

## BACKGROUND AND OVERVIEW

### REMARKS BEFORE THE CONFERENCE: MEXICO AND THE UNITED STATES

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Leaders in both Mexico and the United States act with courage and wisdom in responding to the mounting pressures of current events, whether the topic is the vital monetary questions now facing us, bilateral trade and investment, security in Central America, or the price of oil. Mexico's current problems are as staggering as its prospects. Much of Mexico's history is a record of lost opportunity, of failing to mobilize the vast human and material riches of the country for the common good. There is no room for illusions, but there is hope. Few countries with such natural wealth have citizens who have shown such patience and forbearance in not partaking of that wealth.

Mexico's continuing 1982 economic crisis has presented its Government with its most serious challenge since the 1930s. At that time the current pattern of a single party regime was consolidated. Although the current crisis is principally economic in origin, its solution requires substantial political change. In capitals around the world, leaders are asking if the successor of President de la Madrid will be able to implement the right policies to restart sustainable economic growth and insure social peace for the 1990s and whether the major power brokers who operate under the Partido Revolucionario Institucional's (PRI) aegis will permit the new President to do so. Implementing the right policies will require difficult political choices and affect the groups whose support is crucial to the government's success. Additionally, the U.S. presidential succession in

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1988 will have a major effect on the PRI's efforts to revitalize itself and the troubled ruling coalition.

Demands for a political opening of the system have been echoed for some time now, from the opposition as well as from within the PRI. It is likely that the PRI will remain the major force in Mexican politics for the 1990s. However, it is possible that should the economic and social woes persist past 1989, the party's hold on the electorate will begin to unravel.

## I. THE HISTORY OF MEXICAN POLITICS

Frequent and impassioned references to history play a large role in Mexican politics. The PRI likes to portray itself as the continuation of a great tradition. It can trace its roots back to the Revolution of 1910 when the gradual process of consolidating political factions into organizations resembling contemporary political parties was initiated.

The precursor of today's Partido Revolucionario Institucional (PRI) was the Partido Nacional Revolucionario (PRN), established in 1929. This in turn gave way in 1937 to the Partido de la Revolución Mexicana (PRM). The PRM was perhaps best known for instituting the state corporatist structure that was so popular at that time in Italy, Spain and Austria. It lasted until 1945 when the PRI was officially proclaimed.

Today over fifty percent of Mexico's adult population belongs to PRI organizations which consist of three major groups: the popular (CNOP), the labor (CTM), and the agrarian (CNC) groups.

Until the late 1970s, the PRI skillfully maintained a functional coalition of bureaucrats, employees, businessmen, trade union members and campesinos. By 1982, the PRI had, through nationalization, extended the state's control to more than two-thirds of the country's output. The larger business and banking activities have traditionally cooperated with the PRI even before the sudden nationalization of the banks ordered by President Lopez Portillo, in his desperate efforts to salvage the end of his term. The PRI has not always been good for business. However, the PRI's patronage system has fostered one kind of stability by giving the ambitious and the obedient a stake in the maintenance of the status quo. Rural Mexico is among the pillars of the party's support, but this group benefits the least from the PRI's most recent policies. Despite the fact that decades of PRI control have given the electoral masses of the country a kind of institutional status, they are the

object of effective and unceasing manipulation, coercion and control.

## II. INTERRELATIONSHIP BETWEEN MEXICAN AND UNITED STATES ECONOMICS

When the issues of widespread electoral raid and corruption surfaced in the U.S. Senate hearings in 1986, Mexico City was stung by the source and the frank substance of the testimony. There were the expected diplomatic expressions of outrage and objection. Additionally, among the media and officials who commented there was the restatement of a recurring theme in U.S.-Mexican relations; namely, that Mexico is off limits to the kind of foreign commentary and sharp criticisms which mark the relationships between the other democratic states of the West. Mexico's claim for a special immunity from criticism is really remarkable. To appreciate this, one only need recall the American public commentary about Spain and France withholding overflight permission for the U.S. military aircraft in route for the air strike against Libya, or the extensive and continuing coverage of the recently elected President of Austria, former U.N. Secretary General Kurt Waldheim.

Whether Mexico likes it or not, the difficulties of its own national economy and the behavior of its political system have caused Mexico to join its fortunes with those of the outside world in a manner that represents a significant departure from the past. The world, in turn, has taken a heightened interest in Mexico, having finally recognized its geopolitical importance. The interest in Mexican events will result in more foreign political commentary, sometimes controversial, in the world press. The PRI leadership may not always enjoy the attention, but chances are that the overall effect will help nudge the country toward needed changes.

In addition to a more open political system, positive relations with the United States encourage economic recovery and political stability. The issues on the agendas of the two countries show that there are more permanent issues than transient disputes. We are still working on issues that have been asserted, in one form or another, for at least fifty years: immigration, water and fishing rights, energy policies, trade and investment questions. The issues persist, but the emphasis changes over time, and few major bilateral issues are subject to much control from Washington, D.C. or Mexico City. The two governments can set an institutional or legal framework. They can affect the atmosphere of the moment, but the vast

geographic scale of the two countries and the complex interrelationships between the two economies and societies make control difficult at best.

Mexico, as opposed to the United States, has a highly centralized system of government. This contrasting governmental philosophy often makes life difficult on both sides of the border. Substantial changes in the philosophies of the governments are not likely in the near future. Therefore, the test of the U.S.-Mexico relationship is whether we, in the United States, can devise policies and means of implementation that serve our national interest and security, but that also reflect an understanding of the realities and legitimate interest of Mexican society. Whatever the merits or strengths of the temptations, it simply does not serve our fundamental interest to become involved in Mexican domestic politics, or to act as mentor for new political groupings inside Mexico.

At the same time, wholly indigenous forces are at work within Mexico testing the strength, political vision, and stability of the PRI and its current leadership. Inevitably, U.S. actions will influence those forces in an indirect fashion. The United States has a genuine fundamental interest in Mexico's continued development as a free and prosperous economy with a democratically elected government which promotes the blessings of freedom, security, and social justice for all citizens.

The Mexican people can use the help of their North American neighbors in building a better life for themselves and their children. Prosperity is mutually reinforcing. An affluent Mexico can contribute to American prosperity, but a poor Mexico will have little to offer to America's future except a distracted Mexican government, potential security problems on our southern border, and an even larger stream of immigrants.

Mexico's long range stability depends heavily on its economic development, the ability to feed itself, and the ability to provide employment for its growing population. The only long term solution for the problem of illegal immigration from Mexico to the United States is the successful expansion of economic opportunities inside a free and dynamic Mexico. Border control, like economic control, will increasingly become a matter of insulation (if not confrontation) and negotiation between nations.

It is becoming obvious throughout the hemisphere that without a dynamic free enterprise system governments can neither stimulate economic growth nor diversify their economies. In the past we often

encountered the excuse that before taking concrete steps to facilitate the growth of a private sector economy, you had to have the proper infrastructure. This concentration on infrastructure has often led to overblown bureaucracies of government-owned means of production. These reached far beyond basic infrastructure requirements of roads, utilities and communications. Private enterprises are unlikely to fully contribute to development and commerce, in the absence of an efficient and limited public sector. The lack of an overall environment conducive to sound investment also forestalls their private development.

### III. THE CONDITION OF THE MEXICAN ECONOMY

Mexico's political and economic options are now inextricably linked. There is no real prospect for modernizing and liberalizing the economy without modernizing politics. President de la Madrid has failed to accomplish any significant redirection in the conduct of Mexican politics despite a campaign against corruption in public life. Mexico's once vibrant private sector, which has been traumatized by blows from Presidents Echeverria and Lopez Portillo, is needed to transform the national economy. Many businessmen would prefer a decentralization of power in Mexico's political system. They resent the government's discretionary latitude and the excessive authority of the Mexican presidency.

The economic growth model which worked so well for Mexico during most of the postwar period began to disintegrate in the 1970s. Echeverria fostered continuing growth by an ever heavier reliance on government spending and foreign debt. Lopez Portillo permitted the borrowing of massive amounts of funds from abroad, spent oil wealth, and failed to curb the theft of billions of pesos. He left Mexico virtually bankrupt. During this time, Mexico seemed to be growing economically, but it was changing dramatically from within.

Wealth and power moved from agriculture to industry, although it was an industry which was organized not for export but to supply the demands of the politically important emerging urban middle and lower middle classes. Throughout the 1960s and 1970s, despite all the manifestations of social and economic change in Mexico and in the world economy, the PRI continued to do business in the same old ways.

In 1982, the overseas loans ran out precipitating the first debt crisis. This financial drama changed the scenario and added a new

cast of characters. This culminated in declining oil income which worsened in 1986 with the decrease in the world price of oil.

Mexico is a country of vast geographic scope with a current population of over seventy-five million, but it cannot feed its own people. Mexico is also a country that cannot employ its own people and is falling further and further behind as the population increases to a projected total of over 110 million by the turn of the century. The American journalist Alan Riding, in his book *Distant Neighbors: A Portrait of the Mexicans*,<sup>1</sup> describes the significance of the country's explosive population growth, the dramatic shifts from a rural nation to an urban nation, and how the neglect of the countryside by a succession of governments in effect forced peasants to migrate in order to survive.

Unless the overseas friends of Mexico stand with it and encourage it to embark on a new path, the future of improved social justice and economic gains inside the country looks bleak. The stagnation and regression makes the northward immigration pressures on the United States even more serious. The governing elites in Mexico City understand what needs to be done. The talent is there. The question is whether there is the political will and the courage to act.

#### IV. ENCOURAGING ECONOMIC GROWTH IN MEXICO

There are several kinds of policies that might encourage economic growth. The first would be to increase reliance on the private sector and decrease reliance on government. This would increase employment, production, and efficiency. The second policy direction would be to mobilize domestic savings and facilitate efficient domestic and foreign investment by means of tax reform, labor market reform, and development of financial markets. Finally, there should be measures to reduce direct and indirect subsidies in order to encourage direct foreign investment and capital inflows, as well as to liberalize trade. Any mix of such policies needs to be instituted in phases, but it is essential to begin.

Many of these prescriptions for the economy are similar to those arising from the 1982 debt crisis and subsequent negotiations. At that time, many of the structural impediments which contributed to the crisis were recognized. Reducing state ownership continues to merit attention at the highest levels of the Mexican government.

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1. A. RIDING, *DISTANT NEIGHBORS: A PORTRAIT OF THE MEXICANS* (Knopf 1984).

One cannot overemphasize the need for Mexico to strive for an improved balance between government and free enterprise, which continues to be slanted toward state control.

While the administration of President de la Madrid has made a great public show of interest in selling off the huge inventory of state-owned enterprises, performance has fallen short of rhetoric. Mexico City says that the number of state-owned enterprises has been reduced; however, the number of state employees has risen. According to available data, in 1972 Mexico had only 84 government-owned enterprises. By 1982, there were 760 under state control. During the same period, total Mexican government spending as a percentage of gross national product increased from twenty-three percent to forty-six percent. Someone has missed the point of the whole exercise. The idea is not to set off minor, often unprofitable, business holdings while retaining the major industrial and banking ventures. By 1982, following President Lopez Portillo's desperate act of bank nationalization, the great majority of Mexico's major industries were under some form of government control. The government's share of total capital formation had reached forty-five percent.

It is still questionable whether Mexico is better off as a result of the elevation of government presence and whether technocrats or bureaucrats are better entrepreneurs than businessmen, whose fortunes will rise or fall with the markets. They probably are not.

### CONCLUSION

The United States has a fundamental interest in Mexico's progress toward a more prosperous, growth-oriented economy within a just and democratic structure. We have a large stake in Mexico's future. In the first place, we are neighbors, and it is in our nature to want to get along amiably with the states on our borders. Further, the interaction between our people is already extensive and is growing daily. America has a legitimate concern for the security of Mexico. An unstable Mexico has far-reaching implications for U.S. national security and the scope of our overseas commitments. Immigration concerns are just one of the associated issues. Any sustainable long-term solution to the issue of large scale illegal immigration rests on Mexico's successful economic development. While it is technically conceivable that we could essentially interdict all northward movements, the domestic consequences would likely prove far more harmful to U.S. interests than maintaining the sta-

tus quo.

The current state of the world economy demonstrates that prosperity is mutually reinforcing. An affluent Mexico will contribute to U.S. prosperity, and vice versa. A poor Mexico serves neither country. It will only drain the people of hope, weaken the democratic prospects of Mexico, and create a cascade of new problems for both the United States and Mexico.

To a considerable degree, Mexico's longer range stability depends on its economic development and the openness of its society to advancement from below.

Along with many Mexicans, I believe that by unleashing the free market, rewarding initiative, and encouraging investment and thrift, Mexico can create the conditions not only to solve its current financial difficulties, but also spur regional growth at rates not seen since the late 1960s. In the process, the dedication of the Mexican entrepreneur and the Mexican worker will lift the spirits of the entire hemisphere.