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THE AMERICAS

William F. Foote is an Institute Fellow examining the economic substructure of Mexico.

The Four C's

MEXICO CITY, Mexico June 16, 1997

By William F. Foote

This newsletter is a transcription of the speech I delivered on June 15th, 1997, at the ICWA spring meeting held at Iona College in New Rochelle, New York.

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Walking in downtown Mexico City the other day, I recognized a man I had interviewed months before for a story on Mexico's informal economy. He was one of the countless street vendors who have filled the capital's sidewalks in recent years. Mr. Jose Orozco had taken the time to explain to me how the so-called "industry of marches and demonstrations" works downtown. That is, how street vendors, shoe shiners, newspaper sellers, mariachi musicians — all these informal groups — have become an important cog in the political machinery of the P.R.I., Mexico's long-ruling "official" party. For years, people like Mr. Orozco, in exchange for permits to work on the street, have offered P.R.I. politicians their votes as well as attendance, by the thousands, at political rallies in the Zócalo, Mexico City's central square.

Mr. Jose Orozco, a Mexico City street vendor, posing at home with his wife.

So I said hello to Mr. Orozco. Remembering that next month, July 6th to be exact, Mexico City will choose its first freely-elected governor since the P.R.I. came to power 68 years ago, I asked him whom he will vote for? Don't forget, this is a guy who has relied on and demonstrated for the ruling party all his life. Mr. Orozco stopped, looked around, and said: "*el P.R.D,*" Mexico's center-left party.

Why is this important? Because next month, thanks to people like Mr. Orozco, Mexico's opposition parties have a strong chance of winning not only the governorship of Mexico City, but a majority in Congress. The implications are profound: lawmakers, as opposed to all powerful P.R.I. presidents, could finally help shape Mexico's destiny. If the ruling party loses, it will have to relinquish considerable power. Already the P.A.N., Mexico's center-right party, governs 34 million Mexicans in four states and 250 municipalities; or about 37 percent of the population.

The question is, *why* are people like Mr. Orozco voting against the P.R.I.? After

all, international pundits and the U.S. press have hailed Mexico's rapid recovery from the disastrous devaluation of 1994. And it's true: Mexico returned to the global capital markets in just seven months, versus seven years following the debt crisis in '81-'82. The Mexican stock market has reached new heights. Last year gross domestic product grew by over five percent. Indeed, all the macroeconomic indicators confirm that Mexico is well on the road to recovery.

Protesters marching in the Zócalo, Mexico City's central square.

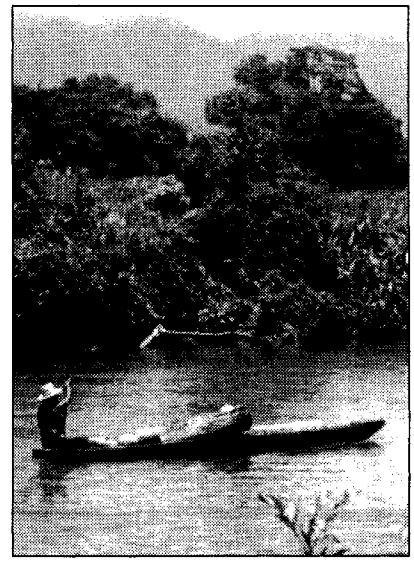
Why, therefore, would a street vendor vote against the P.R.I., which is largely responsible for the quick recovery? Why, moreover, has Mexico City's "industry of marches and demonstrations" been all but shut down, replaced by a growing number of genuine sit-ins, marches, and hunger strikes against the P.R.I.? Last year alone there were more than 3,000 protest marches in Mexico City, most of which were increasingly radical, with demonstrators doing everything from shedding their clothes to extracting blood to underscore their plight. Still others have abandoned peaceful protest altogether, joining vigilante gangs or rebel groups.

The short answer to these questions, in my opinion, is that Mexico's P.R.I.-controlled government has been unable to translate the benefits of macroeconomic recovery to the reality of individual lives. Tonight I will try to explain.

* * * * *

Having spent the past two years living in different locations throughout Mexico, I now recognize the increase in demonstrations in the nation's capital as being symptomatic of a much deeper, national crisis; a crisis that transcends macroeconomic policy.

Back in October 1995, armed with my ICWA I.D. cards, my notebooks, and Peter Martin's blessing, I embarked on a journey that took me from the border crossing at Laredo, Texas, to the shantytowns of Morelia, Michoacan; from the mountains and jungles of Oaxaca in the poor South to the urban slums of the federal district.



From the jungles of Oaxaca...

Wherever I went, I found the same thing: a chronic inability of P.R.I. governments — local, state, and federal — to grapple with non-ideological, day-to-day problems that matter most to Mexican voters: water, sewage, garbage, electricity, transportation, pollution and increasingly; crime.

These shortcomings, I believe, will have a material impact on next month's elections. In fact, if the opposition wins, it won't necessarily reflect the P.R.I.'s failure to promote democracy, although that's what we Americans might like to think. Mexico, after all, has been dominated by authoritarian regimes for 500 years. Like it or not, people are accustomed to undemocratic practices like the phony "industry of marches and demonstrations."

No, if the opposition wins it will be due, in large measure, to the ruling party's failure to resolve basic quality-of-life issues that affect the daily existence of Mexico's predominately urban population. These are the same issues that William Alonso, a Harvard professor of population policy, summarized when he wrote:

"The immediate dilemma [of Latin American cities] is to get the water in, to get the waste out, and to do something about a number of other basic services. Without that, nothing works — not poverty alleviation, not economic development."

As an ICWA fellow, I have tried to explore these issues from the vantage point of public officials, private contractors, project financiers, citizen consumers and of course the garbage collectors, plumbers, electricians bus drivers. In doing so, several themes have emerged which I would like to share with you as I believe they shed some light on the aforementioned problems. To keep things simple, I will call them the Four C's: centralism, copycat-ism (I'll explain shortly), corruption, and corporatism.

CENTRALISM

Borrowing the words of President Ernesto Zedillo, Mexico's centralism has been: "oppressive and backward,

... to the slums of the Federal District

socially insensitive and inefficient." The question is, what has Zedillo done to change this? Not much it would seem. Despite the P.R.I.'s lip service to decentralization, or New Federalism, the country's political and fiscal systems remain highly centralized. Most importantly, the federal government collects 98 percent of taxes in Mexico, keeping 80 percent of total fiscal resources at the federal level, while allocating 17 percent to the states and just three percent to the municipalities.

I remember discussing this situation with a city official in Morelia, the capital of the central state of Michoacan, where Gina, my wife, and I spent our first six months. He was a *Panista*, a member of the center-right party, which had won the municipal elections soon after our arrival. Could the P.A.N., I asked him, make democracy work in Mexico? To which he replied: "How can democracy work if we can't even spend our own money in our own community to make the civic improvements that citizens demand?" Very good question.

Incidentally, we chose to start in Morelia precisely because of its need for civic improvements. Morelia is in many ways a typical Mexican city: its population of 1.2 million is nearly eight times the 1970 estimate, the municipality is bankrupt, and the city's growth has meant a corresponding rise in basic service problems.

Consider just one aspect of the city's water crisis. Morelia has two rivers, the Rio Chiquito and the Rio Grande. Once the pride of the city, they now constitute open, stinking sewers, like most rivers in Mexico. With no sewage drainage system, human and industrial waste flows straight into the waterways. With no sewage treatment plant either, the rivers merge on the edge of town and empty untreated into a fertile valley of some 30,000 acres.

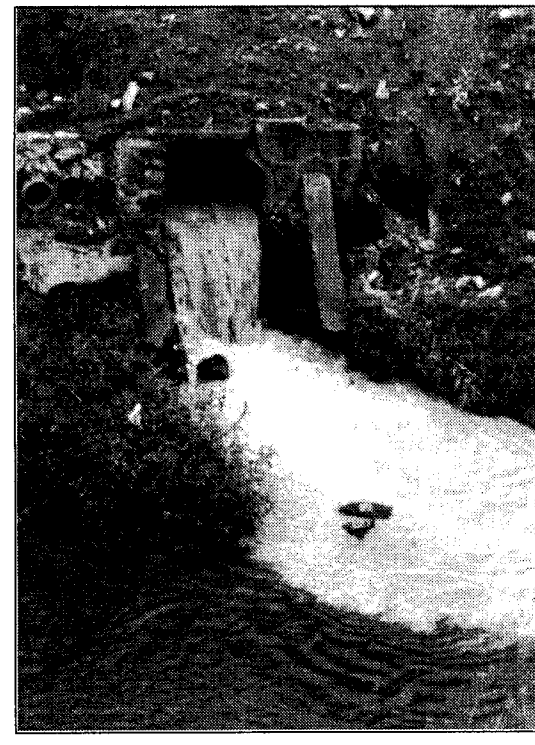
Never mind the gastro-intestinal illnesses that have crippled work forces in downstream communities. Since 1990, the National Water Commission has banned the production of fruits and vegetables in the valley due to the high level of contamination in its irrigation system. This measure has devastated the local farming economy. Similar prohibitions have been applied to farmlands located on the edge of urban areas throughout Mexico.

Some farmers, of course, simply ignore the ban. One man I met admitted to waiting until after hours to turn off his expensive well water and irrigate with the cheaper river water instead. This practice might explain why last April, 163 U.S. school children were infected with hepatitis after eating strawberries allegedly imported from Mexico.

COPYCAT-ISM

So with a quick glimpse at Morelia's troubled rivers, you get a sense of the urgency of these types of basic service problems. You see how they shape the lives of voters in the cities and countryside. You also understand why a growing number of cash-strapped municipalities have given up on empty promises of decentralization from the federal government, turning instead to another source of expertise and investment available for these purposes: the private sector. Consequently, in my reporting as an ICWA fellow, I have always tried to identify and assess the impact of these public-private partnerships, whether they are service contracts, leasing arrangements, full concessions or outright privatization.

Not that I am an expert on these issues. No doubt, you have all heard a lot about free-market reforms in Latin America. So I won't bore you with the success stories, but rather mention a common misconception about the private sector that I have detected in Mexico. That is, a belief that the private sector offers a "silver bullet" solution to



Raw sewage emptying into the Rio Chiquito of Morelia, Michoacan

all evils. Hire a private company, boost investment and efficiency, cut subsidies and bureaucracy. Many believe these things to be automatic. In my experience, however, this is not always the case, which reminds me of a story.

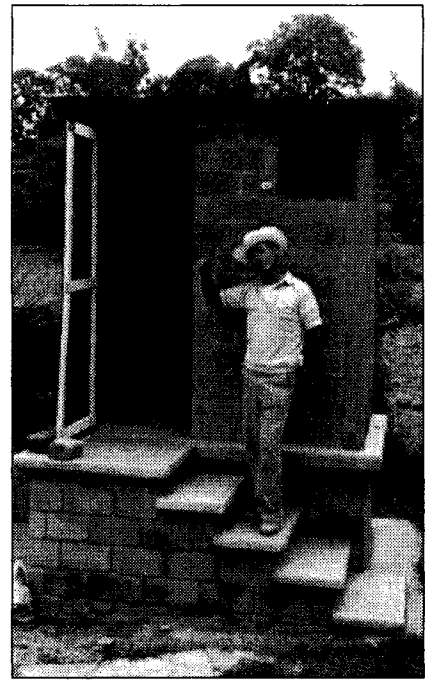
"Modern" trash-dumping

Three years ago, the city of Guadalajara, in the western state of Jalisco, hired private contractors to build and operate a Swiss-designed trash recycling plant. It was an impressive project: huge conveyer belts, workers dressed in smart, white uniforms separating recyclable materials. Yet the plant went bust within a year. Why?

For starters, the profitability of sophisticated recycling technology depends on the arrival at the final deposit of refuse that is high in monetary value: *i.e.*, cardboard, tin cans, glass, plastic. But that did not happen at the Guadalajara plant. The garbage that *did* arrive was primarily organic, like banana peels. The problem, in hindsight, was not at the plant but at the city dump, where hundreds of self-employed, informal trash pickers plucked all the valuable trash from the garbage long before it ever reached the new recycling plant.

I tell this story because it illustrates what I call copycat-ism, which refers to the misguided application of "First World," high-tech solutions to distinctively "Third World" developmental problems. The Guadalajara plant is but one case in many of copycat-ism in Mexico. It offers a clear example where even the best intentions of the private sector have failed due a lack of appreciation for, and understanding of, the idiosyncrasies of Mexico's socio-economic condition.

Copycat-ism manifests itself across the country, including in Oaxaca City, where Gina and I spent the latter half of our first year of the fellowship. The capital of the state of the same name, Oaxaca mirrors Morelia in its rapid and chaotic urbanization, its demographic explosion, and its environmental devastation. Like Morelia, Oaxaca's rivers are also open sewers, as Mexicans continue to do as the industrialized world does — namely, flush and forget.



A waterless, compost latrine in the outskirts of Oaxaca City

The problem is, for better or for worse, rich countries like the U.S. can afford to flush and forget because they have the money to build and operate sophisticated, high-cost sewage plants. Mexico does not, which explains why, of the country's 3,000 or so sewage treatment plants — many built by private enterprise in the early 1990s — only about five percent reportedly work today. This situation is particularly worrisome for poor states like Oaxaca, where cholera reappeared in 1991, making a medieval mockery of its modernization efforts.

Predictably, in Oaxaca City a debate is raging over how to clean up in times of cholera and crisis? On one side, local water authorities want to build a giant, 20-million-dollar sewage treatment plant; the kind you would find outside Chicago or New York; the kind that Mexico's fiscally-squeezed cities cannot realistically afford.

On the other side, a growing number of people are saying no to copycat-ism, advocating simpler solutions and alternative technologies instead. Take, for example, Oaxaca's dry-latrine program, which hits the modern sewage problem at its source: through the reduction of discharges of human waste into bodies of water, ground water, and soil. Built in dozens of Oaxacan villages, these waterless, compost latrines have largely eliminated cholera while allowing for the collection and sterilization of human fecal matter to be used as fertilizer.

But this is a rural program. The ob-

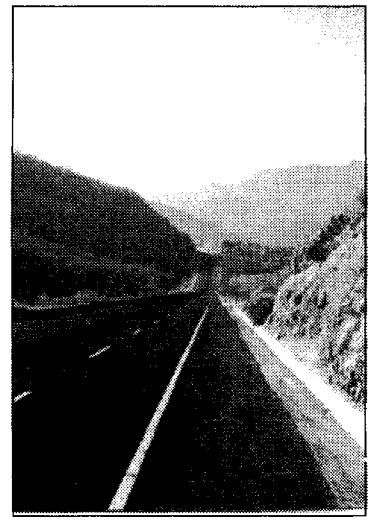
Elena Hernandez displaying her home-made fertilizer in Oaxaca City

vious question being, if dry latrines work so well in the countryside, why not use them in the cities? Or at least in the urban slums? In response, water bureaucrats gave me a long list of reasons why dry latrines are inappropriate for cities. Yet according to low-income city residents I spoke to who have built their own dry latrines, these reasons were largely bogus.

I will never forget meeting Mrs. Elena Hernandez, whose home I visited in an overcrowded, tumble-down settlement in the outskirts of Oaxaca City. Her community hugs the side of a deforested hill, with no vegetation in sight. Hence my surprise when I opened the gate to Elena's house and beheld a vast garden of cascading flower beds.

"Every blossom," she said proudly, "every petal you see, was grown with *my* fertilizer from the dry latrine *we* built."

Unfortunately, her latrine was part of a 1990 pilot project that was abandoned the same year due to opposition from the water authorities. It seems that dry latrines, which decrease the need for drainage, threatened the considerable income that water authorities generate by installing drainage pipes. In Mexican cities, you see, the construction of things like drainage — not to mention of 20-million-dollar sewage plants — creates a chain of profits and kickbacks for all officials concerned, which brings me to the issue of corruption.



A stretch of privately-financed superhighway in southern Mexico

CORRUPTION

Mexico has dominated the international headlines lately with stunning examples of graft: Raul Salinas's Swiss bank accounts; Mexico's former drug czar on the payroll of the Juarez Cartel. The good news is that such high-level corruption is finally being exposed, unlike most street-level graft which continues unabated.

As an ICWA fellow, for instance, I had to create a new line item in our monthly expense reports for bribes paid to traffic police. In fact, the only other travel expense we had that surpassed the cost of bribes was driving on Mexico's outrageously expensive toll roads; a topic which, when it comes to corruption and basic infrastructure, offers a prime case in point.

From 1989 to 1994, Mexico built 3,600 miles of privately-financed superhighways at a cost of nearly 15 billion dollars. The National Highway program was initially hailed as a model for cutting public expenditure on transport infrastructure. Yet the program ended up in financial collapse, with near-empty turnpikes, and some of the highest tolls in the world.

Understandably, many Mexicans now see these fancy roads as reason to curse an economic reform process that has left them impoverished and disenfranchised. Yet in reality, the superhighway program — like many of Mexico's free-market experiments — was a deeply flawed, incomplete experiment in reform. Yes, the private sector participated. But Mexico's propensity for corruption in public works offered myriad opportunities for graft. Take the padding of budgets, for example. The Highway of the Sun, running from Cuernavaca to Acapulco, cost 2.1 billion dollars to build, or more than twice the original estimate.

Inevitably, these ill-conceived projects miscarried. Instinctively, Mexicans blamed the private highway concessions. Yet the cause for failure, in my view at least, was not capitalism but corruption.

CORPORATISM

The question is, does that distinction even matter? In the final analysis, it is not whether Mexico's problems are attributable to corruption, crony capitalism, copycat-ism or centralism. In the run-up to next month's elections, what matters is that Mexican voters increasingly associate their day-to-day troubles with the 68-year reign of the ruling party. And nowhere is the P.R.I. more concerned about that electoral opposition than in Mexico City, the ruling party's once-unassailable political fortress, where Gina and I have spent most of the last year.

We moved there, most importantly, because Gina found a job. Yet with its congestion, contamination, corruption, crime, Mexico's capital was custom-made for ICWA fellows. With nearly a third of the nation's people crammed within, the capital embodies the essence of

Mexico's centralized, state-dominated economy and society. Indeed, when the smog stings my eyes, when I'm stuck in endless traffic, I often recall those famous words of Meynard Keynes, the grandfather of 20th-century statist economic policy:

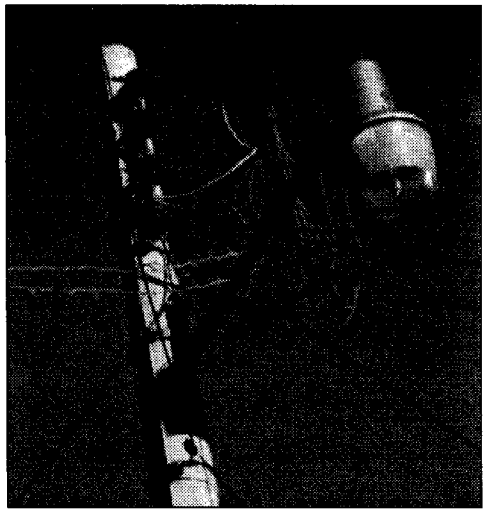
"In the long run," he said, "we're all dead." To which Lyndon Johnson's Secretary of the Treasury responded years later: "Now Keynes is dead, and we're stuck with the long run."

Metro City's too-many mini-buses

In recent years, to be fair, Mexico has worked hard to end that legacy. Yet in the early '90s, as free market reformers dismantled Mexico's state regulation of the economy, important components were left untouched. These included — surprise, surprise — the basic service bureaucracies; bureaucracies which in Mexico City harbor some of the most inefficient and corrupt parastatals imaginable.

Why were things like water, busing, electric distribution left virtually untouched, save for a few partial attempts at reform? Why, when such services represent huge drains on the national economy; when all have bloated work forces, inefficient management; are riddled with corruption; and require billions of dollars in annual subsidies? Why, moreover, when other Latin American cities have demonstrated how unnecessary this waste is? Buenos Aires, São Paulo, Rio de Janeiro, Santiago, Bogotá — all these cities have made commendable efforts to improve their basic services through downsizing, cost-cutting, often with the help of public-private partnerships.

The answer, in my opinion, is that basic services remain a keystone of the P.R.I.'s traditional patronage system in the capital and across the country. On one hand, the ruling party is loath to destroy tens of thousands of jobs that the P.R.I. itself created in exchange for unconditional political loyalty. On the other hand, by offering dirt-cheap basic services, the P.R.I. has kept a lid on social unrest, especially in Mexico's overcrowded capital, while simultaneously securing electoral support. If, therefore, Mexico City has fallen behind other Latin American cities, it is because one of the pillars of the ruling party's power continues to be corporatism, the last of the "Four C's" I wanted to mention this evening.



Highjacking electric power

CONCLUSION: TEMPERED OPTIMISM

I chose to wrap up here because, in light of next month's elections, the swapping of votes for basic services and state employment sheds light on Mexico's ongoing transition to democracy. Personally I have high hopes for this process. Given Mexico's history, the fact that opposition parties even have the opportunity to compete freely next month, let alone sweep the elections, is cause for celebration. Unquestionably, Mexico's electoral practices have become more democratic.

Yet despite this fact, the centralism, corruption and corporatism I've described above epitomize the authoritarian realities that continue to plague Mexico's democratization process. By the same token, the question of political participation and accountability remains a foreign idea for the majority of Mexicans.

So yes, the July 6th elections will constitute an important step toward breaking the P.R.I.'s legacy of paternalism, poverty, corruption and impunity. Yet as pro-democracy supporters, we should temper our excitement at the possibility of historic change next month, with the realization that quick fixes to decades-old problems rarely work. We should not create, in other words, false expectations for Mexico, for like all the other long-term solutions to the country's problems, democracy cannot simply be copycatted. ❑

Mexico City's mayoral candidates: (left to right) Alfredo Del Mazo; Carlos Castillo Peraza; Cuauhtémoc Cárdenas

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Institute Fellows and their Activities

Adam Smith Albion. A former research associate at the Institute for EastWest Studies at Prague in the Czech Republic, Adam is spending two years studying and writing about Turkey and Central Asia, and their importance as actors the Middle East and the former Soviet bloc A Harvard graduate (1988; History), Adam has completed the first year of a two-year M Litt Degree in Russian/East European history and languages at Oxford University [EUROPE/RUSSIA]

Christopher P. Ball An economist, Chris Ball holds a B A from the University of Alabama in Huntsville and attended the 1992 International Summer School at the London School of Economics He studied Hungarian for two years in Budapest while serving as Project Director for the Hungarian Atlantic Council As an Institute Fellow, he is studying and writing about Hungarian minorities in the former Soviet-bloc nations of East and Central Europe [EUROPE/RUSSIA]

William F. Foote Formerly a financial analyst with Lehman Brothers' Emerging Markets Group, Willy Foote is examining the economic substructure of Mexico and the impact of free-market reforms on Mexico's people, society and politics Willy holds a Bachelor's degree from Yale University (history), a Master's from the London School of Economics (Development Economics; Latin America) and studied Basque history in San Sebastian, Spain He carried out intensive Spanish-language studies in Guatemala in 1990 and then worked as a copy editor and Reporter for the *Buenos Aires Herald* from 1990 to 1992 [THE AMERICAS]

Pramila Jayapal. Born in India, Pramila left when she was four and went through primary and secondary education in Indonesia She graduated from Georgetown University in 1986 and won an M.B A from the Kellogg School of Management in Evanston, Illinois in 1990 She has worked as a corporate analyst for PaineWebber, an accounts manager for the world's leading producer of cardiac defibrillators and manager of a $7 million developing-country revolving-loan fund for the Program for Appropriate Technology in Health (PATH) in Seattle Pramila is tracing her roots in India, and studying social issues involving religion, the status of women, population and AIDS [SOUTH ASIA]

Marc Michaelson A program manager for Save the Children in The Gambia, Marc has moved across Africa to the Horn, there to assess nation-building in Eritrea and Ethiopia, and (conditions permitting) availing and unavailing humanitarian efforts in northern Somalia and southern Sudan With a B A in political science from Tufts, a year of non-degree study at the London School of Economics and a Master's in International Peace Studies from Notre Dame, he describes his postgraduate years as "seven years' experience in international development programming and peace research" [sub-SAHARA]

Randi Movich The current John Miller Musser Memorial Forest & Society Fellow, Randi is spending two years in Guinea, West Africa, studying and writing about the ways in which indigenous women use forest resources for reproductive health With a B A in biology from the University of California at Santa Cruz and a Master of Science degree in Forest Resources from the University of Idaho, Randi is building on two years' experience as a Peace Corps agroforestry extension agent in the same region of Guinea where she will be living as a Fellow with her husband, Jeff Fields — also the holder of an Idaho Master's in Forest Resources [sub-SAHARA]

John B. Robinson A 1991 Harvard graduate with a certificate of proficiency from the Institute of KiSwahili in Zanzibar, John spent two years as an English teacher in Tanzania He received a Master's degree in Creative Writing from Brown University in 1995 He and his wife Delphine, a French oceanographer, are spending two years in Madagascar with their two young sons, Nicolas and Rowland, where he will be writing about varied aspects of the island-nation's struggle to survive industrial and natural-resource exploitation and the effects of a rapidly swelling population [sub-SAHARA]

Teresa C. Yates A former member of the American Civil Liberties Union's national task force on the workplace, Teresa is spending two years in South Africa observing and reporting on the efforts of the Mandela government to reform the national land-tenure system A Vassar graduate with a juris doctor from the University of Cincinnati College of Law, Teresa had an internship at the Centre for Applied Legal Studies in Johannesburg in 1991 and 1992, studying the feasibility of including social and economic rights in the new South African constitution [sub-SAHARA]

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