

The lingering tequila hangover

What lesson does Mexico, still recovering from its 1995 currency crisis, hold for embattled Asians? Above all, that economic reform alone may not be enough

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“WE ARE bringing this crisis to a close.” It was with these words that Warren Christopher, then the American secretary of state, made public a \$20 billion salvage operation for Mexico three years ago. True, the bail-out prevented

Mexico's currency collapse from turning into bankruptcy. But the announcement was premature, as the next two years of recession made clear. And the hangover lingers on, despite the hopeful buzz surrounding Mexico of late.



Nowadays, Mexico is often held up as a model of post-crisis virtue to the hapless Asian tigers, and with some reason. The austerity package imposed in 1995 by President Ernesto Zedillo was stricter than any the IMF has dared suggest to Indonesia or its neighbours. Moreover, the results have been impressive: inflation, once roaring above 50% a year, is down to 15% and falling, and a horrific economic contraction of 6.2% in 1995 has given way to solid growth. But Mexico is still struggling to come to terms with the main reason it got into trouble: the shady politics and murky economics born of seven decades of rule by the Institutional Revolutionary Party (PRI).

The politics of the peso

To his credit, Mr Zedillo has made economic policymaking more open and independent of the formerly all-powerful presidency. The finance ministry, for example, which used to guard statistics jealously, now publishes them early, often and on the Internet. Still, distrustful investors have wondered aloud whether the central bank—which lost much credibility with the collapse—really enjoys the independence guaranteed it by the constitution to pursue price stability. The doubters have noted that the government's policy on the peso, which is theoretically free to float, has actually been set by a committee controlled by the politicised finance ministry, though the central bank is

represented. Now Mr Zedillo is taking note: on March 6th, he declared that he wants to give the central bank full control over exchange-rate policy.

Insulating the peso from presidential politics is all to the good, especially as Mr Zedillo draws closer to the end of his non-renewable six-year term in 2000. One danger is the lingering lack of accountability of the presidency. A cabinet member explains how that fuelled the tequila crisis: "If there had been any real checks on the executive in 1994, we simply would not have been able to issue nearly \$30 billion of dollar-denominated debt behind Congress's back." Another danger is the uncertainty and skulduggery surrounding the six-yearly handover from one PRI leader to another, which have typically been so great that they have prompted a financial crisis. Mr Zedillo accepts the need to break with the politics of the past: "We must continue working intensely to avoid the crises that have always cropped up at the end of federal administrations for almost the past quarter century." To do so, he must remain steadfast in his democratic convictions.

Yet some signs suggest his modernising administration may be backsliding. Officials have recently "encouraged" several critical television and radio shows to tone down their content or sack their presenters. Frustrated by the lack of progress in peace talks with the Zapatist rebels still making trouble in the south, the government has just lashed out with heavy-handed deportations of foreigners it blames for the unrest. Mr Zedillo's men have even been harassing hawkers selling satirical masks of him, though masks mocking ex-President Carlos Salinas have long been sold with impunity. Most disturbing have been Mr Zedillo's attacks on party rivals critical of his free marketry. Some such "dinosaurs" have been noisily launching their presidential campaigns; others have left the party altogether. At the PRI's 69th birthday party last week, Mr Zedillo pounced upon them as cynics and traitors "of low moral calibre".

Such talk is worrying from Mr Zedillo, who has done much to change the political system. It was his electoral reform, for instance, which paved the way for the elections last year that gave Mexico its first opposition-dominated Congress in modern times. But he and his cabinet colleagues still tend to ignore the vast popular base of the PRI, and rule the party as a tyranny of technocrats. Mr Zedillo would do well to give the dinosaurs space, distasteful as that may seem, for tolerance of dissent is the hallmark of democracy. And democracy, by promising to end the grip of one-party politics on the economy, offers the only real hope that Mexico can break free of its ugly economic cycles and uglier crises.

From the print edition: Leaders