

Ernesto Zedillo's economic proposals

On June 6, during his election campaign, Ernesto Zedillo —now president-elect— presented ten points for economic reactivation and sustained growth. We present below a summary of these points.

Encouraging investment, the motor of growth

I propose three concrete actions for reactivating public investment and encouraging a significant volume of private investment:

- In the first year of my administration, increasing direct public investment by one fourth over the current level.
- Promoting a reform allowing for multi-year budgeting of public investment. This would provide certainty for the financing of medium- and long-term projects.
- Creating a Fund for Encouraging Investment. This fund would provide investment projects with guarantees for obtaining financing at rates and tempos that would be in line with their performance and maturation rates. It would be able to invest venture capital on a temporary and junior-partner basis, seeking always to complement private

investment. It would be financed with resources derived from the contingency fund, fed by proceeds from deincorporation of public-sector assets [i.e., privatization], which until now have been used to make payments on the public debt. It would be able to contract long-term resources in international markets when favorable conditions exist for doing so, acting prudently, and its resources would be used for specific projects whose profitability would guarantee its ability to repay.

Foreign investment must continue to provide complementary support to domestic investment, since it makes it possible to acquire cutting-edge technology and represents a link with international trade and production flows. We will promote conditions of juridical security and equality allowing it to play this complementary role fully.

Investment in education, training and health

I make the commitment that during the coming administration we will multiply by at least five the number of workers who are currently being trained each year. We will accomplish this through government

Population boom hits billionaires

Forbes magazine reports that the number of Mexican citizens with fortunes of more than 1 billion dollars is eight times larger than it was four years ago; the number of Mexicans on the list of the planet's richest people went from 3 to 24. Our billionaires' fortunes, taken together, would be enough to allow the Mexican peso to be exchanged one to one for the U.S. dollar, since they're 74 percent greater than the country's total international reserves. Their wealth is comparable to 1994 budget outlays for education, health, urban development, ecology and potable water, communications and transport, tourism, security and law enforcement, industry, mining and administration. It's also at least 13 times more than the budget assigned during this presidential term to the National Solidarity Program, designed to combat the extreme poverty that affects more than 18 million inhabitants of this country. Economists have yet to explain the magic formula that made such a rapid multiplication of fortunes possible.

Elsie L. Montiel
Assistant Editor.

Housing and related services

The people of Mexico want to live in decent homes and know how to work to achieve this for their families. This is shown by the fact that 65 percent of the country's housing units were built by the occupants themselves. We will promote construction by residents, supporting grass-roots and neighborhood organizations through long-term direct financing, technical advice on projects and access to building materials. Our challenge is to build and improve 700,000 housing units per year.

In addition, I commit myself to carrying through, as rapidly as possible, the regularization of land tenure in urban areas and providing access to potable water and drainage.

Today, I am signing a commitment that by the year 2000 we will provide potable water to all communities of more than a thousand inhabitants. We will also construct water supply sources in communities of less than a thousand.

By the year 2000 we will also ensure the supply of electric power to all communities of more than 100 inhabitants.

Ernesto Zedillo

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incentive plans based on companies' structure and needs. We will broaden the training program with scholarships and financial support for employed as well as unemployed adults who need to adapt themselves to the use of new production technologies.

To advance, simultaneously, towards more jobs and better health, we will keep an eye on the costs of social-security institutions, demanding greater efficiency. We will also make a big effort to provide social-security benefits to workers who do not presently enjoy them.

A push for education and training for the neediest

We will push forward the growth of basic education, especially in rural areas; we will move forward until all six primary-school grades are available in all locations, and establish secondary-school service in areas where primary education is already fully available. Above all, we will focus on towns which still lack classrooms and teachers. I commit myself to giving a renewed emphasis to Indian education, rural education, and training in the most disadvantaged regions.

We will increase the number of scholarships for children and adolescents from low-income families. My commitment is that by the year 2000 we will provide at least a million and a half scholarships to children from poor communities, certainly making sure that girls benefit from this especially, since girls have the highest drop-out rate from our school system.

Teachers in rural and Indian areas will receive greater incentives and support for housing, basic services and transport, encouraging them to settle in these communities.

We will create a program of education and training for women in disadvantaged areas. The objective will be to provide these services to a million women in the first three years. This program will provide technical training as well as family orientation, prenatal care, nutrition and health coverage.

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Don't do it, Zedillo; don't jump in that way

At the end of the 19th century and the beginning of the 20th, there was a terribly brave Spanish bullfighter named Reverte, whose way of killing bulls always frightened Mexican audiences. Like most matadors, he would rush in for the kill. But he would leave his chest exposed to the animal as nobody had done before. He was gored several times and—if the memory of my childhood readings does not betray me—a bull killed him here in Mexico City, in 1904.

One day, the silence that fell each time he got ready to jump in and give the *coup de grâce* was broken by a fan who desperately shouted: "Don't do it, Reverte; don't jump in that way!" The audience began chanting this entreaty. From that day on, audiences chanted this each time the matador got ready to deliver the final sword thrust. For many years the phrase was commonly used in the capital when somebody proposed to do something dangerous. That's why I used it as the title of this article.

I was astounded to see that as one of his proposals for getting us out of the current recession, Zedillo offered to further increase Mexico's already-enormous debt. I know the debt is considerably less, in relative terms, than in 1982. But that, in itself, is no reason to increase it now. Once you climb up that slippery slope, you don't know where you're going to end up. The current regime has already had to reindebt itself in order to settle the foreign-trade deficit. Now a plan is afoot to double social spending in order to make up for the lack of private investment. Where are we going to end up?

Either Zedillo didn't have enough confidence in the ideas he put into effect during his three years at the Secretariat of Planning and the Budget, or he has decided to indulge in demagogic rhetoric. Some of my friends defend Zedillo with the explanation that any political campaign requires a considerable dose of demagoguery. My answer is that politicians always run the risk that they will end up believing the things they initially said out of sheer demagogical convenience.

The clearest example was [former president] Luis Echeverría, who started out making some leftish noises and wound up believing he really was a leftist. Luckily he was so busy coming up with new rhetorical forays against those he chose for his enemies that it was only in the last weeks of his administration that he carried out large-scale expropriations, in Sonora. The balance sheet of his term was not as destructive as that of his successor [López Portillo], who began very well indeed.

In any case, Zedillo used the same explanation that Echeverría and López Portillo did when they sank us into debt up to our necks. Both claimed that public spending would be self-financing, that huge subsidies would guarantee stability and improve the people's living standards. They didn't reckon on the inflation, cascading devaluations and, finally, unemployment this spending were to produce.

Large industrial projects carried out purely on the basis of credit take years to generate sufficient resources for servicing the debt they create. In the meantime, interest payments eat them up. An enormous part of the debt we are presently paying consists of interest on loans contracted in order to pay the interest on previous loans.

I would like to acknowledge my own guilt in this issue of indebtedness. From 1954 to 1956 I represented Mexico's Foreign Trade Bank in New York. While my rank was not high enough to allow me to commit the bank one way or the other, I was very proud that during my term our debts to New York banks rose, if memory serves, from 30 to 50 million dollars.

In my fourth reincarnation at that bank, 25 years later, I was general director and, with considerable trepidation, signed international credits for more than a billion dollars—perhaps almost two billion. This was all for unpaid credits that had been granted to large state firms, plus interest, plus new credits for the same firms. In practice, once again, this was compound interest.

Yet by that time, like most finance-sector functionaries, I was frightened by the avalanche of loans, the resulting accumulation of indebtedness weighing on the country, and the public-spending policy we were following. I well remember a conversation with the Secretary of the Treasury in September 1981, during which we speculated privately that if the country somehow managed to get through the rest of that year, the crash would only be postponed to 1982 at the latest. This turned out to be right on the mark; 1982 was the year reality kicked us in the teeth.

I learned my lesson, and I hope we're not running the risk of repeating the sufferings the Mexican people have gone through because of all us "emissaries of the past" who in one way or another were responsible for that disaster. I hope the new generation, which wants to govern us now, will have better luck.

However, it is far from reassuring when the main presidential candidate thinks that he *will* be able to run up debt with impunity. We humans have not managed to understand the forces that govern the economy, nor how and why well-being and growth go through cycles. Still less do we know how to counteract those forces without causing even bigger problems. All we *can* know is what caused slip-ups in the past. For example, we do know that spending a lot more than we earn will definitely do us serious harm.

Adrian Lajous

Summary of an article published
in *Reforma* newspaper, June 17, 1994.

We have a very special commitment to the working woman. We will create new mechanisms to provide her with good day-care centers and good social security and assistance services.

Fiscal policy for investment

I propose that the fiscal authority responsible for executing tax laws, collection and payment be constituted as an autonomous, modern and decentralized institution with functionaries trained in civil service.

Audits should be carried out as rapidly as possible and at the end of any audit the taxpayer should receive a resolution allowing him to go to the courts for a review of the legality of the tax authority's behavior. The Federal Tax Court should have greater independence.

I will promote an ambitious program of reforms to provide a tax framework that will be internationally competitive:

- I will propose a 10 percent reduction in the tax on company assets. A four-year grace period should be established during which new enterprises and new assets would be exempt from this tax. Companies showing a loss in a given fiscal year should be exempted from this tax if they made a profit during one of the preceding three years.
- A measure of great importance and immediate benefit would be allowing more than 80 percent of companies to calculate and pay their taxes four times a year

instead of twelve. We will also simplify procedures in order to reduce their administrative burden.

- I will promote a reform to increase benefits from the immediate investment deduction, extending it to small and medium-size businesses located in the three largest metropolitan areas as well as increasing it in other areas, where it already exists.
- I will propose the introduction of a new fiscal incentive regime so enterprises will devote more resources to workforce training, the adoption of new technologies and investment in anti-pollution equipment.
- With regard to taxes on workers' income, I will propose reforms to simplify calculation and make taxes proportional and equitable.

Promotion of savings and competitive financing for growth

It is unacceptable that our small and medium entrepreneurs face interest rates as high as those in force at the present time. In consolidating macroeconomic stability, we must arrive at a point where there is a one-digit interest rate.

It is also indispensable that brokerage margins be reduced and that there be more deregulation, broadening the variety of financial products and facilitating more companies' access to debt and capital markets.

I will encourage the creation of coverage mechanisms to prevent conjunctural rises in interest rates from directly

Basic health package

I commit myself to ensuring that all low-income families have access to an essential health-services package that will include such services as prenatal and obstetric care, family planning, detection and treatment of infectious diseases, including diarrhea, pneumonia, measles, malaria and sexually-transmitted diseases; anti-parasite and vitamin-supplement programs, educational and information items regarding nutrition, breast-feeding, hygienic habits and reproductive health.

The cost of ensuring that this package is available to the approximately two million families that presently lack these services is estimated at 100 new pesos [the equivalent of about 30 dollars] per person annually, and can be financed through a 10 percent increase in current health spending. By the year 2000 this would result in a more than 50 percent reduction in deaths caused by these diseases in the country's poorest regions.

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affecting companies' long-term financing costs, as well as increasing development banks' resources and guarantee mechanisms for supporting small and medium enterprise.

It is necessary to promote new institutional and operational mechanisms so that credit will reach the countryside opportunely and at a low price.

Population growth and natural replacement impose the need to build around 700,000 housing units per year. I will push for the reforms necessary to create a secondary mortgage credit market.

Greater deregulation to promote job creation

Deregulation will be extended to all sectors of economic activity, reducing entry barriers for new participants, eliminating exclusive advantages and setting clear and universally-applied rules.

The economy can no longer tolerate the fact that, for example, Mexico City entrepreneurs have to carry out more than one hundred official formalities in order to establish their companies. The policy of deregulation will be accompanied by a deep-going simplification of

Infrastructure and regional development

The contrasts in development levels within our country are considerable. Per capita income in the metropolitan area of Mexico City and its vicinity is between six and seven times more than that of the lowest income states in the southeast of our country.

These substantial differences are reflected in many other indicators: there is a difference of up to eight years in life expectancy and up to four years in average schooling. Low-income states have half the rate of dwellings with running water and one fifth the ratio of doctors to inhabitants as the most developed states.

Our regional development strategy has three aspects. These are: investment in infrastructure, promotion of projects in priority regions and organization of public administration, so that within the framework of the new federalism that I have proposed, greater decision-making powers, prerogatives and resources will be shifted to the states and municipalities.

I propose an unprecedented effort to build expressways, highways, throughways and rural roads to connect low-income regions to the rest of the country, as well as rehabilitation and conservation of rural roads.

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Ecology and the fight against poverty

Each year, large expanses of forests and jungles little suited to agricultural use are deforested. Cultivation is carried out in the kind of mountainous areas that are highly vulnerable to erosion, as well as semi-arid lands where the soil is rapidly degraded. The result is low incomes, low productivity and environmental damage.

On the other hand, the areas which are best conserved in terms of their natural resources are inhabited by Indian and peasant communities that live in extreme poverty and face serious contradictions between natural resource conservation and their own survival and development.

I propose to carry out a program to help owners of woods and jungles protect, conserve and restore these areas; this is a minimal and well-deserved compensation for the benefits their property provides to all of society. I also propose to regularize land tenancy in critical zones and to promulgate ecological legislation.

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administration and the rationalization of official procedures at all levels of government.

To prevent some companies from obtaining illicit advantages through monopolistic practices, we will actively promote the policy of competition. We will establish follow-up committees which will meet periodically to check on the progress made.

Intermediate inputs and infrastructure for competitiveness

One of the key elements in my economic policy proposal is ensuring domestic producers' access to basic inputs, under conditions of quality and price similar to those of their competitors abroad.

With regard to electricity, we will take advantage of the new options now provided by the legal framework in order to direct public investment to strengthening and improving transmission and distribution, as well as encouraging private participation in generating power.

Maintaining direct state ownership and control of hydrocarbons extracted from the country's territory is a political commitment. Our oil belongs, and will continue to belong, to the Mexican people.

I propose to devote greater budgetary resources to maintaining highways, preventing the deterioration of transport equipment and reducing delivery times. I will encourage greater private participation in construction and

Nutrition for vulnerable population groups

I propose two central measures. The first is to ensure that families living in conditions of critical poverty, in Indian communities, rural areas and low-income urban zones, have access to a basic food basket.

The second is to promote a broad school-breakfast program, taking advantage of Mexico's extensive experience with this socially inspired service. With regard to the first measure, a store of basic food products designed for these families' needs will be distributed through community supply councils.

We have estimated the cost of this basic food basket at 300 new pesos [approximately 90 dollars] a year per family. Our objective is to make this service available to the two million neediest families by the end of this century.

The school-breakfast program will mean providing at least four million breakfasts a day rather than the million and a half currently provided by various government services.

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Rural development for the most disadvantaged

Rural areas are home to more than 60 percent of our country's poorest inhabitants, principally peasants and day-laborers, many of them Indians.

I propose to consolidate the program of direct supports to agricultural producers (Procampo), which for the first time has provided support to self-sufficient producers and allowed them to acquire their corn and beans at lower prices.

My commitment is that in its definitive stage, Procampo will provide supports at current prices—at least 450 new pesos [approximately 135 dollars] per hectare.¹ This would represent an increase of almost 30 percent over the direct support peasants presently receive.

We will redouble certification efforts so that before the year 2000 all our country's *ejidatarios* and *comuneros*² obtain the certificates and plans stating rights to their plots and common-use lands, as well as titles protecting rights to their family housing lots.

I commit myself to giving a vigorous push to infrastructure. We will concentrate efforts on works of small and medium-size irrigation, drainage, soil leveling, rural roads, transport, warehousing and erosion control.

We have estimated that around 300,000 additional temporary jobs will be generated, which will reduce migratory pressures. To combat unemployment among day-laborers and farmers, my commitment is that infrastructure works will be carried out principally during those months when agricultural activity decreases.

I commit myself to strengthening mechanisms for "no-collateral" credit, which already provides support to about one million producers in seasonal zones with low productivity or high risk.

I propose to support low-income rural producers through a system for rural training, technical assistance, technology transfers and organization.

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¹ One hectare is equal to 2.471 acres. (Editor's note.)

² *Ejidatarios* are members of the *ejidos*, a kind of collective farm established after the Mexican Revolution. *Comuneros* are members of Indian communities which hold land in common. (Editor's note.)

operation in order to move forward in the broadening of our highway network.

We will undertake a profound transformation of the railway infrastructure, which presently stands in the way of economic performance—a serious pending matter for today's modern Mexico.

My proposal for supporting our domestic producers also includes the rapid modernization of telecommunications, adapting regulation to technological change.

Technological updating for greater productivity

We will create new systems for reducing the risks of investment in the acquisition, adoption and creation of new technology, such as fiscal incentives and plans for sharing risks with development banks. We will promote new forms

of association between enterprises for cooperation on research and development projects.

Just competition with other nations

We will reinforce efforts to do away with the administrative and legal obstacles our products face in international markets. We will strengthen the structure of centers for information, counseling and technical training in foreign trade, in order to support entrepreneurs. We will invigorate Mexico's trade offices abroad in order to identify new market niches and greater business opportunities. We will broaden means for adequate financing in order to promote exports through more effective and flexible guarantee plans and a greater number of credit providers for this sector.

Access to judicial institutions

People who live in rural areas, in isolated communities, have to travel large distances to the cities in order to go to court in defense of their own interests. This means that when they do this, they take time away from their work and incur heavy expenses.

I have committed myself to an overall reform of the justice system. I propose the following measures, among others:

- Substantially increasing the number of tribunals.
- Improving and broadening the functions of institutions that provide free legal aid services, and creating others at tribunals where they do not presently exist.
- Promoting economic incentives for free legal aid offices.
- Carrying out a reform that will simplify trial procedures and produce speedier justice, establishing the means needed for conciliation, even after trials have already begun.
- Promoting an increase in the judicial branch's budget, allowing for the operational modernization of judicial institutions.
- Devoting greater resources to peace-keeping. Providing for an ongoing campaign to inform the population—especially low-income and disadvantaged sectors—of their rights and the means they can use to demand that their rights be fully observed.
- Guaranteeing that in judicial institutions Indians will receive legal advice and translation services.

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In terms of imports, we will encourage just competition. We will fully apply Mexican legislation in those cases where Mexican producers suffer from disloyal international trade practices. I will guarantee Mexican producers that compensatory taxes will be applied. I will take the measures necessary to prevent the “triangulation” of commodities originating in countries that are not included in the preferential treatment framework. I will complement this with a deep-going restructuring of the country's customs operations.

Development of Mexico's countryside

Productivity in the rural sector is four times less than in the rest of the country's economic activities. I will resolutely support agricultural production. We will give priority to developing the infrastructure, especially small and medium irrigation, drainage, soil levelling, rural roads and erosion-control works.

Rural producers have repeatedly demanded an end to excessive “middle-man-ism.” I propose to modernize commercialization schemes in order to facilitate direct transactions between producers and wholesalers, and I will complement this effort with investments in commercialization

Job growth

There is a close connection between the economic strategy which I presented a few days ago and the strategy I am presenting today for the fight against poverty.

We need a vigorous economy which broadens employment opportunities and generates resources for taking care of the most pressing unsatisfied needs of low-income families and communities.

The federal government will work to consolidate sustained economic growth in Mexico.

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Grass-roots financing

More than half the country's municipalities —mainly the poorest ones— are not served by any bank branches whatsoever. In per capita terms, the highest-income areas receive more than five times as much credit as the poorest regions receive on the average. The disadvantaged population and those who live in poverty find themselves obliged to use informal credit mechanisms, often on very disadvantageous terms.

It is therefore vital that formal credit mechanisms and institutions be made available to disadvantaged areas. This will allow the inhabitants of these areas to deposit their savings, providing them with greater liquidity and greater security for the inheritance they pass on.

I commit myself to designing credit plans and mechanisms that will direct more resources to the poorest regions. I propose the promotion of community savings and loan associations dedicated to the development of low-income communities.

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infrastructure. We will similarly promote the organization of producers in order to strengthen their productive capacity.

For growth that respects the environment

In order to take care of the environment, I will promote economic and financial incentives. I also commit myself to environmental regulation which is clear and gives time frames providing certainty to investment and involving costs which are appropriate for society. At the

same time, official procedures must be simplified without affecting conservation.

It is indispensable to continue efforts for ecological education and to promote society's participation in the development, evaluation and oversight of policies *M*

Marybel Toro Gayol

Managing Editor.

Foreign policy

On July 26, Ernesto Zedillo presented his ten-point foreign policy plan:

1. Strengthening sovereignty, the guiding principle in foreign policy.
2. Ensuring a more just and productive international participation.
3. Safeguarding the labor and human rights of Mexicans in U.S. territory. Supporting the broadening of NAFTA.
4. Political cooperation and commercial integration with Latin America. "We cannot ignore the persistence of the blockade of Cuba."
5. Diversification of international relations.
6. Strengthening of multilateral institutions. Promoting the restructuring of the United Nations Security Council.
7. Creating an agenda for development. Combating poverty and illiteracy, paying attention to health and demographic growth.
8. A direct attack on drug trafficking. Calling a large-scale international conference as a first step in coordinating efforts.
9. Projecting Mexican culture on an international scale. Calling on writers, artists and artisans to contribute to international cultural exchange.
10. An integrated approach to foreign policy. Reinforcing strategic diplomatic and consular locations.