th March 1986.
- (89) Excélsior, 3rd May 1986.
- (90) El Día, 11th June 1986.
- (91) Excélsior, 15th June 1986, and El Universal, 20th July 1986.
- (92) Excélsior, 21st July 1986.
- (93) Excélsior, 18th September 1986, 8th October 1986, 17th October 1986, and 23rd October 1986.
- (94) Uno más Uno, 10th October 1987.
- (95) Excélsior, 4th November 1987, and El Día, 1st November 1987.
- (96) El Día, 4th November 1987.
- (97) Excélsior, 6th November 1987.
- (98) Uno más Uno, 29th December 1987.
- (99) El Día, 28th April 1988.
- (100) Uno más Uno, 30th May 1988.
- (101) El Financiero, 14th June 1988.
- (102) Excélsior, 28th May 1988.
- (103) Uno más Uno, 4th July 1988.
- (104) Uno más Uno, 8th August 1988.
- (105) Excélsior, 10th September 1988.
- (106) Excélsior, 1st October 1988.

IV) Peasants' Organizations

- (107) El Día, 12th October 1985.
- (108) Excélsior, 1st November 1987.
- (109) Excélsior, 8th June 1988.

(110) Uno más Uno, 25th February 1986.

(111) Excélsior, 24th June 1987.

(112) Uno más Uno, 1st February 1988.

(113) Excélsior, 18th September 1988.

V) The Church

(114) and (115) Excélsior, 9th September 1985.

(116) Uno más Uno, 8th October 1985.

(117) Uno más Uno, 28th February 1986.

(118) and (119) El Universal, 12th June 1986.

(120) and (121) Uno más Uno, 15th October 1987.

(122) La Deuda Externa de México, una consideración ética de la deuda internacional, Comisión Episcopal de Pastoral Social, Pontificia Comisión Justitia et Pax.

(123) Uno más Uno, 8th August 1988.

CHAPTER SEVEN

The Rise of the FDN and the 1988 Election

As has been seen in the last four chapters, the external debt issue provided the Mexican people with an opportunity to express their opinion about what was their view of Mexico's future. The different views varied from one extreme to another, depending on the political and socio-economic background of the political subjects in action. No doubt each of these subjects had the best of intentions when suggesting the potential options to overcome the debt problem.

This range of opinions was shaped into real political forces when the presidential political campaign began in 1987. The polarisation between those who had what we have called a nationalist view and those who had an institutionalist perspective increased. Their opinions on the debt and the economy developed further, sustaining their own views about how Mexico could achieve a more democratic society. Responding to this debate, the more nationalist sector of the PRI left the official party and formed political alliances with other nationalist parties. The institutionalist sector remained inside the ruling party, certain that the internationalist perspective on the economy would ensure, in the long term, the healthy economic development of the country and

victory in the 1988 presidential elections. The two main contenders in launching their campaigns stimulated a very intense political debate, a most unusual occurrence in the political life of contemporary Mexico.

I) The Break in the Ranks of the PRI and the Formation of the FDN

The external debt crisis provided an opportunity for a double response: from above and from below. From below, as was shown in chapter six, the Mexican people, through different forums and organisations, expressed their concern about the economic situation of the country, and in this way opened the debate about what they thought the government should do. From above, as was shown in chapters four and five, the external debt crisis provided the government with an opportunity to continue with the set of policies with which they intended to create a modern state, a more acceptable one to the international community. This was the view of a new team of politicians who gradually won positions in the Mexican government, slowly replacing the old team of astute, experienced but corporatist and often nationalist politicians. As was explained in chapter one, this new group of well-educated technocrats had a view of a modern Mexico more in tune with the international image of a modern state. This view

had in several cases been formed in foreign universities and certainly enabled the leadership to talk confidently about their plans to influential foreigners.

Thus, what has been called here the "missed opportunity of September 1985", described in chapter four, had the effect, among different sectors of the population, of opening a debate and stirring grass root forces. Some of these popular groups went out on to the streets in protest; others organised internal debates. Political parties as well as educational institutions organized discussions, seminars and conferences to evaluate the magnitude and consequences of the external debt problem. All made suggestions concerning what the government should do to solve the economic problem.

At the same time, the issue of the debt crisis and the impossibility of finding a simple satisfactory economic solution to it combined to exacerbate the internal contradictions within the official ruling political party, the PRI. These contradictions produced a division between those members who claimed to be seeking to open democratic channels of discussion, thus leading to further institutional reform - following the changes brought about by a previous political reform in 1979 - and those who were not readily prepared to modify the existing structures. This division created a faction

inside the PRI called the Democratic Tendency (Movimiento de Renovación Democrática, MRD, better known simply as Corriente Democrática). The two main leaders of the Democratic Tendency (Porfirio Muñoz Ledo and Cuauhtémoc Cárdenas) represented national values which, they argued, had to be reinstated, as there was a clear danger of following economic policies which only suited the interests of transnational capital. By September 1987 the Democratic Tendency had a platform of policies which claimed to seek a more independent, just, free and productive nation.

Members of the government, including the President himself, strongly believed in a set of liberal international economic policies combined with an incremental development of Mexican political institutions. Thus, the external debt crisis provided them with an opportunity to continue their liberal international economic policies, through which they intended to create a modern Mexican state both in internal and external respects. For the government, the debt crisis was an opportunity to open channels of democratic expression and representation that a modern state should have. It was the scene of an open debate in which most of the different social sectors could discuss and express their views. Individual personalities could avoid the personal responsibility of introducing an

element of change which irritated the most conservative elements of the Mexican political system. The discussion was open because the external debt was an issue in itself. It was a major risk, but the government took the gamble.

As was mentioned in chapter one, the process of opening the debate and more democratic practice had its original roots in 1977, when the Mexican government introduced a political reform. For the first time a written law (Ley de Organizaciones Políticas y Procesos Electorales, LOPPE) was established to regulate the behaviour of the political parties and the electoral process. It was then that new political parties were registered and proportional representation became a central issue. The result of new proportional representation rules gave more seats to minority parties. This phenomenon is important as background to an understanding of some of the changes which appeared later. As more political parties, particularly from the left, gradually won greater representation in the Union Congress, the political atmosphere became more critical of PRI positions, even before the debt issue arose.

Continuing with this sort of open democratic and liberal political approach, the new government presented on 30th May 1983 their National Development Plan (Plan

Nacional de Desarrollo), which contained a section about the National System of Democratic Planning (Sistema Nacional de Planeación Democrática). This system aimed to use "popular consultation" as the main instrument to win consensus and restore faith in the political system. Thus, when the external debt became an issue, the national system of popular consultation was put into practice, and had to prove its viability.

Meanwhile, a different sort of political demand appeared inside the PRI. By October 1986 the Democratic Tendency had emerged as an internal faction determined to rescue what was then called the "historic" position of the PRI. Its recognised leader was Porfirio Muñoz Ledo, former President of the PRI, Labour Minister under Luis Echeverría, Education Minister under López Portillo, and permanent ambassador of Mexico to the UN. It also included personalities such as Carlos Tello, former director of the Bank of Mexico and architect of the 1982 nationalisation of the bank system; Cuauhtémoc Cárdenas, former governor of Michoacan and son of the popular, nationalist former President Lázaro Cárdenas; and the distinguished economist Ifigenia Martínez. All of these argued that the liberal economic policies favoured by the government were opening the door to financial capital and power, destroying the aspirations of the "revolutionary" sector to have a free nation.

On 9th September 1987 the members of the Democratic Tendency inside the PRI, presented to the whole party a document which proposed policies orientated towards the reinstatement of "national" values, threatened in their view by domestic financial and transnational capital. This document contained a set of economic policies in which the external debt payments played an important role. The document suggested that the financial authorities should suspend external payments until a significant reduction was obtained from the creditors. In addition, Mexico should establish a limit to the external payments so it could release economic resources for national development. The debate continued and the polarisation of ideas between the nationalist and the institutionalist inside the party increased. On another front the PRI did not accept a more democratic procedure for the nomination of the PRI candidate for the 1988 presidential elections, as was suggested by the Democratic Tendency.

By 15th December 1987 members of the Democratic Tendency had left the official party and created the Democratic Front. When resigning from the PRI, Porfirio Muñoz Ledo said that his irrevocable and voluntary resignation was the result of his discovery that the party had given up its historical task of defending the values of a free nation. The PRI, he argued, had

abandoned the vanguard role that it should assume in the face of the crisis. It had taken an opportunist and anti-popular role, against which, in the view of the Democratic Front, it was important to fight. The PRI had lost the genuine loyalty of its members and the trust of Mexican citizens; it did not allow for changing aspirations, and it had become an obstacle in the way of a wholly democratic society. Members of the Democratic Tendency tried first to shake the PRI's conscience by putting forward a project which recalled the principles of the Mexican constitution; mainly trying to recover sovereignty. However, they were attacked and marginalised. Thus they were forced to shift from a critical to a dissident position until they formed the progressive opposition. They became determined to form a democratic front with an alliance of different forces and political parties, which would present the presidential electoral campaign of Cuauhtémoc Cárdenas.

During the presidential campaign of Cuauhtémoc Cárdenas the Democratic Front soon formed electoral alliances with other political parties and forces, and changed its name to National Democratic Front (Frente Democrático Nacional, FDN). The first group they made an alliance with was the Authentic Party of the Mexican Revolution (Partido Auténtico de la Revolución Mexicana, PARM). Immediately afterwards, the Cardenist Front of

National Reconstruction Party (Partido Frente Cardenista de Reconstrucción Nacional, PFCRN) joined them. This party had changed its name from the Socialist Workers' Party (Partido Socialista de los Trabajadores, PST), a party originally linked to the PRI's oil workers' union. (It has been alleged that former President Echeverría (1970-76) had created the PST to defuse left-wing discontent). Later on, the National Democratic Front made an alliance with the Socialist Populist Party (Partido Popular Socialista, PPS). Finally, the Mexican Socialist Party (Partido Mexicano Socialista, PMS) joined them. They also reached agreements with other political groups and parties such as the Social Democratic Party (Partido Socialdemócrata), the Mexican Green Party (Partido Verde Mexicano), the Liberal Party (Partido Liberal), the Democratic Unity (Unidad Democrática), the Progressive Forces (Fuerzas Progresistas), and the National Council of Workers and Peasants of Mexico (Consejo Nacional Obrero y Campesino de México). In this way the National Democratic Front, the FDN, gave battle to the PRI in the 1988 presidential elections. It is worth mentioning here that well after the elections were over, the FDN and the PMS formed a new single party called Party of the Democratic Revolution (Partido de la Revolución Democrática, PRD).

II) The Nominations for the Presidential Elections

The procedure for the nomination of the candidate for the 1988 presidential elections inside the PRI was slightly different from that of previous years. As has been shown, the pressure that influential party dissidents brought to bear upon senior members of the PRI created the Democratic Tendency. As a result of this pressure and the demands made by this Tendency, the PRI broke with the longstanding tradition of a secret nomination. This time it opened the selection process by naming, one month before the final decision, six potential contenders for the party's nomination. The final decision favoured Carlos Salinas de Gortari, the Budget and Planning Minister, who played a major role in drawing up President de la Madrid government's economic strategy. Salinas de Gortari's close association with President de la Madrid's structural economic reform, which reduced the state's traditionally dominant role in the economy, was a major factor in tipping the balance in Salinas's favour when the President made his choice. The nomination of Harvard-educated Salinas de Gortari was a clear decision in favour of the package of liberal international economic policies that the de la Madrid government originally introduced.

The conservative National Action Party (Partido Acción Nacional, PAN), the traditionally second electoral force in the country, presented the candidature of Manuel Clouthier, a populist businessman from Sinaloa, an agriculturally rich state in the North of Mexico. Also the right-wing Mexican Democratic Party (Partido Demócrata Mexicano, PDM), of far less electoral importance, nominated Gumersindo Magaña Negrete as its candidate.

The Mexican Socialist Party (Partido Mexicano Socialista, PMS), formed through the then recent merger of five small parties of the left, including the Unified Socialist Party of Mexico (Partido Socialista Unificado de México, PSUM) and the Mexican Workers' Party (Partido Mexicano de los Trabajadores, PMT), presented the candidature of Herberto Castillo. Castillo was an engineer who gained prominence as a political leader during the 1968 student movement. Originally, he founded and led the PMT until it merged with the larger PSUM to form the PMS.

Members of the National Democratic Front made an electoral alliance with the Authentic Party of the Mexican Revolution (Partido Auténtico de la Revolución Mexicana, PARM), and with the Popular Socialist Party (Partido Popular Socialista, PPS) to present the

candidature of Cuauhtémoc Cárdenas, the son of the now legendary President Lázaro Cárdenas, who expropriated British and American oil companies in Mexico in March 1938. Cuauhtémoc Cárdenas was also the presidential candidate of the Cardenist Front of National Reconstruction Party (Partido Frente Cardenista de Reconstrucción Nacional, PFCRN) which was the old PST. Some other political organizations made alliances with the FDN to support the candidature of Cárdenas. Thus, Cuauhtémoc Cárdenas presented himself as the standard-bearer of the Cárdenas legacy, preaching nationalism, anti-imperialism and "progressive" policies.

At the beginning of the political campaign, the PMS and the PARM wanted to form a centre-left opposition front with a single presidential candidate. But as the National Democratic Front was very strong and received a lot of support, the PARM decided to nominate Cuauhtémoc Cárdenas as its presidential candidate. The PMS decided to nominate Herberto Castillo for the presidential race. However, Herberto Castillo withdrew his candidature in favour of Cuauhtémoc Cárdenas, so all the left-wing parties had just one candidate unifying forces around the FDN. The only exception was the extreme left-wing Revolutionary Workers' Party (Partido Revolucionario de los Trabajadores, PRT), of Trotskyist extraction, which

nominated Rosario Ibarra de Piedra for the electoral race.

Thus, there were five candidates and eight political parties in the final presidential race. Four of those parties presented a common front supporting the same candidate.

Carlos Salinas de Gortari	PRI
Manuel Clouthier	PAN
Gumersindo Magaña Negrete	PDM
Cuauhtémoc Cárdenas	FDN (PMS, PARM, PPS, PFCRN)
Rosario Ibarra de Piedra	PRT

III) The Debt Crisis Issue in the 1988 Presidential Campaign

The political campaign started late in 1987 and the main issue throughout the whole of the electoral process was the external debt crisis and its implications.

In September 1987, before Carlos Salinas de Gortari was chosen as the PRI candidate, he said that the solution to the external debt problem would be found in

the continuity of the economic strategy that President de la Madrid's government started. He said that "today was not the moment for sudden changes. The task was to preserve the institutional reforms being implemented, without violent modifications, with gradualism advised by political prudence" (1).

On 4th October 1987, Carlos Salinas de Gortari was selected by President Miguel de la Madrid to be the PRI candidate. He was then seen as the man behind the current administration's drive to open up the economy and streamline the state apparatus (2). Later in October 1987, Salinas confirmed that he would continue current economic policies, particularly regarding the opening of the economy and the slimming of the state apparatus. He stated explicitly that current policies would be maintained. Thus his first announcement of an intended cabinet appointment was that of his own successor as Minister of Programming and Budget Control. For this job Salinas picked Pedro Aspe, one of his close collaborators, credited with having had an influence second only to Salinas' own in the shaping of the current administration's economic strategy (3). In his acceptance speech, Salinas made a point of explicitly promising to satisfy the demands of workers, peasants and middle classes suffering the drastic erosion of real wages and the increasing unemployment of recent years (4). Thus he

was willing to advance a strategy focused on winning an election, as well as sustaining existing policies.

At the beginning of 1988, Salinas attempted to distance himself from the outgoing administration, as economic conditions worsened. The first indication of this attitude was when Salinas publicly questioned the wisdom of devaluing the peso. He argued that the drastic devaluation had wiped out the confidence of Mexican people. In particular, on 7th January 1988, Salinas said during a political meeting in Tlaxcala: "neither in economic matters nor in any other field am I tied to any dogma or formula... I have no commitment to any continuity, apart from strengthening the fundamental principles of the Mexican people" (5).

During his political campaign, Salinas spoke of modernising the country's political and economic structures. He seemed more inclined to follow the path of modernisation, which implied a further liberalisation of the economy, and a major democratisation of the PRI internal life, including the country's electoral contests. He usually talked of a programme of government which would focus on non-inflationary economic growth, streamlining the public sector, liberalisation of trade, and the modernisation of production. The debt problem was

thus part (though a key part) of a whole reforming programme.

On 17th October 1988, during an official ceremony to extend the anti-inflationary "pacto de solidaridad económica" created by de la Madrid's government, President-elect Salinas said that one of his first acts of government would be to negotiate a reduction of the net transfer abroad of resources, in other words, the reduction of Mexico's debt payments. This is explained by the fact that the outgoing administration had hardened its attitude towards Mexico's debt position a few months before Salinas was due to take office. De la Madrid announced an intention to cut public spending and accelerate the privatisation of state enterprises. This was designed to meet the approval of Washington, which responded with a US\$3.5 billion bridging loan. In addition the government of Mexico received official praise from the US Treasury and the Federal Reserve on "the sustained adjustment effort undergone by the Mexican economy" (6). This was intended as a signal to other creditors.

Salinas kept a low profile in the period before his inauguration as President (1st December 1988), although there were indications that he would follow moderate reforming policies. He campaigned on a promise to

modernise the economy, but many of the measures open to him had already been taken. State enterprises had been reduced in number by more than half and government spending decreased by 35%, while trade protectionism was largely dismantled. Salinas was committed to maintaining the exchange rate freeze. In other words, liberal economic policies which were started during de la Madrid's government were continued and Salinas was there to make sure that they would be continued.

At his inauguration ceremony as President of Mexico (1st December 1988), Salinas gave a commitment to open up Mexico's political life. On foreign debt, he stated: "I declare emphatically that above the interests of the creditors are the interests of Mexicans" (7). However, he was still going to negotiate and try to pay off the debt. He consolidated his political position by selecting a cabinet including old-guard politicians and new-generation technocrats.

On the other hand, for the FDN, its presidential candidate and all the political groups which supported him, the government was not tackling the problem as it should. The FDN therefore proposed a platform of economic policies which were expressed in every political meeting. After certain economic considerations, prepared mainly by

the economist Ifigenia Martínez, the FDN made six proposals:

- a) To suspend immediately the accumulated external debt service as it stood at that time, in the understanding that it would be paid gradually when the government reached an agreement with the creditors.
- b) The President, after consulting the Union Congress, should prepare a package for the new debt renegotiation, taking into account the net productivity of the external credits.
- c) To adjust the capital, the interest, the terms, and the periods of grace, taking into account the real capacity of the debtor institutions to pay.
- d) To allocate only 10% of export earnings to the payment of the accumulated debt, so that the rest could be directed towards reactivating the economy. This measure would remain in place at least until a more equitable and realistic agreement could be reached with the creditors, giving preference in payment to those who were more sympathetic towards the new terms.
- e) To explore immediately access to new credit lines with international institutions, particularly Latin American ones, in order to finance exports and investment projects. These new credits should only be accepted with those institutions which accepted the new Mexican position in this debt negotiation.

f) The political parties which agreed with this position should support the new negotiating position of Mexico, through a mass demonstration, and encourage a movement to gain the support of all social sectors.

During his political campaign, Cuauhtémoc Cárdenas, presidential candidate for the FDN, committed himself to championing the spirit of the 1910 Mexican Revolution. This involved protecting private property, reducing federal control over state and municipal governments, implementing land reform and stimulating agriculture. Cárdenas proposed a return to more left-wing nationalistic policies, to reduce oil exports and to limit foreign-debt payments.

When Castillo pulled out as presidential candidate for the PMS and formed an alliance with the FDN, a new 12-point manifesto was agreed. This manifesto involved a commitment to end presidentialism and corporativism (as was shown in chapter one, the two characteristic elements of the Mexican political system); to implement a proportional representation voting system; to free the press and provide the right to information; to end the use of the armed forces for domestic repression. It also proposed a commitment to a mixed economy but the maintenance of state responsibilities for transport, communications, petrochemicals, large-scale mining and

the steel industry, banking, insurance, and foreign trade. Particularly on the external debt, the FDN proposed the suspension of service payments and the negotiation of new terms alongside other debtor nations. Castillo in particular had wanted to secure the total suspension of debt payments.

Following the 6th July elections and the debated victory of Salinas, there was clear evidence of real opposition against the external debt payments. The opposition was reflected in the creation of a social movement of national proportions. Using the debt issue as a main platform, in October 1988, Cárdenas proposed to the left the establishment of a unified mass party. That is how the Party of the Democratic Revolution (Partido de la Revolucion Democratica, PRD) was created.

The PRD included in its manifesto the tackling of the external debt problem by the six above-mentioned proposals which the FDN and Cuauhtémoc Cárdenas had used during its political campaign.

Thus, the debt crisis issue provided the PRI, the FDN, and the PAN with an opportunity to express their political views about the nation. For the PRI, this was the opportunity to create a respectable image of Mexico abroad; the image of a country who everybody would like

to trade and negotiate with, a country which could meet its international responsibilities and face the world without shame and dishonour. For the PRI this was also the opportunity to introduce substantial economic reforms of a liberal and international nature. With this package also came domestic economic reforms which put an end to the large governmental subsidies, and reformed state institutions. All these changes were intended to create a modern state which could interact equitably in the global context.

For the FDN and even for the PAN, the debt crisis issue provided them with an opportunity to reclaim national values which had been ignored by the PRI state for the Mexican population; stop the immoderate intervention of foreign capital in the Mexican economy; keep oil export revenue in Mexico, so as to be able to grow and protect national industry; stop the drain of Mexican natural and monetary resources abroad use them internally to expand education and health services for the Mexicans; offer justice, democracy and the right of a free vote to the people.

The political contest was intense and stimulated the active participation of many Mexicans. This was quite unusual in contemporary Mexico, as normally people know the results of an election before it takes place. This

was not the case in 1988 and the population took a more active and responsible attitude.

IV) Results of the Election

The elections on 6th July 1988 were for the Presidency, 500 federal deputies, 32 senators, several state governors, and hundreds of municipal mayors. The results for the presidency, according to the Federal Electoral Commission were as follows:

	votes	percentage
PRI	9,641,329	50.36
PAN	3,267,159	17.07
PDM	199,984	1.04
FDN	5,956,988	31.11
PRT	80,052	0.42
Total	19,145,512	100.00

The proportion of votes gained by each individual political party was as follows:

	percentage	
PRI	50.36	
PAN	17.07	
PDM	1.04	
PPS	10.53	} 31.11 FDN
PARM	6.27	
PMS	3.77	
PFCRN	10.54	
PRT	0.42	
total	100.00	

	Valid votes	P A N M J Clouthier		P R I C Salinas		F D N C Cárdenas	
		votes	%	votes	%	votes	%
TOTAL	19,145,512	3,267,159	17.07	9,641,329	50.36	5,956,988	31.11
Aguascalientes	168,899	47,997	28.42	84,800	50.21	31,541	18.67
Baja California Nte	413,953	100,951	24.39	151,739	36.66	153,949	37.19
Baja California Sur	85,643	16,273	19.00	46,267	54.02	22,157	25.87
Campeche	116,107	14,364	12.37	82,293	70.88	18,920	16.30
Coahuila	328,239	50,349	15.34	178,147	54.27	98,320	29.95
Colima	97,316	14,404	14.80	46,549	47.83	34,778	35.74
Chiapas	656,195	22,319	3.39	591,786	89.91	42,482	6.45
Chihuahua	521,995	199,334	38.19	284,896	54.50	35,340	6.77
Distrito Federal	2,904,169	639,081	22.01	791,531	27.25	1,429,312	49.22
Durango	356,446	60,546	16.99	226,822	63.63	67,081	18.82
Guanajuato	726,312	217,420	29.93	319,798	44.03	159,831	22.01
Guerrero	510,797	12,450	2.44	309,202	60.53	182,864	35.80
Hidalgo	421,893	24,638	5.84	273,041	64.72	119,214	28.26
Jalisco	1,194,247	367,350	30.76	508,407	42.57	285,050	23.87
México	2,331,579	380,784	16.33	694,051	29.79	1,202,679	51.58
Michoacán	614,899	63,186	10.28	142,700	23.21	394,534	64.16
Morelos	278,208	20,699	7.44	93,869	33.74	160,379	57.65
Nayarit	205,214	11,731	5.72	116,079	56.56	75,529	36.80
Nuevo León	704,156	166,915	23.70	507,524	72.08	26,941	3.83
Oaxaca	628,155	29,111	4.63	400,833	63.81	190,029	30.25
Puebla	1,091,658	107,718	9.87	781,085	71.55	193,142	17.69
Querétaro	238,058	46,251	19.43	150,783	63.34	37,633	15.81
Quintana Roo	94,322	9,138	9.69	61,973	65.70	22,772	24.14
San Luis Potosí	380,418	80,473	21.15	259,625	68.25	33,528	8.81
Sinaloa	623,904	200,066	32.07	317,029	50.81	104,531	16.75
Sonora	410,386	85,579	20.85	281,464	68.59	40,937	9.98
Tabasco	268,071	14,078	5.25	199,166	74.30	53,449	19.94
Tamaulipas	470,309	46,589	9.91	279,041	59.33	141,793	30.15
Tlaxcala	184,000	10,818	5.88	110,780	60.21	57,034	31.00
Veracruz	1,516,257	78,982	5.21	948,971	62.59	470,758	31.05
Yucatán	307,657	95,950	31.19	206,375	67.08	4,964	1.61
Zacatecas	293,650	31,613	10.77	194,303	66.17	65,507	22.31

It is important to point out that 19,145,512 votes represent just over fifty percent of the 38,074,926 registered voters. Even this proportion was higher than normal in Mexican presidential elections.

These were the official results according to the Federal Electoral Commission. Nevertheless, as was explained in chapter one and due to the nature of the Mexican political system, the results of the electoral process in Mexico have been altered ever since the existence of free electoral campaigns. The PRI regularly obtains more votes than the number of registered voters who actually vote: in other words, non-existent votes are added to ensure the PRI's victory. Thus, as always, it is very difficult to say what the real results were this time. Considering that Mexico was passing through a severe economic and political crisis around July 1988, it is very difficult to believe that only 19,145,512 people went to vote, when there were 38,074,926 registered voters.

There was speculation in the media that a lot of votes for the opposition were not counted. The PAN and the FDN accused the PRI of electoral fraud. The results were issued a full week after the election day. The truth is that nobody knows what the 'true' results of the

election were. Most Mexicans considered the results only an approximation, and most believed that Salinas and Cárdenas came much closer to each other than the official results showed. The fact that Cuauhtémoc Cárdenas scored a massive victory in the Federal District (Mexico City, where he received 1,429,312 votes or 49.22% of the total against Salinas's 27.25% and Clouthier's 22.01%), made people think that the electoral results were correct only where the opposition had enough people to watch over each local ballot box, but in places where this did not happen, many opposition votes were not counted.

Cárdenas was also far ahead in his home state of Michoacán (64.16% of the votes cast), and in the state of Morelos (57.65%). Cárdenas also claimed victory in the states of Guerrero and Veracruz where, he said, there was widespread fraud against his coalition. Cárdenas also won in the federal states of Baja California, Federal District, Estado de México, Michoacán y Morelos, a total of states never attained before in the history of modern Mexico.

Clouthier lost in Sinaloa, his home state, which was extremely difficult for the local population to believe. It was argued that many votes were destroyed. As was explained in chapter one, a very strong characteristic of the Mexican political system is its

local character, thus, it is hard to believe that Clouthier lost in the federal state of Sinaloa. It is relevant to point out here that Clouthier was found dead in a car accident a year after the elections. This incident is difficult to understand without associating it with the protest that he and his supporters made after the results of the presidential campaign.

Thus, as has been seen in chapters four, five and six, the debt crisis became a matter of conversation among most Mexicans, and a crucial and sensitive point for all political organizations in Mexico. Gradually from 1982 onward, the media increasingly covered all shades of opinions concerning this problem. It had therefore developed into a fundamental issue by the time the presidential political campaign began, and particularly when Mexicans had to vote on 6th July 1988. A larger proportion of the population than ever went to vote, and although 19,145,512 votes represented only over fifty percent of the total number of registered voters, this was a significant proportion by Mexican standards. The debt issue together with the polemical discussion about the type of government that Mexico should have - more nationalist, more internationalist - acted as a powerful stimulant to active political participation. This was reflected in the results of the 1988 elections.

In a society such as that of Mexico where the level of political consciousness has never been highly developed, the experience of having to live in an economy where purchasing power diminished year by year, stirred some Mexicans from their passive attitude. External debt payments and the necessity of meeting them or not - as proposed by the institutionalists or the nationalists - became the cause of intense discussion and active participation. The two possible alternatives presented to Mexican society to solve this economic dilemma were presented by the senior economic members of the government and the PRI during electoral times on the one hand, and by the left-wing political organizations and the nationalist groups such as the FDN on the other hand. Both had an genuine intention to present the most viable economic programme to the nation; the difference was in the view of the nation that each had. Although the external payments were originally an economic issue, it became a political and fundamental matter, central to the nature of the new state.

Notes.-

- (1) Latin American Weekly Report, 10th September 1987, p.8, (WR-87-35)
- (2) Latin American Weekly Report, 15th October 1987, p.4, (WR-87-40)
- (3) Latin American Weekly Report, 22nd October 1987, p.4, (WR-87-41)
- (4) Latin American Weekly Report, 22nd October 1987, p.4, (WR-87-41)
- (5) Latin American Weekly Report, 21st January 1988, p.4, (WR-88-03)
- (6) Latin American Weekly Report, 27th October 1988, p.2, (WR-88-42)
- (7) Latin American Weekly Report, 15th December 1988, p.8, (WR-88-49)

CHAPTER EIGHT
Conclusions

I) The Impact of the Debt Crisis

There have been numerous studies of the debt crisis from a global perspective, from a Latin American perspective, and even from a Mexican one. However, very few studies have so far addressed the political dimension of the crisis, and have examined the effects of the crisis on political stability and democratic practice in Mexico. This research has focused on the political dimension of the crisis, in order to make good this important omission in the existing literature. This thesis has explored in particular two closely related questions about the practice of politics in Mexico. First, it has explored the role which political debates and political pressures have played in shaping the response of the Mexican state to one of the gravest crisis faced by the country. Second, the thesis has, by studying these aspects of the crisis, illuminated the common political practice of the Mexican state.

This work has analysed the political forces involved in the domestic debate surrounding the negotiations between the Mexican state and the IMF during this crisis. It interpreted the various economic and political pressures that different Mexican social groups exercised upon the Mexican state. The social actors taken into

account in this study were people involved in the political arena such as politicians, bureaucrats and senior members of the state; institutions with socio-economic interests inside civil society such as workers' unions, chambers of private organizations, banks, peasants' organizations, the church, the press and civil associations.

This new political debate emerged in Mexican society after August 1982, and brought some elements of compromise. The thesis has shown that slowly but steadily from August 1982, different groups in Mexican society started giving their opinions about what they considered had to be done regarding the external debt negotiations between the state and the IMF. Some of them were in favour of paying 'peso' by 'peso', including all the interest that the international financial community was asking for. Others asked for longer and better payment conditions, from an intermediate position of not repudiating the debt, but not accepting the rules of the game proposed by the IMF and the private international banks. A third group was in favour of defaulting on the debt altogether. In a space of four to five years the general opinion moved from paying to defaulting. The position of the Mexican government changed too: from paying and accepting every condition imposed by the international financial community, to paying only to the

extent of not affecting the growth of the nation's economy.

The thesis has demonstrated how public opinion concerning what the external debt negotiations between the Mexican state and the IMF should have been, generated a new political debate through newspapers and other media. The voice of different political sectors was heard, and although the government did not manage to respond directly to those voices when facing the IMF's negotiators, the political debate inside Mexican society was substantially extended. This political debate went further and stimulated the formation of new political alternatives. Alternative political organizations received popular support, to the extent that the number of seats in the Union Congress taken by the opposition in the 1988 general elections was almost 50 per cent of the number held by the official party. That is to say, 260 seats won by the official party and 240 seats shared among the different opposition parties (including left and right).

Interestingly enough, the debt issue has been so central to life in contemporary Mexico that it has prompted many different political groups to express their opinions, and so to create a more participative society, where people feel it is their duty to give their

political opinion and to express their ideas. This is a very relevant point because the tradition of Mexican society is rather to remain passive towards significant changes in public life. But this time, the economic contradictions of the repayment of the external debt have made the Mexican population express their disagreement with the government. The external debt has made some sectors of Mexican society take a more critical attitude towards matters of public life, and this is a significant event in Mexican society. However, the government paid very little attention (if any at all) to what the population said, particularly at the time when the government had to face its international creditors.

The political pressure that public opinion has exerted upon the government has forced the latter to adopt two strategies: on the one hand, to open the public debate to all sectors, but not to follow the suggestions made by public opinion; on the other hand, to exercise a repressive attitude towards individual people who have been more critical of the government's policies (that is the case of both a number of strongly critical journalists, some of whom have been assassinated, and the long list of the 'disappeared' that the U.N. has presented to the Mexican government and which has not been explained). This repressive attitude towards individual people has led to a reaction: discontent has

increased to the extent that leftist political groups unified and formed a single coalition of parties to present just one candidate to the latest presidential elections on 6th July 1988. This social and political discontent has gone so far as to create a radical alteration of the political forces in Mexico. It is clear now that in Mexico the model of a single dominant party (PRI), or even a two-party system (PRI - PAN), no longer fits the rich variety of political opinion. The state has been forced to accept a new higher level of pluralism than before. For the first time since 1968 significant sectors of Mexican society expressed their discontent and political opinion.

As it was seen in chapter three, the financial community was forced to find a negotiating mechanism including a financial package of aid and reforms. Thus, using the political momentum of the change of presidential regime, members of the IMF presented to the new incoming presidential cabinet a set of financial policies which would ensure Mexico's capacity to pay its external debt. This financial plan was not an innovation; on the contrary, it followed what the IMF usually required as a classic package of adjustment regarding domestic economic policies. This package consisted of cuts in the public sector expenditure, increases in exports, and rescheduling the external debt payments and

debt service. A national economy was then oriented towards the development of exports, and workers' wages, especially in the public sector, were reduced. The reduction in workers' incomes lowered the family standard of living. The gradual deterioration of the family standards of living, together with continuous inflation, made many Mexicans question the way the government was handling the economy, and they started wondering whether Mexico should carry on paying its external debt or not.

The awakening of a political consciousness contributed to the generation of an important debate that shaped the contest of the presidential political campaign, as was seen in chapter seven. For the first time ever many Mexicans followed their political consciousness and challenged the PRI's hegemony. In fact, the FDN was created, presenting a serious alternative presidential candidate. The outcome of the presidential campaign showed the broad support that the FDN had among the middle classes of the centre of the country. This was particularly emphasised by the electoral results, which resulted in a clear win in favour of the FDN in five federal states, something never before seen in the recent political history of Mexico. In the end, the PRI won the presidential elections; nevertheless, many people alleged that there was a great "electoral alchemy" (fraud). What is true is that many Mexicans gave their

support to both the FDN and the PAN, instead of to the PRI.

In spite of the electoral results, it is certain that the debt crisis debate and the alternative electoral options generated by the economic crisis contributed towards shaping a new political practice in Mexico. The pressure put upon the political institutions and governmental apparatus contributed to a change in democratic practice in Mexico. The way in which politics will be conducted in Mexico after this six-year period will have to take into account public opinions and their natural channels of expression. It may have to open its approaches to allow for a greater degree of involvement of its population, or find a means of repressing such involvement.

II) The Change in Democratic Practice in Mexico

The two political alternatives presented to Mexico as a consequence of the external debt crisis envisaged a different sort of state. The political

alliance formed by the FDN with other left-wing political organizations originally for electoral reasons, wanted to have in Mexico a state that could appeal to national values and give priority to national development. On the other hand, the project of a state that the government and the PRI members had in mind was for a nation that could open its doors to foreign capital investment, and expand the free market.

Various factors were involved in the Mexican government's decision to borrow abroad: the historical role of the Mexican state in its connection and relation with the private sector; the peculiarity of a presidentialist and political patronage system; the pattern of capitalist development that Mexico had been pursuing, incorporated into and dependent on the USA. These factors, in conjunction with the interaction of international economic events, forced the Mexican government to adopt a conscious economic strategy of borrowing money from abroad. In fact, as has been seen in this work, the foreign debt was an explicit policy of state management during President de la Madrid's government, and appears to have been the same in President Salinas' government too. Not to have chosen this path would have meant taking a political risk which would have put in jeopardy much of the state employment and social provision on which large sectors of Mexican

society had come to depend. Thus, it was vital for the government to borrow money in order to retain business confidence, strengthen popular support, satisfy the consumer desires of the high and middle classes, and respond to a specific set of state interests.

There were signs that the Mexican political system was passing through a political crisis. The old system of corruption, patronage and favouritism started to be very unpopular with many middle class Mexicans. The structures of the state apparatus were not responding to a more complex reality, a reality which included a doubling of the population in less than 20 years. The old way of governing had started to be seen as obsolete.

Parallel to this process a major economic crisis, which was not exclusive to Mexico (as was seen in chapter two), affected the structures of the whole system. The first signs were noticed in the agricultural sector, and were later apparent in heavy industry, finance and commerce. The consequent political crisis of legitimacy found a policy vacuum in which there were no easy alternatives to offer to the population. The popular answer was to open the channels of discussion and democratic practice. Thus, public opinion was encouraged and public debate became the fashion of the time. In

this space the external debt crisis problem became the issue for discussion and debate.

The inherent conflicts of the financial crisis intensified the problems, causing a real internal economic crisis and feeding a political crisis of credibility in the institutions of the Mexican state. So the antagonism that people felt against inflation soon turned into active political discontent, as shown in the 1988 presidential election. People went to the ballot boxes to find an alternative to the PRI. Tired of not having an answer from the government, large sectors of the population organized themselves and sought change.

Due to the external debt problem, a number of sectors of Mexican society expressed their views publicly for the first time ever. As seen in chapters five and six, many Mexicans, through their trade unions, pointed out what they thought was the solution to the external debt crisis. Members of the Union Congress representing different political parties put pressure upon the financial authorities to negotiate the external debt in a more flexible way for Mexico. At one time it looked as if the general voice of the Congress was against the policies followed by the government. Even the banks and the private industrial sector were gradually changing their minds, from a more optimistic position which

considered the possibility of paying the total amount of the external debt, to a more moderate one in which they thought it was better to negotiate lower payments and even the suspension of interest. The workers and peasants were more radical from the beginning; they called for a moratorium from the early days and maintained this position throughout the process. Even the Church had something to say, which in the Mexican context was a very surprising thing; its members thought that it was not right to pay money abroad when the majority of the population was suffering the drastic consequences of these payments.

The pressure that these sectors put upon society forced the creation of alternative forms of political organization. The birth of the FDN is the best example of this. The results in the 1988 presidential election, though undoubtedly distorted by the ruling party, were a signal of the degree of discontent that the population felt with the government and its economic policies. The economic problem could not be resolved on its own terms, and invaded the space of the political arena. The Mexican population reclaimed its own space and made its voice heard. Some channels of communications were opened. A more democratic context was created, and a more open and participative society was interested in the political campaign. Among other issues, the Mexican population

wanted an end to corruption, and it was thought that to take an active part in the political campaign would also help to prevent a massive distortion of votes in favour of the PRI.

As a result of the pressure of these groups, the government took the risk of opening up the debate. The alternative was either a more democratic practice accepted legitimately from inside the state institutions, or massive discontent and organised protest that could have ended in violence. The Mexican government opted for the first alternative, and with it, opened the space for a more democratic practice. People became involved in a more tangible level of politics at a local level by giving their opinions about the external debt problem and their personal views of politics. The opening of the debate was partly imposed by the need felt by the population to express its views, though it could also have been an alternative strategy that the government followed at the time. This double process, from above and below, made the complex reality of this democratic process more interesting to study. On the one hand, the government adopted the strategy of borrowing more money to allow the economic system to continue within the same parameters of economic privileges and political stability; on the other, the government also encouraged political debate to give the society a more democratic

share of the values of the nation. Thus, the risk was a double one, and the government faced it on both fronts: the economic one with more foreign loans, and the political one with a more open attitude.

This political opening would not have been a reality without the solid roots that the 1977 political reforms had introduced. The political participation and the electoral process in Mexico had had a preliminary transformation to meet the demands of a modern state after 1977. It was with the LOPPE (Ley de Organizaciones Polítical y Procesos Electorales) that this change first appeared. These changes did not stop there. Gradually, and through different elections, every three years the opposition parties managed to win more and more seats in the Union Congress. This process continued until it gradually built up a substantial opposition in Congress. The deputies and senators representing the different sectors of the opposition formed coalitions to pursue particular policies. In this way, and for the first time ever, the PRI found a real contest and debate within the Congress. The opposition has been stronger in pointing out what it wanted. This new role played by the opposition has sharpened the debates within the Union Congress and prepared the scenario for the external debt debate in public.

III) The General Feeling about Changing Democratic Practice

Numerous authors have written about the latest political changes in Mexico. Most of them coincide in recognising that Mexico's political life has gradually been given new life since the mid-1970s. Most of them acknowledge that the Federal Law on Political Organizations and Electoral Procedures of 1977, written by the then Minister of the Interior, Jesús Reyes Heróles, was the first step towards more democratic political procedures. Since then, there has been the legal framework for a more pluralistic society. However, it has been only recently that a more democratic practice has been exercised. This thesis has attempted to associate this phenomenon to the existence of the external debt crisis of the 1980s. This is the position taken by a number of other writers, whose relevant work is outlined below. However, the research undertaken in this thesis extends the work of these writers by providing extensive evidence of the political debate in Mexico through a detailed analysis of Mexican press reportage during the relevant period.

In 1987 Judith Gentleman referred to the crisis from 1982 onwards in this way: "... the current period may be viewed as a period of transition for Mexico's authoritarian political system potentially leading to an

intensification of the authoritarian framework in response to crisis, or perhaps shifting to a more liberal competitive mode, or perhaps simply leading to an erosion of state power and a growing political vacuum in which oppositional interests might organize on an independent basis."(1) In fact, the second option mentioned by Gentleman in this quotation is the one which actually took place. This thesis has attempted to illustrate this second outcome. A shift to a more liberal competitive mode has been the answer for the new government. As was explained in the introduction, the current government has taken the neo-liberal approach to the economy and democratic practice has shown a different result in the 1988 presidential elections.

This thesis has attempted to prove so far that the second option suggested by Gentleman, shifting to a more liberal competitive mode, is the one which has been the actual outcome, and that the debt crisis issue played an important role in shaping it. Gentleman argues that "...the actions taken by the Mexican government during the mid-1970s were oriented towards the creation of a new political democratisation. All this was within an authoritarian political system which counted on the dominance of a single party, in alliance with a protective state, and a not very autonomous entrepreneurial class."(2) While the expression

"authoritarian political system" leaves unanswered certain questions, there is in Gentleman's suggestions much of value. Her idea of the creation of a new political democratic process is indeed what this thesis has attempted to demonstrate.

Susan Kaufman Purcell, in the book that she edited in 1988 "Mexico in Transition", argues that: "The economic crisis, together with the changed economic and political environment, sparked an intense debate within Mexico over the kinds of policies Mexico should adopt to meet its new challenges. Some important changes have already been implemented. In some areas, however, there is more talk than action. A basic question remains unanswered: Can the Mexican government succeed in restoring economic growth while maintaining political stability?" (3). Kaufman Purcell seems to have a similar view to the one presented in this thesis. The politically intense debate that Kaufman Purcell mentions has carefully been presented in this thesis in chapters four, five and six. She agrees that the economic crisis has inspired the political debate, and that some changes have taken place. Her main question could now be answered by saying that the Mexican government-PRI has managed to maintain political stability and, as mentioned in the introduction, gradually restored economic growth.

Susan Kaufman Purcell in another article "Crisis But No Collapse", 1988, (4) argues that the economic crisis of 1982 seem to have been followed by calls for political change. She continues saying that the crisis in the political scene and the calls of democratisation were intensified as the economic growth slowed and stopped. Futher the political system lost credibility and legitimacy through comparison with developments in the rest of Latin America. Moreover, the new economic policy of the regime is thought by many to require openness and democratisation of institutions, reducing the central role of the state.

Soledad Loaeza in her chapter "The Impact of Economic Crisis on the Mexican Political System", 1988, argues that: "The current economic crisis in Mexico has had an unquestionable impact on the country's political life and institutions. Not only has it submitted the system to the strains of constant negotiations between the government and business organizations, trade unions, opposition parties, and even the Catholic Church, but economic deterioration also has injected what seems to be a very acute new political awareness into large sectors of Mexican society." (5). In other words, Loaeza offers the same argument that this thesis has sustained.

Edgar Butler and Jorge Bustamante in their book "Sucesion Presidencial", 1991, argue that: "One of the most important foreign policy decisions facing Mexico, with implications for United States-Mexican relations, is the question of the debt. Since the posture of the FDN has been opposed to the present government's position of gradual renegotiation, it poses serious limitations on Salinas's ability to manoeuvre in future debt arrangements with the United States and foreign bankers. The FDN will maintain constant and public pressure on the government to radicalize the PRI's position on a debt moratorium."(6). This remark again provides support for the main argument in this thesis.

Sol Sanders in an article, "Next to the Volcano", 1988, (7) argues that Mexico faces a political crisis which has its roots not only in the current economic crisis but in the character and nature of the political system itself. Mexico has not progressed towards democracy, it has rather strengthened the powers of the presidency. The PRI having the monopoly in power does not help further democratization, a factor which is needed if Mexico is to overcome the political crisis. Confidence in the political as well as the economic future is needed for Mexico to overcome the crisis. For this, the regime has to abandon the pseudo-revolutionary rhetoric of the past, return nationalised industries to private sector,

allow foreign investors in, and change its protectionist policies.

Other writers, in focusing on various specific aspects of the political debate, provide support for the thesis. Dale Story, in his study of the right-wing PAN, 1987, (8) argues that in fact, rather than being mainly the party of big business, it has increased in strength through coming to be seen as a viable option for protest voters and dissident citizens, particularly in the north of the country. As was seen in chapter seven, Story predicted quite well what was the outcome of the 1988 federal elections, and the support that the PAN received in the northern federal states of Mexico. However, Story maintains that the PAN will probably remain a minority party within Mexico's political system due to its inability until now to transcend its role as a mix of protest voters, rather than committed PAN supporters. Soledad Loaeza disagrees with Story in this last point.

Wayne Cornelius, 1987, (9) points to the growing discontented middle-class sectors without political affiliations as a serious potential source of trouble for the government. In his view the PRI will have great difficulty in the future in dealing with Mexico's young urban middle class. In fact that was exactly what happened when urban citizens joined the PAN and younger

people joined the FDN in the 1988 presidential elections. Sergio Zermeno, 1988, agrees with Wayne Cornelius that the government has difficulties in dealing with Mexico's young urban citizens.

Esperanza Durán, 1985, (10) argues that in 1982 President De la Madrid faced not only an economic crisis but political problems as well, in the form of tension and disillusionment. She thinks that the austerity measures introduced for economic recovery were regarded as possible causes for political instability; however, the political problem goes much deeper and is of a longer term nature. In fact she argues that it is a problem of political disbelief in the Mexican political system.

Joseph Klesner, 1987, (11) suggests that the political reforms of the 1970s, new party mobilization and elections have had much influence on the structure of Mexico's party system. Although Klesner does not find that the PRI's hegemony has been seriously harmed as a result of these developments, he suggests that the PRI now faces serious challenges to its support among important national sectors, such as working classes and peasants. In fact, as was seen in chapter seven, the PRI was beaten in the federal elections in 1988 in the federal states of: the Federal District, Michoacán, Morelos, Baja California, and Estado de México.

Jorge G. Castañeda, 1986, (12) thinks that the economic crisis in Mexico threatens the political stability that Mexico enjoyed for decades. He argues that the economic crisis which is rooted in the 1982 financial crash and the subsequent governmental actions, have caused the loss of support of the Mexican middle class. Any economic reform will find resistance from the Mexican bureaucracy and the state-run trade unions. He argues that all the possible economic reforms would be politically costly. However, in his view, reforms are necessary, as both the economic and the political system are at their end. This will cause social as well as political problems and more economic hardship. In his view, the democratisation of the political institutions as well as a highly nationalistic progressive foreign policy, are the only answer to strengthen the conditions for economic recovery.

Silvia Gómez Tagle, 1987, (13) considers the government's ability to maintain its legitimacy. The issue of the integrity of Mexico's electoral process has increasingly focused international attention as PAN supporters have demonstrated against the government not only within Mexico but also in the USA. Gómez Tagle concludes that fraud alone will not be enough to halt the opposition and that the political reforms begun by Reyes Heróles in 1977 have led to political expectations which

it will be difficult for the government to control in the future.

James Street, 1986, (14) argues that the 1982 economic crisis followed a pattern common in other Latin American countries as well. In Mexico, he continues, each six-year presidential term begins with an emergency period to clean up the economic disorder left by the previous administration. He thinks that the economic crisis has not necessarily affected the political scene. Economic and political institutions in Mexico complement each other. The Mexican political system has deficiencies, and the political deficiencies affects the economic policies. He mentions that corruption at the political level leads to economic mismanagement.

Miguel Basañez, 1987, (15) attempted to discover to what extent the Mexican political regime has suffered a loss of legitimacy as a result of the continuing economic crisis, and whether any such loss of legitimacy could lead to a collapse of the system. Basañez concludes that the political system still retains considerable popular legitimacy and that the system is not about to break down.

There are a few other writers who hold a different perspective from that of this thesis. Martin Needler in

his chapter "The Significance of Recent Events for the Mexican Political System", 1987, argues that in Mexico the economic crisis did not lead to political change, as the economic crisis has weakened business people, who have then looked to the PRI-government for help, thus strengthening the official party; and also because the trade unions in Mexico have been strengthened by the debt crisis, as the PRI does not risk strikes. This is an interesting argument as it seems to be different from the one presented in this thesis as well as by many other authors. In Needler's own words: "Normally one expects changes in the economic substructure to be reflected in the political superstructure. ... In this respect, the dynamics of Mexican politics are clearly different, in a curious way, from those in other Latin American countries where short-term economic crisis is the most reliable predictor of the overthrow of the incumbent government. Paradoxically, in Mexico economic crisis has had the short-term effect of stalling long-term political change. This is so because, on the one hand, the crisis has weakened substantial business interests that might otherwise have been expected to give backing to the PAN and instead has forced them to look to the government for assistance, thus putting them in no position to side with the opposition. On the other hand, the crisis has strengthened the role of that constituent of the ruling coalition most resistant to political reform, labour

union leaderships, by making it impossible for the government to risk strikes that would interrupt production." (16).

Martin Needler thinks that the debt crisis is a new experience for Mexico, as in the past it has been able to cope with problems and not allow them to become a crisis. He considers the character of the current crisis in terms of its capacity to bring about certain changes in the political system. Needler concludes that the government will probably be able to manage successfully the difficulties it now faces and that fundamental changes in the political structure are not likely in the near future. However, the evidence provided in this thesis seems to show that a political crisis did in fact arise largely as a result of the debt crisis. It would therefore appear that Needler's argument lacks substance.

Steven Sanderson (17) does not disagree with this overall perspective, but emphasises a different aspect of this problem. He has written three articles relevant to this topic. Sanderson agrees on the different national and international perspectives that we have mentioned earlier in this work. According to his view, there has been an evolution of the Mexican political system in a technical-managerial direction, changing from what he has described a "populist-redistributive model" to an "oil-

patronage model". The difference lies in the composition of their elite actors, one which holds a national project of development, and the other which does not treat national capital differently from international capital. These two perspectives and distinctions are of the same kind as those mentioned previously in this thesis.

Sanderson says that before the selection of President López Portillo (1976-1982) in 1976, presidential candidates rose to power through the PRI. However, in 1975 President Echeverría (1970-1976) rejected the party favourites, instead selecting a personal friend with little party experience but with significant administrative experience. President López Portillo was identified as a "técnico" more interested in the bureaucratic management of the state. López Portillo did not cultivate the party as a strong force in national politics, and even sanctioned a "political opening" through the political reform of 1977. This political opening allowed a restricted but important level of party competition for the first time in more than two decades (18).

It can be seen from the above outline of the work of several writers on this subject that there is a considerable body of agreement with the main argument of this thesis: that the economic debt crisis was a

predominant factor in generating the intensified political debate of the late 1980's.

IV) Conclusions

It seems to be clear that the political process in Mexico is based upon an old and well-recognised class alliance, which varies and accommodates different social groups at different times in a given space. Nevertheless, the constants remain the same: the affiliation of different individuals into unions, confederations, leagues, or coalitions to sign treaties, pacts or agreements with other individuals of the same social class, and the further affiliation of all these confederations into a tripartite political machine: the PRI-state-President. Only by understanding this particular political process can we understand Mexican political reality.

The process of negotiation surrounding the debt crisis has given us the opportunity to observe all these coalitions in practice, exercising their own power to project their opinions. These groups and coalitions have been formed and existed in Mexico ever since the Mexican

revolution was institutionalised, as was shown in chapter one. However, gradually since the mid-1970s and particularly during the debt economic crisis of the 1980s described in this thesis, these coalitions have altered the pressure that they effectively put upon the state institutions. The 1977 political reform gradually opened the political arena to alternative groups which were not incorporated into the governing revolutionary coalition, as some authors like to describe it. The foreign debt crisis, as an economic phenomenon and as an issue of political concern, continued this process of gradual differentiation and democratisation with the emergence of growing political pluralism. In this newly expanded programme of political liberalization, two opposite electoral forces were mainly favoured: the right-wing National Action Party (PAN), and the left-wing National Democratic Front (FDN). The PAN managed to expand its support beyond its traditional industrial-private sector and upper middle classes, to lower urban middle-class groups. Meanwhile the FDN was created to unify and expand the support given to the left-wing political organizations, as was seen in chapter seven.

The research carried out in this thesis has helped to demonstrate that the foreign debt crisis became an issue of common political concern which opened the political debate at all levels and influenced democratic

practice in Mexico, continuing the growth of political pluralism initiated in 1977 with the political reform. Up to 1986 it could be said that if there was an opposition group that enjoyed political advantage, it was clearly the PAN. However, the presidential elections in 1988 showed that this time there was another option for protest, the FDN. Indeed, this thesis has attempted to prove that with the debt crisis as an economic phenomenon and as an issue of political debate, some other political groups strengthened their position; this is clearly the case of the left coalition represented by the FDN in the 1988 presidential elections, as pointed out in chapter seven. The economic policies adopted by the government regarding the external debt payments were not necessarily altered in the end due to the opinion of all these political groups; however, the political influence that these opinions had in the process of opening the pluralistic representation in Mexico has been a determining factor.

The debt crisis also produced anxiety among the Mexican population. The economic pressure forced people to react. At the same time they gave thought to their political options, especially their options for democracy. However, the potentially more radical actions were suppressed by the opening of the democratic debate. Some of the anxiety was channelled through the political

institutions. Whether or not these actions taken by the state were carried out deliberately remains the main question.

An alternative way of looking at this outcome is to analyse the more astute attitude that the PRI had in generating its own strategy of survival. This process of political liberalisation could also be interpreted as a machiavellian action cleverly designed by the PRI-government to channel the sparks of protest into a more democratic electoral system, absorbing support from across the political spectrum. It is possible to sustain this second interpretation and to argue that the foreign debt was the issue that brought support to the state rather than causing internal fragmentation, as in the end the PRI-government managed carefully to work out a strategy which help to overcome the signs of political protest.

If this political liberalisation process was not deliberately designed by the PRI-government in a machiavellian manoeuvre, then it could be said that the nature of the Mexican political system based upon its inherent class alliances and a single party-state has the capacity to absorb the class contradiction in a very effective way.

To sum up, what the thesis has proved is that the debt crisis as an issue opened the political debate. The debt crisis led to a political crisis. The previous process of political reform initiated in Mexico in 1977 opened the space for alternative political parties and views. The debt crisis was taken up as an issue by these alternative groups which encouraged the debate. The debt crisis itself reinforced or continued with the process of political transformation. The political transformation itself suppressed or redirected more radical changes.

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d) Interviews:

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Buira, Ariel; Director of International Policy of the Bank of Mexico (Banco de México).

Green, Rosario; Researcher at El Colegio de México (COLMEX), and Director of the Instituto Matías Romero of the Ministry of Foreign Affairs (Secretaría de Relaciones Exteriores).

Martínez, Ifigenia; economics specialist and active member of the National Democratic Front (FDN).

Moreno Sánchez, Manuel; ex-Leader and ex-President of the Chamber of Senators (Cámara del Senado).

Muñoz Ledo, Porfirio; co-founder of the Movement of Democratic Renovation (MRD, otherwise known as the Democratic Tendency within the PRI)), and later of the National Democratic Front (FDN).

Silva Herzog, Jesús; ex-Minister of Finance (Secretaría de Hacienda y Crédito Público).

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