Christopher Caldwell

Dinosaurs and Desperados

The economy will be fine. Mexico's problem is the mind-boggling corruption of its ruling party—which is discovering it cannot co-exist with capitalism.

Ernesto Zedillo

On the last day of February, when President Ernesto Zedillo sent a squad of judicial police to arrest the brother of ex-president Carlos Salinas on murder charges, Mexicans had little idea of how close to typical Latin American-style instability they were coming. Zedillo was breaking a long tradition of impunity for family members of ex-presidents, and it was not something the old order took lying down. Carlos Salinas, having been tipped off about the action by an associate in the Zedillo cabinet, sent fifteen members of his personal Mexican army escort to block Raúl's arrest. Only when the troops sent by Salinas were approaching the house in their bulletproof Volkswagen Jettas did they receive a message over their radios—from the Minister of Defense, speaking on behalf of Zedillo—to turn back.

This is, needless to say, not the way we expected business to be conducted in the newest of First World countries. In Mexico City in March, I asked a dozen people—liberal, conservative, leftist; young and old; ranging from shop girls and students to corporate CEOs and members of the Zedillo government—the same question: "Is this a democracy?" Save occasional variations in phraseology and emphasis, they all gave the same answer: No. "We're almost there," said a political scientist. "But now, no." Which hints at what makes this moment so challenging for the United States: Never has it been so imperative that we help Mexico, and never have there been more good reasons not to.

December's peso collapse, the failure of the Mexican economy to right itself with the promise of cash infusions from abroad, the arrest of Raúl Salinas on charges of plotting the murder of ruling party leader José Francisco Ruiz Massieu, the flight of Ruiz Massieu's brother on the grounds that he helped cover up that murder, the revelation of links between Mexico's ruling class and seven new drug cartels, the near-certainty of drug involvement in three notorious recent assassinations—all of these have led to a reappraisal of Salinas in particular, and of Mexico's new status as America's trusted friend in general.

This reappraisal has seemed to vindicate the bleaker prophecies of protectionists, nativists, Perotistas, and other NAFTA foes. And now they are only bound to get angrier. According to *U.S. News*, unnamed federal agencies have been converting disused military bases in the Southwest into camps for Mexican border crossers. The planning is not idle: aside from the "push" factor of rising poverty, consider the "pull" factors. During

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Argentina's 1989 hyperinflation, you could buy a luxury penthouse in Belgrano, one of Buenos Aires's nicest neighborhoods, for under $15,000. Ask yourself what the immigration pressure on the U.S. would look like if you could buy such property in Mexico City after six months' work on a construction site.

What's more, there remain a couple of things Americans deserve to be at best skeptical and at worst ripping mad about: (1) Maybe the bailout plan pushed by President Clinton is being made by interested parties. This is not to say it is a corrupt agreement—in fact, it is qualitatively a standard bailout strategy, even if it is quantitatively of staggering size. (For more on the economics of the peso bailout, see the sidebar at pp. 40-41.) But it *will* create a "moral hazard" by helping Wall Street's banks and a few speculators who failed to save for their retirement and now feel they have a divine right to 23-percent returns on their pension investments. (2) NAFTA was to some extent sold to Americans under false pretenses: that Mexico had left behind its Third World ways and deserved a reward for expanding political freedoms. In fact, Mexico is, with the exception of Cuba, the least democratic country in the hemisphere.

But throwing out our free-market principles over Mexico's troubles would be a grievous mistake. Had we known the truth about Mexico, the passage of NAFTA would have been more, not less, important. For what the country is facing is not an economic crisis, but a political crisis with economic repercussions. NAFTA did not cause the peso collapse, but a free market did make necessary the "transparency" that has led investors to re-examine the way Mexican politics operates. That is possibly the very best thing that free markets do. In the barest terms, the sudden loss of investor faith in Mexico was due to the perception that, whatever the economy's internal strengths, the country is simply too institutionally corrupt to do business with.

Never has it been so imperative that we help Mexico, and never have there been more good reasons not to.

The PRI

The U.S. was blinded to Mexico's undemocratic nature partly by looking for typically Latin American indices of repression. The problem in Mexico for the last seven decades has been not military dictatorship or rightist landowners but a one-party corporatist state that fits in somewhere between a U.S. municipal employees union and Italian fascism.

Mexico's Institutional Revolutionary Party (PRI) dates from 1929—when it brought together the feuding factions that had been battling for control of the Mexican state since 1910. It has never lost a national election; until 1989, it had never lost a local election. This nifty trick was managed through a highly intrusive system of government organization and by bald-faced electoral fraud—which the government has always had the institutional might to enforce. "They don't know how to win elections, to campaign," says a Mexican political scientist who is on most matters not a PRI opponent. "They can only buy elections, steal them. The PRI is about control—not representation."

Mexicans in conversation often equate the party with the state, in the word *prigobierno*: the "PRI/Government." The PRI has a "double structure" that provides it with a system of antichecks and antibalances, or, to take another metaphor, that tie it together with the strands of Mexican life like a sailor's knot. On the one hand it is a territorial organization, with PRI committees everywhere, right down to the city, town, and block. On the other it is a "sectorial" one: the "labor," "peasant," and "popular" sectors have been incorporated systematically into the government, with PRI bureaucrats at the top. These sectorial higher-ups are bought out by the tradition of the *mordida*, the financial "bite" that the authors of any agreement take away for themselves. This leads to incredible riches for the PRI governing class. Not to mention a great deal of superficial social tranquillity: Thanks to the *mordida*, unions and business—at least their president-appointed proxies—get along famously. So do business and government.

Unfortunately, it makes the economy nearly impossible to invest in. A prime example of how political duplicity confounds economic expectations is the Pacto, the corporatist conclave of economic planning that has been convoked every few months since 1987. Under its auspices, representatives of the various occupational "sectors" gather to set ironclad wage and price targets until the next Pacto meeting.

Two weeks into Zedillo's presidency, finance minister Jaime Serra-Puche announced that the government was "spending heavily" to protect the peso, but promised not to devalue it. A Pacto meeting was called for 11 o'clock on the evening of December 19, at which the need to devalue the peso, and soon, was announced. Central bank president Miguel Mancera, speaking noncommittally, said the devaluation would be between "10 and 70 percent." Hearing the latter figure, the representatives of the business sector protested, and asked for time to discuss the viability of a devaluation with their colleagues—which they did. By the time the 15-percent devaluation was announced on the radio at 6 a.m., European capital markets were already open, and billions of dollars of hard-currency reserves were already on their way out of the country. Billions in new short-term bonds were created in the days immediately following the crash. It may not be literally true that cronies of the regime were "tipped off" before the devaluation, but that's only because Mexico's corruption is so elegantly institutionalized that it was unnecessary.

The PRI's powers are concentrated almost absolutely in the person of the president, who by tradition can hand-pick his successor and all the people who are entitled to partake

Ignore the Left Jabs.

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REPUBLICANS BY A KNOCKOUT

Clinton, Democratic policies rejected beyond Beltway

New Whitewater hearings likely

By Jerry Seper

Having wrested control of Congress from the Democrats, Republicans are expected next year to renew their call for comprehensive hearings into Whitewater — an effort that was thwarted this year.

But the new inquiry could reach beyond the Senate and House banking committees, which held limited hearings last summer, to include the appointment of a select committee to investigate President Clinton's ties to a failed Arkansas thrift and a real estate partnership.

"We've not yet heard anyone specifically suggest the appointment of a select committee, but look at the mix, the gumbo that has become Whitewater, and think about the breadth of jurisdiction," said one key GOP official.

"There are legitimate questions rightfully within the domain of several committees — Agriculture, Energy, Commerce, the

see HEARINGS, page 7

The morning after:

President Clinton discusses his party's devastating losses at a news conference Nov. 9 at the White House.

Voters realign the government

By Donald Lambro

Angry voters pounded President Clinton, his party and his liberal message at the midterm, sweeping Democrats from power in Congress and turning the government in a sharply conservative direction.

Every poll of the past several months showed that voters were fed up with just about everything the government was doing, from higher taxes to more spending, and Nov. 8 they turned that anger on the Democrats with a vengeance.

In a politically realigning election of historic proportions, voters sent a strong message of support for the Republicans' tax-reduction and budget-cutting platform.

And the president who was elected two years ago on a platform of change was rebuffed for practicing the same old brand of liberal Democratic politics rather than the New Democrat policies he preached on the campaign trail.

For the first time in 40 years, Republicans were poised to wrest control of both houses of the Con-

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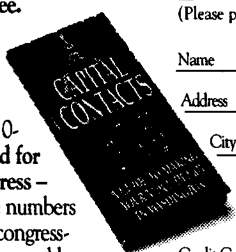

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in the *mordida.* This gives the president (and, for cultural reasons, his family) more bribing power than any other leader in the world, and such absolute power tends to corrupt absolutely. The necessary corollary is immunity for the entire family once the president has left office. (The Mexicans refer to it not as immunity but "impunity": *impunidad.*) This is the tradition that Zedillo broke with the arrest of Raúl Salinas. If this end to impunity sticks, it will put an end to the ability of a strong president to place an entire *class* above the law. It will thus be the first of the reforms of the last ten years that the old order simply cannot abide.

When Mexican strongman Porfirio Díaz was living in exile in Paris after the Revolution of 1910, he was asked how he had managed to rule so absolutely for four decades. "A dog with a bone in his mouth," said Díaz, "will neither bark nor bite." Some idealists in the National Action Party opposition objected to the PRI's rule throughout the decades, but as long as Mexico's economy continued to grow along with the world's, their complaints fell on deaf ears. In the late 1970s, that prosperity began to collapse under the twin threats of global economic slowdown and the staggering corruption of the 1976-82 López Portillo government. For half a decade, Mexico staved off the collapse of its political system with the accident of oil revenues. But in 1982, government profligacy with the windfall led to a huge debt debacle, and the PRI had suddenly to find a new way to put the bone back in the dog's mouth.

NAFTA did not cause the peso collapse, but a free market did make necessary the "transparency" that has led investors to re-examine the way Mexican politics operates.

Starting in 1986, when he accepted the GATT agreements, President Miguel de la Madrid showed an inclination to solve the problem of plummeting living standards in the way that had worked for the rest of the west: by releasing the free market. It was an experiment he thought the PRI could maintain control of. In 1988, with Mexico still in economic crisis, he chose Salinas to succeed him. This incensed one of the people hostile to the nomination, Fidel Velázquez, the PRI's big union boss for decades. (He wound up walking out in the middle of Salinas's nomination speech.) Another contender, Manuel Bartlett, an important Tabasco politician whose specialty was rectifying vote counts and arranging election victories, warned that a delivery of the PRI machinery from its old loyalists into the hands of technocrats would mean that the PRI would begin to lose elections occasionally. As indeed it did, in governor's races in Baja California in 1989, Chihuahua in 1990, and Guanajuato in 1991. The result was a division within the party, between the kleptocratic old guard known as the "dinosaurs" and the U.S.-educated economic modernizers—with Salinas belonging to the former politically and the latter economically. What's more, Velázquez and Bartlett's public dissent bespoke an end to the PRI's ability to adjudicate intraparty differences privately.

Most importantly, Cuauhtémoc Cárdenas, a dinosaur with heartfelt leftist sympathies, broke from the party. Cárdenas's father Lázaro—revolutionary general, organizer of the "revolutionary party" that was to grow into the PRI, president from 1934-40, and nationalizer of Mexico's oil wells—is a national hero. Cuauhtémoc's campaign, under the banner of his new hard-left umbrella party, the Party of the Democratic Revolution, was widely popular. In fact, he won the election handily, according to reliable exit polls conducted by the *Los Angeles Times.* But in a vote count marked by universal accusations of computer fraud, Salinas was declared the winner with just over 50 percent of the vote. The alacrity with which the United States honored the tally is understandable given the candidates' ideologies and an unwillingness to offend a party that looked as if it would remain in power for the next millennium. But it should be borne in mind by anyone who would grant the Mexicans a monopoly on mocking majority rule.

Salinas quickly moved to consolidate his power. In what was correctly seen as the biggest crisis for control among the PRI leadership prior to the 1994 wave of assassinations, the Tamaulipas labor leader Joaquín Hernández Galicia, known universally as La Quina ("Quinine"), the head of Mexico's Petroleum Union, refused to accept Salinas's victory, and began to take up the call that Salinas and the PRI had stolen the elections. He also accused the de la Madrid–appointed leader of Mexico's national oil company (Pemex) of corruption. The accusation was widely seen as tainting Salinas, since as minister of planning under de la Madrid, he would have cleared Pemex's corrupt contracts. In the second month of his administration, Salinas had La Quina jailed on weapons charges.

La Quina was a gangster; he certainly committed the excesses he was accused of—and much more, including plotting a murder in the early 1980s. Salinas's move won wide praise in the United States, particularly from NAFTA supporters, who saw it as a means to break Mexico's most powerful and most notoriously corrupt union, and compared it to Ronald Reagan's firing of the Air Traffic Controllers in 1981. But it was not lost on observers that (a) La Quina would never have gone to jail had he not broken with Salinas, and (b) his absence from Tamaulipas allowed Raúl to do a great deal more business in Pemex. In light of recent revelations about Raúl's links to the Tamaulipas drug cartel, a look at La Quina's role as a local PRI godfather might yield some fruit. This kind of politics is common, in which foreign observers are led to wonder whether putting away a corrupt political leader is not being done for reasons more corrupt than the original corruption itself.

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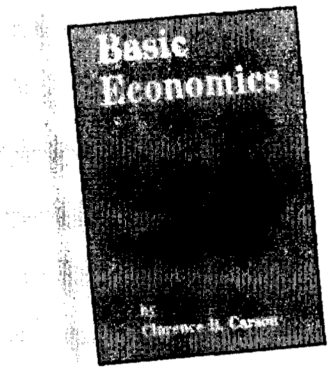

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How the Corruption Works

There are those who say the PRI believes it rules through divine right. Even an earnest young PRI reformer revealed as much when he described the hardline dinosaurs as "the people who think the PRI should never lose an election, who deal in drugs, who are corrupt." He bridled at the suggestion that "hardline" therefore didn't reflect any ideology, only a tendency to view the party as a mechanism for self-enrichment. "It *is* an ideology," he shot back angrily. "This party kept the country together in the late 1920s; it was the PRI that *cemented the country*!" In other words, "hardline" merely reflects an extreme assessment of what the leadership class feels Mexico owes it for its vanguard role. The PRI leader Enrique Jackson announced during the party's 66th-anniversary conference, "There is no democratic reform possible without the PRI." Critics who have seen in this aspect of the PRI a parallel with Leninist ideas of party supremacy are not far off the mark.

The logical extension of one-party rule and absolute impunity for members of the "revolutionary family" is corruption on an amazing scale. The greatest Mexican offender of all time was clearly President José López Portillo, who stole more money from Mexico than Marcos did from the Philippines. (One State Department source estimates his take at as much as $7 billion, but not less than $5 billion, at late-seventies prices.) López's method was nationalizing banks and hoarding oil: he would take a dollar tax off of every barrel shipped abroad, and sometimes more. Latin American employees of one U.S. oil company claim that entire tankers full of Mexican oil would arrive in the port of the country in which they were working, billed "off-ministry": that is, with the money going not to Pemex but to a privately owned shell company.

López Portillo notwithstanding, there was no more frequently cited symbol of state-of-the-art Mexican corruption than Raúl Salinas, even before his arrest. The day after he

The Economics of Bailing Out

The Mexican government's recovery plan, announced by President Ernesto Zedillo on March 9, called for gasoline prices to rise by a third and electricity prices by 20 percent, and envisioned interest rates for this year of nearly 100 percent. It also foresaw an inflation rate of 42 percent (it is currently running at about 60), while limiting wage increases to 17 percent. Three-quarters of a million public-sector workers are destined to lose their jobs.

The plan won praise from Wall Street, but one pessimistic Mexican economist, Rogelio Ramírez de la O, thinks the peso will soon drop to 8 or 10 to the dollar. Things are complicated by the fact that pre-crisis, Mexico had suffered its own mini-S&L scandal. Privatization appears to have led to mismanagement of some of the banks that were offered to PRI supporters as political plums. Some banks had 8-10 percent non-performing loans even before December; the installments on much of the remaining 90-92 percent are now destined to double or triple. A group of indebted middle-class Mexicans is now threatening installment strikes unless more favorable loan terms are arranged.

Some pessimists think that merely rescuing the banks may be a bigger task than even the international rescue effort can manage.

A Rubin Conflict of Interest?

The $49.8 billion U.S.–International Monetary Fund bailout plan follows a standard strategy to save near-insolvent countries from seeing their entire economies blown out by hyperinflation as Chile's was in the early 1970s or Argentina's in the late 1980s. It sets up pools of hard currency to "swap" for the weakening currency. The Mexico package is aimed primarily at avoiding default on $28 billion of dollar-indexed bonds (Tesobonos) due this year. What is controversial is that President Clinton tapped the Exchange Stabilization Fund—set up in 1934 to defend the *dollar*—for $20 billion to anchor the bailout package. But any worries that the dollar will be in imminent peril for the lack of $20 billion in marks and yen are vastly overblown.

One aspect of the bailout that has struck Republicans as fishy is the role of Treasury Secretary Robert Rubin. Sen. Don Nickles (R-Okla.) has raised questions about the ethics of Rubin's involvement, and Rep. Spencer Bachus (R-Ala.), who chairs a House Banking subcommittee, has called for hearings on Rubin's involvement, on the grounds that his previous employment as one of the directors of Goldman Sachs, which has a huge stake in Mexico, should disqualify him from policy-making on the country. Between 1992 and 1994, Goldman Sachs was the largest underwriter of Mexican financial issues, with a total exposure of $5.17 billion. Rubin, who personally handled the Mexico account while at Goldman Sachs, recused himself from Mexican issues during NAFTA, but has not recused himself from the peso crisis.

Rubin is probably not in any legal or ethics trouble over the peso bailout. The relevant Executive Branch ethics statute on "covered relationships," §502 (b) (1) (iv), stipulates that executive officials must recuse themselves from policy decisions until the satisfactory completion of an ethics inquiry, but it applies for only a year.

Rebecca Borders and Alejandro Benes, in the *Washington Times*, have focused on the favors Rubin and his firm have done for Clinton in the past. In 1992, Goldman Sachs and its employees and families made the largest contribution to Clinton from a single firm. And the company is among the biggest supporters of Clinton's Legal Defense Trust. Rubin and his wife contributed $275,000 to the New York Host Committee to the Democratic National Convention in 1992. Moreover, in the 1980s, Goldman Sachs underwrote $400 million worth of bonds for Governor Clinton's Arkansas Development Finance Authority. That hardly amounts to a reason not to implement a fairly standard IMF plan. But Rubin's future earnings was taken into custody, the political commentator Germán Dehesa wrote, "To tell the truth, the only thing I can say about Raúl Salinas is that in the last seven years I still have not met a single man or woman who has anything good to say about him."

The illegal acts of Raúl are rumored to extend to his sister Adriana and her husband Luis Yáñez and the Salinases' father, the former commerce minister Raúl Salinas Lozano. The Salinases and Ruiz Massieus are ex-brothers-in-law: Twenty years ago Adriana was married to José Francisco Ruiz Massieu, whose September 28 murder Raúl is now accused of masterminding—and the families have since crossed paths in the interlocking world of Mexican politics and crime. In retrospect, then, Carlos Salinas's naming of Mario Ruiz Massieu to supervise the investigation into his brother's death was either a piece of shocking cynicism or macabre irony.

Raúl had loathed José Francisco Ruiz Massieu since he and Raúl's sister were married, but the two clashed over business in the development of Punta Diamante, a peninsula in the Acapulco area, when Ruiz Massieu was governor of Acapulco's state of Guerrero. Mexican presidents have traditionally developed grand touristic projects on the lines that this one followed: expropriating small property owners and selling their land (at nominal peso rates) to favored PRI members, who sold it in turn (in dollars) to developers. It was Ruiz Massieu's goal to initiate such a development at the state level. What follows next is unclear: it appears Raúl was angered at having been shut out of this piece of business. One of Ruiz Massieu's closest political associates, Abraham Rubio Canales, received such a prize parcel and sold it for $7 million. A protégé of Raúl's, the undersecretary of the comptroller, Salvador Giordano, had Rubio Canales sentenced to jail for fraud. (Rubio Canales was himself accused early on of plotting the Ruiz Massieu killing.) The feud occasioned a desper-

remain tied to Goldman Sachs, and to pooh-pooh, as Treasury ethics officers have done, Rubin's status as a life partner at the firm—for which he has been compensated at up to $25 million a year—will not wash, either.

The Economics of Trust

The final judgment on who's to blame for the crisis will affect U.S. trade policy for the next decade or so. Some conservatives blame the devaluation itself, and have found a scapegoat in the man who best stated the rationale behind it, Rudiger Dornbusch of MIT. In an article written with Alejandro Werner in the *Brookings Papers on Economic Activity* in early 1994, Dornbusch pointed to stagnating growth, a balance-of-payments deficit, and the disparity between Mexican inflation rates and those of the United States—and called for a devaluation of 20 percent.

This is largely a matter of blaming the messenger. When one looks at the Dornbusch-Werner thesis, it is obvious that the peso was overvalued. No country can allow its rate of inflation to arc away from that of a monolithic trading partner without the need for an adjustment. Something was going to give. The shrinking gap between investment returns as the U.S. interest rate rose clearly didn't help either. There are additional factors that would have made a devaluation painful, but none sufficient to explain why it should have turned into a free fall. Investors and economists agree that Mexico had a low domestic savings rate, and needed to import capital; but that is a problem it shares with the rest of the Western world, except for Chile. In fact, fast-developing countries almost always show a low savings rate.

An equally popular argument, that this is the "first financial crisis of the twenty-first century," goes as follows: whereas Mexico faced its 1982 debt crisis with 85 percent of foreign investment either in the form of bank loans and capital investment, this time around, 85 percent was in stocks, mutual funds, and other instruments that can be moved at the touch of a computer key. Obviously capital is more mobile than it has ever been. But capital doesn't move unless there's a reason—and if it doesn't move, there's no reason a country can't support industrial development with stock portfolios. This is, in fact, the American method of industrial development.

According to the *Economist*, Mexico expanded its money supply last year by over 20 percent. If so, it was not brought about by the mere printing of pesos. Miguel Mancera, who heads Mexico's Central Bank, has shown that M1 remained constant until the crisis. What did change was the level of domestic credit, due to Mexico's decision to pursue a "sterilization" strategy in the face of reserve losses. This involves expanding credit to avoid the constriction in money supply that would naturally result from reserve losses. One can say that Mexico's sterilization was over-optimistic, or that sterilization needs to be re-examined as a strategy for developing countries, but it has not caused such calamitous drops elsewhere, and is insufficient to explain the degree of the collapse.

Those who take the seemingly illogical viewpoint that the peso was overvalued but should not have been *de*valued have a point, too. While not differing with Dornbusch and Werner's data, University of Maryland economist Guillermo Calvo wrote, in a rebuttal to their article:

> Imperfect credibility completely changes the set of effective policies. A devaluation *à la* Dornbusch and Werner, for example, may sow the seeds of destruction. It may resolve the overappreciation problem in the short run, only to give way to a more pronounced appreciation and inflation in the future. Authorities would have *revealed their taste* for discretionary policy, and people may come to believe that it could happen again. Therefore, the same mechanisms that provoked the present misalignment will be set in motion again—and with a vengeance.

All theories of the Mexican collapse that sidestep the question of trust and credibility are incomplete. Some weeks after the devaluation, one of Mexico's biggest businessmen told me, "Economists look at an exchange rate as a price. But it's not a price to a businessman. To a businessman it's a promise."

But a promise of what? —*CC*

ate series of letters from Ruiz Massieu to Carlos Salinas—to no avail, apparently. Giordano later received a high executive post in one of the nationalized diesel companies.

Mexican payoffs are very often a matter of *No me des, pero pónme donde hay*, to take the local saying ("Don't give me anything; just show me where it is"). But Raúl's corruption—and to a lesser extent that of both Ruiz Massieu brothers—has been so flagrant that a considerable paper trail exists. In the case of Mario Ruiz Massieu, throughout the week before his arrest on currency charges in Newark, rumors abounded in Mexico City that within days he would be arrested as an accomplice in covering up his brother's death. The entire city was baffled when Ruiz Massieu went free, although Mexican sources now explain that the goal was to determine his plans (they involved fleeing to Monaco, which has no extradition treaty with Mexico), and to trace his bank accounts. Mexican and U.S. authorities were able to discover early on that he had secreted $6.9 million in a Texas bank, and further searches in the following weeks turned up close to $20 million more.

According to U.S. government sources who work on the Mexico drug problem, the Mexican groups quickly became indispensable: they began to buy the cocaine outright at wholesale prices, and to control its distribution to the U.S.

Mexican journalists have done an extraordinary body of investigative work on Raúl Salinas, among which that of *El Financiero*'s José Reveles—who suggested Raúl's involvement in the Ruiz Massieu murder two weeks before his arrest—stands out. As director of distribution for the government food conglomerate Conasupo in the 1980s, which gave him control over 12,000 shops and 199 warehouses, Raúl was alleged to have demanded bribes for transport of goods, taken over many of the agency's trucks as a personal shipping business, and charged a 30-million-peso ($10,000) "collaboration" for each regional director he named.

Raúl and Enrique (another Salinas brother) were given a 50 percent share in the take of Mexico's Hippodrome of the Americas for the next twenty years; the journalist Manú Dornbierer received threats after reporting this secret deal in the *Excelsior* newspaper. And according to *El Financiero*'s Reveles, Kaveh Moussavi, a British IBM executive who visited Mexico on a trip to sell aerial navigation equipment to the government, says he was asked for a million-dollar kickback by three officials who came to his Mexico City hotel room claiming to be representatives of Solidarity, a government aid program that was Raúl's brainchild. Moussavi also said he witnessed a contract between the Mitsubishi Corporation and the Mexican government, in which the company agreed to pay a commission of 10 percent for "the services of Mr. Raúl Salinas" in order to build a multi-million-dollar oil refinery in Salina Cruz, Oaxaca.

Reveles speculates that a large part of Raúl's project was devoted to preparing for not only his but also his brother's retirement. To the end of the former, according to a report in *Excelsior*, he bought the entire Isla del Carmen, an enormous island in the Gulf of California. (Raúl has denied it.) When a special prosecutor suggested that one motive for the Ruiz Massieu murder may have been that Ruiz Massieu was obstructing "Salinism," he wasn't speaking of a governmental philosophy.

Before his flight, Mario Ruiz Massieu claimed he thought *Carlos* Salinas "was informed" of the decision to kill José Francisco Ruiz Massieu. And Andrew Reding, a Mexico expert at the World Policy Institute, described it as "difficult to believe" that Raúl Salinas would have acted without the knowledge of Carlos. But until Raúl's arrest on February 28, it appeared likely we would never know. One appalling result of presidential impunity and its extension to family members is that Raúl Salinas denied even *having met* his co-plotter, Manuel Muñoz Rocha, a Tamaulipas congressman who was one of his oldest friends and closest associates. (Muñoz Rocha has since disappeared. His wife believes he is dead, although the FBI continues to pursue leads that he is alive and living in the U.S.)

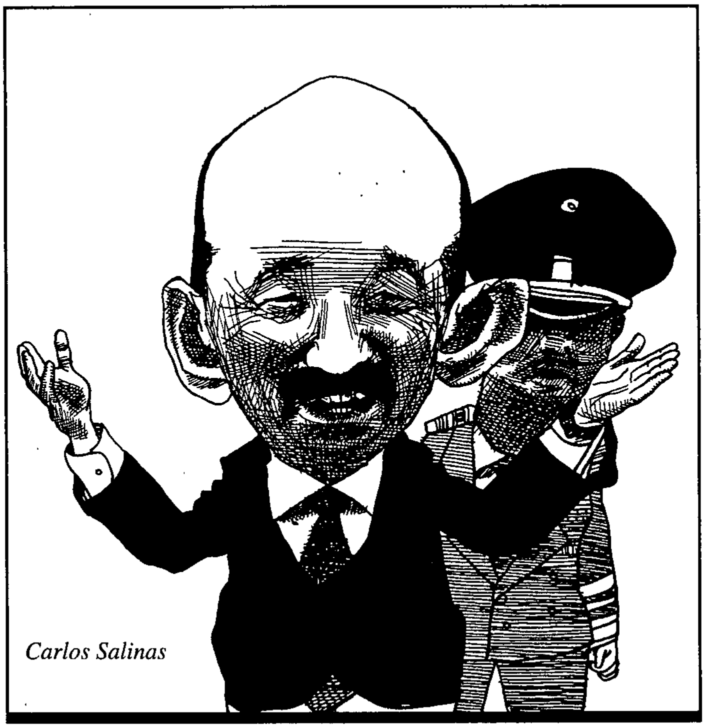
The Drug Connection

Muñoz Rocha was only one of Raúl's links to the particularly corrupt politics of the state of Tamaulipas—and numerous reports in Mexico link the pair to the Texas-born Tamaulipas drug lord Juan García Abrego. The advent of drug cartels in Mexico came only about seven years ago—when Vice President Bush's South Florida Task Force successfully shut off the Caribbean supply routes to the U.S. market. Colombian cartels—particularly Cali's, since this was during the period of the Colombian government's war on the rival Medellín cartel—recruited already-established Mexican crime syndicates to "warehouse" the drugs and move them into the U.S., paying a commission on transshipment. According to U.S. government sources who work on the Mexico drug problem, the Mexican groups quickly became indispensable, and were able to set better terms: they began to buy the cocaine outright at wholesale prices, and to control its distribution to the U.S. Mexico is now the source of 60 to 70 percent of U.S. cocaine and 9 percent of its heroin. There are seven significant cartels in Mexico, including three in Sinaloa. The most violent is thought to be the Baja-based cartel of the Arellano Felix family, while the largest and most powerful is García Abrego's.

The relationship of drug interests to Mexico's leading politicians is only vaguely known, but certainly extensive. Mario Ruiz Massieu, who, interestingly, was Mexico's drug czar, has been linked to the García Abrego group, says a State Department official, who adds, "We never thought he was straight." The assassination of presidential candidate Luis Donaldo Colosio in March 1994 has been consistently linked to drug interests, although there is little agreement on what Colosio would have done to anger the cartels. According to Silvana Paternostro, who authored a long op-ed on the subject in the *Miami Herald*, Colosio refused to dine with García Abrego; one longtime friend of Colosio says the same. But the *Washington Post* reported this spring that Customs officials had identified Colosio's cousin as the operator of one of the major drug airstrips, and a high-level U.S. source told me that, while information on Colosio was murky for the last several years of his life, Colosio had been involved in a minor way with one drug organization at the very beginning of his career.

The first investigator of the Colosio killing, Miguel Montes, started a full inquiry last spring. His initial findings pointed to a conspiracy, possibly involving high PRI members. Then in May, Montes abruptly shifted to the theory of a "lone, deranged gunman," and resigned. According to the *Washington Post*, the change came after a bomb was found on a flight Montes was taking. Until the end of the Salinas term, the administration's prosecutors, including those who reopened the investigation after Montes's departure, hewed to the "lone, deranged gunman" view.

This was the second investigation in which the Salinas government publicly condoned a cover-up. In the first, the archbishop of Guadalajara, Cardinal Juan Jesus Posadas, who had been gathering intelligence on the Arellano Felix cartel, was shot several times at point-blank range while waiting in his car at the Guadalajara Airport in May 1993. The killers then walked into the airport and boarded a flight to Tijuana on Taesa Airlines (in which Raúl Salinas also owns a stake). The plane was held for 11 minutes for them, and no one was there to arrest them when the flight landed in Tijuana. The official Salinas version was that the cardinal had strayed into a gun battle between two gangs and had been killed in the crossfire.


Carlos Salinas

If You're an Investor . . .

"We're not at the point that Colombia was in the late 1980s," says investigative journalist Raymundo Riva Palacio of *La Reforma*. "But if nothing drastic is done soon, we'll be there in a matter of years."

From the standpoint of investors, Mexico is already worse off than Colombia, for this corruption has dovetailed far more with the business of running the Mexican state and (by extension) the Mexican economy. It was Raúl Salinas who dreamed up the government program Solidarity—a woefully expensive social redistribution initiative which, its critics say, not only brought the worst aspects of Mexico's near-feudal agricultural paternalism to several sectors of the economy, but also acted as a graft-magnet; it was founded alongside Raúl's "private" company Ardimex, which was one of Solidarity's largest contractors. (Carlos Salinas, interestingly, had privately considered using Solidarity as a springboard for launching a new party, and it was to a particularly well-endowed Solidarity neighborhood in Monterrey that Salinas fled when he launched his ludicrous hunger strike in the days after Raúl's arrest.)

Now consider the effect on investor confidence of Raúl's role as a middleman in the privatization of state enterprise. Both straight shooters within the PRI and even some people hostile to the party speak approvingly of Mexico's privatization. Mexico has indeed opened itself to competition on world markets. But U.S. analysts blame the shockingly low growth rates for a privatizing economy (even at the height of the Salinas "boom") on the fact that a handful of PRI-built financial empires were the only entities able to bid for the real prizes. It is only a slight distortion to identify these bidders with the dozen new Mexican billionaires *Forbes* identified as having been created between 1993 and 1994.

It is here that the Mexican privatization is held by its detractors to follow the Russian model: the "sole proprietors" who now control Mexico's gigantic concerns and the extraction of its natural resources are more or less the same bureaucrats who ran them before. As often as not, these concerns are well run. The problem, says one U.S. investment analyst, is that there is no mid-level of companies to absorb new investment opportunities, and the giant holding companies that are the avatars of state enterprises wind up shoveling subsidiaries back and forth among one another.→

Two of the biggest beneficiaries are Slim and Hank, which is not a country-western duo but the actual surnames of two of Mexico's richest men. Carlos Slim Helú is a close friend of Carlos Salinas, and had a pre-devaluation net worth of $8.5 billion, according to some sources. (In this country of 90 million, with an economy about the size of Florida's—$300 billion—that's a fortune equivalent to 3 percent of GDP.) Slim, an aluminum and copper magnate, also owns a nationwide empire of department stores and resorts. (Remember the PRI's role in the tourism industry.) Slim won the bidding for Telmex, Mexico's national telephone company, when it was auctioned off in 1990. Telmex, which has often been the most traded issue on the New York Stock Exchange, has a profit margin of 37 percent, according to the most recent figures. There may be *global* competition between Mexico and other economies, but for a foreign investor to enter the Mexican telephone market with a new hi-tech product means not to enter the free market but to throw oneself on the mercy of Carlos Slim's monopsony.

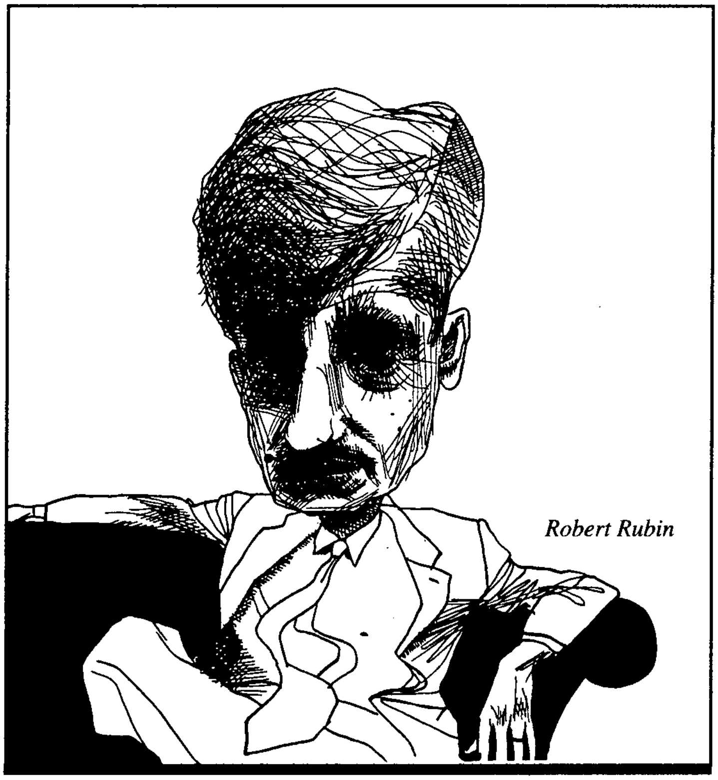
Carlos Hank González, meanwhile, is described by one American journalist as "the most careful man in Mexico," and a State Department official calls him "enigmatic, one of those bastards who can wink on the telephone." After forty years of working for the government, he has retired a billionaire—and still exercises huge influence within the PRI through surrogates. He runs Mercedes Benz of Mexico and a number of banks in Mexico and Texas, along with a variety of automotive companies. His most famous saying is *Un político pobre es un pobre político.* ("A politician who is poor is a poor politician.") Hank was director of tourism in the late 1980s, when Raúl was operating at Punta Diamante. According to a high-level U.S. source, it was Hank who bought Carlos Salinas the 20-acre estate in the Boston area that he recently moved to. The same source also claims there are indications the Zedillo government may take the unthinkable step of launching an investigation into Hank's wealth.

The *New York Times* has spoken of Mexico's multiple crises having "stretched the social fabric." But that's more a function of the *Times*'s overreliance on high-level sources (referring in March, for instance, to the assassination of "the PRI's reform-minded Secretary General, José Francisco Ruiz Massieu") than of the situation on the ground. The PRI is indeed stretched, but the social fabric, whatever that is, seems to be showing unusual cohesion, almost a unanimity, in fact, in demanding an end to the corruption under which Mexicans live. A poll in the independent daily *La Reforma* yielded responses like these:

Do you agree or disagree with the declarations of ex-president Salinas [that he was not responsible for the peso collapse and that his brother is innocent]?
- Disagree: 78 percent

Do you believe that other politicians [besides Raúl Salinas] were involved in the assassination of [José Francisco] Ruiz Massieu?
- Yes: 92 percent

Do you believe that the Salinas government obstructed the investigation into the assassination of Luis Donaldo Colosio?
- Yes: 80 percent


Robert Rubin

In the paper's "Viva Voz" department, a *USA Today*–style man-on-the-street sounding board, several of the subjects, when asked what they expected to come out of Salinas's hunger strike, said only, "I hope he dies."

Tricky Choices

"Mexico has never been so strong, Mexico has never been so weak," wrote a Mexican political analyst in the *Washington Post* last summer. And that is what is so awkward about this political moment for the U.S. For while our democratic ideals urge us to root against the PRI, our practical need for predictability is driving us to do business with it. An example: The United States theoretically wants Pemex privatized, and that would certainly rob corrupt Mexican leaders of one of their most time-honored sources of booty. On the other hand, Pemex is, under the bailout agreement, our catheter to Mexico's collateral. Therefore, none of the U.S. politicians most exercised about Mexican corruption seems inclined to attack this source of it.

Regardless of U.S. policy, the whole history of the Salinas administration is being rewritten retrospectively. To the extent that this is merely more anecdotal proof that societies don't necessarily grow more free as they grow more prosperous, it is a welcome truth. To the extent that it emboldens those on the left who would add economic unfreedom to political unfreedom, it could spell disaster for the developing world.

"The devaluatory crisis shows the weakness of the Mexican model," one liberal economist told me in Mexico City. The Mexican left has never liked free trade—which it lumps, along with any low-tax or libertarian economic policy, under the (always derogatory) term "neo-liberalism"—and will use the crisis to urge a return to protectionism and the dismantling of NAFTA altogether. A second strain of this anti-neoliberal rhetoric blames foreign capital in the abstract for making exchange rates too hard to control, and calls for a Chilean-style policy under which foreign inflows would be limited to a certain percentage of total investment. This perspective unfortunately ignores that, for a country like Mexico, abroad is where the capital *is*.

At a time when NAFTA is under fire, particularly from the Latin left, it's important to remember that it was the glorious instrument that put the beginnings of a democratic revolution into place. With the lucky accident of disorganization within the PRI, it has led to the replacement of unimpeded corruption by a system in which the (corrupt) left hand didn't know what the (reformist) right was doing. To take an example: even while elements of the PRI continue to profit from protecting drug traffickers, Mexico's new Institute for the War on Drugs, established during NAFTA negotiations, composed a 35-page document that was leaked to the Mexico City daily *El Financiero*, which published it in January. It named the leaders of Mexico's seven regional drug cartels, and pointed to 90 smaller drug organizations scattered throughout the country. It listed the three groups that control the burgeoning traffic in ephedrine. This was an improvement that can be directly traced to NAFTA.

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The United States must now risk supporting the conversion of Zedillo into an effective power politician in order to end power politics. No one rises to power in this system by being an angel, but there are some indications that Zedillo will have a better chance than any president to date to clean up the mess. Unlike Salinas, he wasn't born into the PRI: His parents sold candy and took tickets at local spectacles in Mexicali. Before doing his graduate work at Yale, he went to the National Polytechnic Institute, not the more elite National Autonomous University.

While generally pro-American, Zedillo has had his moments of nationalist posturing, like his meddling in California's Proposition 187 immigration referendum. Although he tends to favor market policies, he has said that he will never denationalize Mexico's oil and electricity. And his decision in early March to re-impose high tariffs on countries with which Mexico has no free-trade agreement has led many free-marketers to worry that, on trade policy at least, he will be inclined to throw out Salinas's economic baby with the political bathwater.

What has given rise to more optimism is Zedillo's willingness to entrust the most important position in his cabinet—attorney general—to a young lawyer from the opposition National Action Party, Antonio Lozano Gracia. It is Lozano who is responsible for the three important initiatives that give Zedillo a claim to be a different type of Mexican leader: the government negotiations with the Zapatista rebels in the southern state of Chiapas, the reconstitution of the traditionally corrupt Supreme Court, and the end to impunity, best seen in the prosecution of Raúl Salinas. It's cause for optimism because it reflects an awareness on Zedillo's part that no PRI member would dare to do any of this stuff.

Decades ago, Joseph Schumpeter described the kind of transition Mexico faces now. He was talking about the court of Louis XIV, but the outline fits Mexico almost perfectly:

> The king, the court, the army, the church and the bureaucracy lived to an increasing extent on revenue created by the capitalist process, [while] domestic and foreign policies and institutional changes were shaped to suit and propel that development. As far as that goes, the feudal elements . . . come in only under the heading of atavisms. . . . Looking more closely, however, we realize that . . . the steel frame of that structure still consisted of the human material of feudal society and this material still behaved according to precapitalist patterns. . . . The centerpiece, the king, was king by the grace of God, and the root of his position was feudal, not only in the historical but also in the sociological sense, however much he availed himself of the economic possibilities offered by capitalism.

The recent spate of crises appears more likely the last gasp of the old guard than any permanent accommodation between the dinosaurs and a new business class. The United States is right to help Mexico around this roadblock in its transition to democracy—provided it is indeed a transition, and not a gussied-up hybrid of the old order and the new. But the U.S. must now receive constant assurance to that effect. If the Mexican government shows any inclination to persist in a feudalism underwritten by a capitalist engine, or if the PRI should attempt to steal any of the upcoming state elections, the Clinton administration must pull the plug—even if it means letting Mexico and its corrupt governing class wash back down the drain into the Third World. ❐

Building Blocks

by David Frum

Fix it in Washington or in the states? All at once or bit by bit? That's the choice Republicans are facing as they prepare to reform welfare. And the longer you think about it, the tougher the choice looks.

The House Republicans' Contract With America pledged to adopt new federal rules to prohibit cash welfare for mothers under age 18; to stop the practice of raising payments for each additional child; to cut total welfare spending; and to impose on recipients a two-years-and-out time limit. Washington would enact these rules, and the states—which administer much of the welfare system, including Medicaid and Aid to Families with Dependent Children—would have to comply.

But at the very moment that this pledge was helping Republicans to win power, many conservatives were rethinking it. Charles Murray published a powerful essay in the December *Commentary* urging welfare reformers to write off Washington and worry instead about freeing the states to experiment, in the hope that one or more might go so far as to abolish welfare altogether. In practice, this would mean replacing the existing patchwork of federal, state, and federally funded, state-administered programs with big "block grants"—chunks of money the states could use to fight poverty as seemed best to them, subject to only the most general directions from the capital.

The difference between these two approaches—fix it from Washington or decentralize—is more than of merely theoretical interest. Inability to choose between them caused the Republican leadership in the House of Representatives to execute an embarrassing double flip-flop over the food-stamp program in late February. Rightly horrified by the rapid increase in food-stamp costs over the past five years—in post-recession 1994, 27.5 million people received food stamps, up from 20 million in pre-recession 1990—the Republicans at first opted for the decentralizing solution: lump all federal nutrition programs together and load them onto the states. Farm-state Republicans mutinied against this plan, ostensibly because they worried that a state-run food-stamp program would be even more vulnerable to fraud than the leaky federal one. In fact, the farm-state Republicans revolted because food stamps help maintain demand for their constituents' products. Rep. Pat Roberts of Kansas, chairman of the House Agriculture Committee and an unblushing defender of the farm subsidy system, told the *New York Times* that he regarded food stamps as "the ultimate social safety net." And so in a sense they are, for they offer protection to over-leveraged Kansas wheat farmers as well as to the destitute of Chicago and Los Angeles.

Thanks to Roberts and his allies, food stamps managed to scramble back aboard the federal wagon from February 24 to February 28. Roberts went even further still: Not only would Washington administer the program, but food stamps would remain an entitlement, with benefits paid to anyone meeting the eligibility criteria—with no total limit on costs. Not until the 28th did two reform-minded Republican governors, John Engler of Michigan and William Weld of Massachusetts, cajole Speaker Gingrich into taking the matter up. In the end, thanks to Gingrich, the House voted to deliver full responsibility for nutritional programs to the states after all, subject to conditions designed to restrain fraud.

The food-stamp imbroglio foreshadows the bigger choices Republicans and conservatives will face in the welfare reform debate. Columnist Charles Krauthammer has written, for example, that Republicans won control of the Congress by promising to reform welfare, and are therefore honor-bound to fulfill that commitment themselves. Fobbing the task off on the states would amount to a dereliction of duty. William Kristol of the Project for the Republican Future, while hesitantly favoring block grants, recalls the dismal experience of President Nixon's rev-

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David Frum, our Public Policy columnist, is the author of Dead Right, *now available in paperback from New Republic/BasicBooks.*