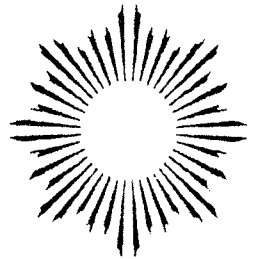


OPENING MEXICO

The Making of a Democracy



JULIA PRESTON and SAMUEL DILLON

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Salinas knew that his chief task in the final year of his term was to make a smooth handoff to another PRI President. It would be bad for the country and disastrous for the PRI system to suffer another upheaval like 1988, and if he did not ensure an orderly transition, his own legacy could be vulnerable. He could see what had become of José López Portillo, who could not go about in public, because Mexicans would bark at him, reminding him how he had failed in his pledge to defend the peso "like a dog."

But as Salinas's administration drew to a close, his political control, frayed by tensions in the system and the country, began to unravel. Violence erupted, first in Chiapas and later in the upper echelons of the PRI. The imperial height Salinas had attained became a place of isolation; the PRI mechanisms he might have used to rally support did not work because he had neglected them.

Signs of trouble had appeared the previous year. On May 24, 1993, narcotics gunmen ambushed one of Mexico's most important Roman Catholic prelates, Juan Jesús Cardinal Posadas Ocampo, as he was pulling into the parking lot of the Guadalajara airport. When Salinas flew to the city on the evening of the murder, he was greeted by heckling crowds outside the cathedral shouting, "Justice! Justice!" Authorities eventually ascribed the execution to cocaine-dealing assassins who fired on the Cardinal after mistaking him for a rival trafficker. But that explanation left many Mexicans wondering how professional killers could have confused a drug lord with an elderly gentleman in a flowing black habit.

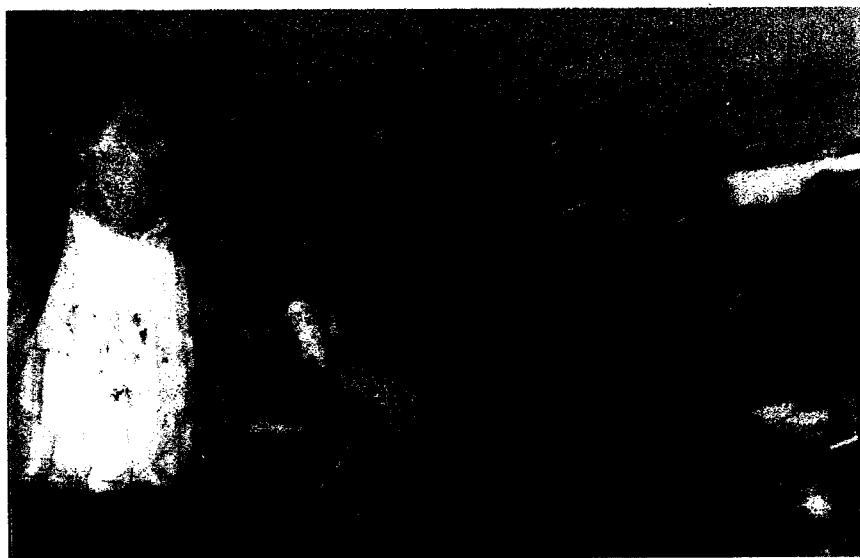
Salinas's problems had deepened with the *destape*, or unveiling, of

conviction that Colosio's killers were to be found within the PRI. To the public the assassination was a sign that the ruling party, consumed with ambitions and jealousies that Salinas had stirred, was destroying itself.

Even many within the PRI establishment harbored these fears. The timing of the killing left Colosio's family and followers full of suspicions that Camacho was somehow involved. When Camacho appeared at the funeral, the slain candidate's wife, Diana Laura, asked him to leave. Ernesto Zedillo, Colosio's campaign manager, refused to greet him.

Salinas cast about for a new candidate, summoning PRI leaders, opposition figures, and intellectuals to give their recommendations. Those who saw him in that period found a Salinas they had never known before: hesitant, searching. His demeanor convinced several visitors that he was not behind the killing, as the public believed. He seemed agonizingly aware that Colosio's death had annihilated his master plan for a triumphal end to his term.

In the middle of the crisis Salinas's five-year dalliance with the PAN also failed him. He hoped to name Pedro Aspe, his Finance Secretary, to replace Colosio as the candidate. But in order to do so, he had to amend



The assassination in Tijuana of Luis Donaldo Colosio, the PRI presidential candidate, on March 23, 1994, rocked Mexico

a clause in the Constitution stipulating that presidential candidates had to be out of government office for six months before Election Day. He needed PAN votes for the two-thirds majority required for a constitutional change, but the PAN turned him down. The party finally balked at altering the Constitution to benefit one person, especially when that person would be the PRI candidate to run against the PAN.

The only person who had the basic credentials—because he had served key positions in Salinas's cabinet and was also indisputably eligible under the Constitution—was Ernesto Zedillo (he had been the Secretary of Planning and Budget and later Education). Although Zedillo was never part of Salinas's circle of confidants, he did have the backing of someone who was, José Córdoba Montoya, Salinas's former chief of staff. So Zedillo got the tap.

He stood against Cuauhtémoc Cárdenas from the PRD, who was running for President for the second time, and Diego Fernández de Cevallos from the PAN. A determining factor in the race was the odd behavior of Fernández de Cevallos. With his cropped beard and high rhetoric, he cut a dashing figure on the stump. His nickname, El Jefe Diego, or Boss Diego, reflected his viceregal demeanor. Fernández de Cevallos was a PAN aristocrat, a brilliant exponent of the party's most conservative political and social orthodoxy. A skilled orator of the old school, he handily defeated Zedillo and Cárdenas in Mexico's first-ever televised presidential debate, held in May, which was watched by 40 million Mexicans, the largest audience for any Mexican television show up to that time. His standing in the opinion polls took a leap.

Then, bizarrely, Fernández de Cevallos disappeared from view. For a month he hardly campaigned. When he was finally out on the trail again, it was too late. His non-campaign was so eccentric that it earned him the suspicion of many Mexican voters, who concluded that the only possible explanation was that Salinas had paid him off.

Zedillo, meanwhile, played unabashedly on fears of anarchy awakened by the Zapatista rebellion, stressing that no opposition party could maintain control as well as the PRI. In the August 21 election Zedillo won with 50.1 percent of the vote. Fernández de Cevallos drew 26.6 percent, and Cárdenas, hurt by being associated with the Zapatistas and by an ineffective campaign, fell to 17 percent. The most remarkable statis-

tic of the day was the turnout: 78 percent of the registered voters, or 35.2 million Mexicans, went to the polls. They left no doubt that they wanted to manage their differences through orderly elections, not shooting wars.

Even though the Zapatistas espoused armed revolt over political debate, their uprising had an immediate positive effect on the progress of Mexican democracy. The revolt overwhelmed the Mexican press and mesmerized national attention. Since it was general knowledge that racist abuse was the common lot of Mexico's Indians, the public was strongly sympathetic to the Zapatistas' cause, although not to their violent methods.

The rebels had despaired of electoral politics as a means to change Mexico. In their First Declaration of the Lacandon Jungle, the rambling broadside in which they explained their uprising, they said they had adopted the desperate strategy of armed rebellion because they were "convinced that there is no other way to obtain justice and preserve the true dignity of our people." Subcomandante Marcos mocked Mexican elections as a trick that the PRI played regularly on the Mexican people. Thus the Zapatistas' guns had the effect of putting all of Mexico's political leaders up against the wall, especially those on the Left, forcing them to clarify whether or not they were fully committed to electoral democracy.

Their answer came on January 17, 1994. The leaders and presidential candidates of the three main parties and five small ones signed an accord in which they agreed that "the advance of democracy, closing the way to all forms of violence, should take place within the scope of the political parties and the republican institutions." They said it was time to create "trust and certainty in all the institutions that take part in the electoral process," to make it easier "for those who have opted for confrontation to join in the task of transforming our political life." Colosio signed for the PRI, Fernández de Cevallos for the PAN, Cárdenas for the PRD—the first time the PRD had endorsed an electoral reform.

The reforms, forged around a big table in government offices on Calle Barcelona in Mexico City, tumbled out one after another. Porfirio

Muñoz Ledo, despite his self-aggrandizing tirades, proved able at conceiving and drafting the necessary legislation. One negotiator for the PRI was José Francisco Ruiz Massieu, the former governor of Guerrero and sworn enemy of the PRD. But after battling the leftist party throughout his term over tainted voting in his state, Ruiz Massieu had come to believe that even the PRI might benefit from less controversial elections. He and Muñoz Ledo managed to deal.

In the new reforms the independence of the Federal Electoral Institute, established in law in 1990, was codified in the Constitution. The importance of the institute's citizen councillors was enhanced. All the political parties, including the PRI, lost their right to vote on the governing council; instead, each registered party was represented by one non-voting member. Suddenly the PRI had no vote and just as much voice in elections decisions as the Labor Party, a left-wing micro group whose following did not surpass 2 percent of the voters. The six citizen councillors were to be elected by the Chamber of Deputies; there was no way for the President to get his hands directly on the selection.

Campaign-finance limits were set. The activities of Mexican elections observers were expanded, and the parties, in a supreme effort to overcome their nationalist suspicions, also decided to allow foreign observers, although they partially concealed them behind the euphemistic label "foreign visitors."

One of the first six citizen councillors to be elected by the Chamber of Deputies was José Woldenberg. He had started out in politics on the militant Left, as a socialist labor organizer who helped create a union for the blue-collar workers of the UNAM. In 1986 he changed course. When Manuel Bartlett was Government Secretary, he held some hearings as a prelude to minor changes in the elections laws that President de la Madrid would call his electoral reform. Bartlett, yielding something on form so as to yield nothing on substance, decided to allow a question-and-answer period during the hearings; before that, debate had been barred from such discussions.

Woldenberg was dispatched to Bartlett's hearings to represent his small socialist party. Worried that he might appear "provincial," as he put it, he dived into the books, reading up on electoral systems in Mexico and around the world. Even the limited repartee at the hearings in-

trigued him. He began writing about elections in columns in *La Jornada* and soon became a scholarly expert on Mexican voting, a field in which he had very little company at the beginning.

Another new councillor was Santiago Creel, whose political origins were poles apart from Woldenberg's. Creel was descended from generations of aristocracy, although his bloodlines were ideologically mixed: his great-great-grandfather was Luis Terrazas, a legendary liberal General from the time of Benito Juárez; and his great-grandfather had served as Foreign Minister to Porfirio Díaz. Creel studied law at the University of Michigan in the late 1970s and returned to Mexico to a corporate-law practice that quickly bored him. He had gone on a whim to Chihuahua in 1986 and from there became fascinated with the clean-elections movement.

Creel was a longtime friend of Adolfo Aguilar Zinser's (and, by extension, Jorge Castañeda's). Their fathers had been friends, and as boys they both liked to ride horseback. Aguilar Zinser recalled that their game was to dash toward a tree, then leap off onto a branch and let their horses gallop on without them. Seizing the branch didn't frighten Creel, but he was so small that dropping to the ground often did. Although Creel was instinctively more conservative than Aguilar Zinser, by the end of the 1980s both men had been drawn to the cause of getting rid of the PRI.

Even with the citizen councillors and many new laws in place, the 1994 election was far from perfect. Prodded by Sergio Aguayo and a national observer group he had formed in early 1994, the Federal Electoral Institute began to monitor campaign spending and media coverage. The inequities were glaring. In its first report, on July 5, the institute found that the PRI had received 41 percent of the television and radio campaign coverage, while the PRD received 18 percent and the PAN even less.

For Aguayo in particular, 1994 was not an easy year. His new group, Alianza Cívica, or Civic Alliance, had grown into "a gigantic animal," as he described it, a nationwide coalition of 470 grassroots elections-observer groups capable of tracking elections in every corner of the country. From the modest start in San Luis Potosí in 1991, Aguayo had built an observer organization that was ready to take on a presidential election.

But in January, during the days after the Zapatista uprising, Aguayo received his third death threat. This one was left in a hole in a light post, and an anonymous phone caller alerted police to pick it up. The writer made it clear that he did not like Aguayo or his work and was getting ready to "execute" him. The note included several intimate details about Aguayo's life, suggesting it had come from someone with access to government intelligence transcripts of his personal phone calls who knew a lot about his regular movements.

As soon as he learned of the threat from the police, Aguayo, afraid to go home and draw danger toward his family, went straight to the offices of *La Jornada*. There he received a call from the Government Secretary, Jorge Carpizo, asking him to accept government protection.

"I'm not a hero, but I'm not suicidal either," Aguayo reasoned with his appalled friends. If anything happened to him, he argued, the Civic Alliance's plans to monitor the presidential election might be crippled. In an irony not lost on him, Aguayo agreed to be tailed for the rest of the year by two bodyguards from the Government Secretariat, the agency that he suspected had generated the troubling threat. He sent his two children out of the country until the election was over.

On Election Day the Civic Alliance had observers in 1,810 polling stations around the country, selected to provide a scientific sample. Although the observers witnessed thousands of irregularities, they acknowledged that there were improvements over the past. "There is no doubt that the inequities of the campaign and the irregularities of the vote affected the result; but it is impossible to go beyond that general affirmation," the alliance concluded in its report. "We can't say what the different parties' percentages might have been if they had competed under equal conditions without anomalies. We are sure the results would have been different, but perhaps the outcome would not have changed."

That outcome, Zedillo's victory and the renewal of the PRI system, left Aguayo with painful mixed feelings. He had to keep reminding himself of his goals. "We pushed and pushed as hard as we could, and in the end the PRI won," Aguayo reflected. "But I had it fairly clear that our job was not to defeat the PRI in the elections. That job belonged to others. Our job was to achieve clean elections in Mexico so that the larger transition would be more solid."

Still, he could not help feeling a little used by Salinas. "He needed to have a peaceful and legitimate election that would gain international recognition," Aguayo said. "After we put out a report, he saw to it that the media coverage was more balanced for a month. Then, during the last three weeks, the bias returned, and it was too late for us to do anything about it. Afterward he cited us to prove that the election had been the cleanest one Mexico ever had."

But Aguayo was philosophical. "He used us, but in a way we used him, too," he acknowledged. "We pushed him, and we ended up with fundamental reforms."

Just when Salinas was savoring the election results and regaining confidence that his presidency would end in triumph, another murder brought savage rifts inside the PRI into public view. As José Francisco Ruiz Massieu was leaving a political breakfast meeting, a gunman strode up to him on a street just off the Paseo de la Reforma, in the very heart of Mexico City. The shooter, Daniel Aguilar Treviño, killed his target but bungled his getaway and was nabbed at the site by a lowly bank guard.

At the time of his murder Ruiz Massieu was the secretary-general of the PRI, the party's second-highest official, and his career was on a rising curve. After Ruiz Massieu had proven his loyalty by carrying out the vendetta against the PRD in Guerrero, Carlos Salinas had moved him to the PRI as a presidential agent in the increasingly fractious party. During Colosio's campaign Ruiz Massieu had grown close to Ernesto Zedillo, and the rumor was that Zedillo might make him Government Secretary.

Amid the horror over the new assassination, and with two assassinations in the PRI in one year, it seemed clear that the system was no longer channeling the violent impulses in its ranks. Based on the gunman's confession, the police investigation quickly closed in on Manuel Muñoz Rocha, an obscure PRI deputy from the northern state of Tamaulipas who seemed to have no ideological commitments other than fealty to the PRI machine. Within days after he became a suspect as the organizer of the murder, Muñoz Rocha disappeared, just after making several phone calls to the home of Raúl Salinas, the President's brother.

President Salinas made a strange move. He appointed Mario Ruiz

Massieu, a second-tier official in the Attorney General's office who was the victim's younger brother, as special prosecutor to head the investigation, waving aside legal restrictions that barred prosecutors from investigating crimes involving their relatives. Mario Ruiz Massieu soon ruled out any participation in his brother's murder by Raúl Salinas.

But Mario did not last long in charge of the probe. One week before the end of Salinas's term, on November 23, he gave one of the most peculiar histrionic performances in a *sexenio* full of theatrics. At a packed press conference in Mexico City, he announced that he was resigning, saying that his probe of his brother's murder had been stymied by dark forces within the PRI.

"The demons are loose, and they have prevailed," he said apocalyptically. He blamed the alleged cover-up on, among others, María de los Angeles Moreno, a matronly PRI official with a reputation as one of the party's few unquestionably decent members. With Mario Ruiz Massieu's inscrutable resignation, the PRI system seemed to have gone mad.

Attracted by Salinas's bold economic policies, Mexican and foreign investors had flocked to the Mexican stock market during his administration, making it exceptionally lucrative and adding billions of dollars to the country's foreign reserves. But the turbulence of 1994 gradually eroded their confidence.

The Zapatista uprising had shocked Wall Street at first. But when it became clear that the guerrillas were operating only in Chiapas, far from the centers of power, and that Salinas was looking to negotiate a settlement with them, relative calm returned to the markets. On February 15, Mexico still had \$29 billion in reserves.

After the Colosio assassination those reserves plunged: on March 28, Mexico lost \$1.15 billion in a single trading session. The following day the PRI announced Ernesto Zedillo's nomination as its presidential candidate, and both he and Salinas thought that would quell the panicky speculation; Zedillo held an economics doctorate from Yale, and as Budget Secretary he had been a straight-arrow fiscal conservative. However, the international markets did not know Zedillo. He seemed drab, lacking Salinas's flair and sure grip. The welcome Zedillo received from foreign

investors was that Mexico lost another \$1.2 billion in reserves between March 29 and 30. It was a surly greeting that Zedillo never forgot.

In April, adding light to the chiaroscuro of the year, the Organization for Economic Cooperation and Development admitted Mexico as a full member, giving Salinas the ultimate ratification of Mexico's modernity. The OECD is a sort of country club of world nations; only aspirants that are up to its income and social standards can get in. Back in the 1970s and 1980s Mexico had been proud of its place in the Third World and vigorously championed the causes of what were then called the underdeveloped nations. But Salinas had convinced Mexicans there was no reason why their country couldn't play in the big leagues. After the OECD ratified his thesis, Salinas began to consider running to be the head of the new World Trade Organization after his term ended.

Other events, however, clashed with the concept of a First World Mexico. On March 14, 1994, the chairman of Mexico's largest bank, Alfredo Harp Helú, had been kidnapped, apparently by a cell of Marxist guerrillas. He was held for three months and paid tens of millions of dollars in ransom to gain his release. Months later Carlos Cabal Peniche, a businessman from Tabasco state whom Salinas had praised as a model of Mexican enterprise, went into hiding, fleeing from multimillion-dollar fraud charges.

In the background were weaknesses in the economy. Amid the apparent prosperity of the Salinas years, Mexican consumers had begun spending on credit as they never had before, with a special taste for imported goods, which had to be purchased abroad in dollars. Savings within the country dropped to a dangerous low. The banking system was overextended, and the deficit in the current account—which balances imports of goods and incoming investment flows against exports and outgoing flows—was increasing. Economists began to warn that the peso was overvalued. By early 1994 the U.S. Federal Reserve had started raising interest rates, luring money out of Mexico back to the United States.

Yet Salinas was confident of his administration's economic management. His Finance Secretary, Pedro Aspe, had prodigious professional skills as well as a cosmopolitan bonhomie that made him an easy interlocutor for the fund managers and equities analysts on Wall Street. Aspe's showmanship was key, because the people in New York were working with few hard facts about Mexico's economic health. Even

while Mexico was throwing open its trade, it kept its finances enveloped in secrecy. Basic figures such as the reserves and the current-account balance were published as rarely as twice a year. But big Wall Street investors had confidence in Aspe and no trouble getting him on the phone whenever they had questions. So even though some economic indicators began to deteriorate with the political turmoil, Salinas and Aspe were sure they could work things out gradually, without the kind of jarring devaluation that had bedeviled every presidential handover since the 1970s.

However, as the end of the *sexenio* approached, Salinas and Aspe shared their knowledge of the economy's deficiencies less and less with other members of the government, abandoning the rigorous collective decision making that Salinas had required up to that point from his cabinet secretaries. Before 1994 the economic cabinet had been meeting once a week, bringing together the Secretaries of Finance, Budget, Labor, and Trade as well as the chief of the central bank, all convened by José Córdoba, Salinas's chief of staff. Each official came armed with dossiers of facts and arguments to defend his position in hard-fought debates that often produced brilliant results.

But in 1994, when the economy needed careful handling, Salinas turned his attention to the political crisis, losing his focus on the economic policies that had been the priority and anchor of his administration. Córdoba, the convener, left Los Pinos in April, exhausted from a personal scandal and all the heat he had absorbed on behalf of Salinas. In all of 1994 Salinas's economic team met only seven times. At the same time, Salinas did not invite his economic team to his meetings with his political advisers. As the year advanced, crisis piled upon scandal, but the economic team got little explanation from the President, who kept his decisions increasingly to himself and his closest confidants.

On November 1, when Salinas delivered his final *informe*, he gave no hint of economic danger. Three weeks later, on the morning of Sunday, November 20, Jaime Serra Puche, Salinas's Trade Secretary, was not sure what awaited him when he received a call from an officer of the presidential general staff, Salinas's security contingent. Serra was instructed to report at mid-morning to the President's home in the Coyoacán neighborhood for a meeting. (It was so late in his term that Salinas had already moved out of Los Pinos.) At that point Serra was also

a leading contender to become Zedillo's Finance Secretary, although nothing had yet been formalized.

As the tireless, quick-witted negotiator who had brought the marathon NAFTA negotiations to a successful close, Serra was on excellent terms with Salinas. But between Serra and Zedillo there was a bond that went beyond professional esteem. Although their backgrounds were different, the two men had become friends when they were economics graduate students together at Yale. Serra, whose parents were worldly Spanish exiles, came from a thinking elite in Mexico City; Zedillo grew up in a working-class family in the border town of Mexicali. Winning a graduate-school scholarship to Yale was an enormous break for Zedillo. He had arrived in New Haven in the fall of 1974 and struggled through his first year while he mastered English. So when Serra showed up the next year with similarly shaky command of the local tongue, Zedillo reached out to him, inviting Serra to Sunday night dinners in his tiny graduate-student apartment. The friendship had endured.

"What do you think of all this?" the President-elect asked when Serra stopped by to pick him up on the way to Salinas's home.

"What do I think of what?" Serra said.

"What do you think of what happened on Friday?" Zedillo insisted.

"Well, what did happen on Friday?" Serra asked. He was swamped with work to close out his affairs at the Trade Secretariat and had not been briefed on the government's confidential information about financial developments:

Zedillo looked at him in disbelief. He explained impatiently that there had been a market debacle in which \$1.65 billion in foreign reserves had left the country in one day, coming after four days of continuous dollar bleed. Salinas had called the meeting, Zedillo said, to decide how to stop the drain.

The team assembled in the serene, newly paneled library of Salinas's home: Salinas, Zedillo, Serra, and Aspe; Miguel Mancera, the head of the central bank; Arsenio Farrell, the Labor Secretary; and Luis Téllez, an economist who would soon become Zedillo's chief of staff. Mancera gave a measured account of the severe damage the peso had sustained, and the talk turned immediately to the exchange-rate policy.

Salinas said up front that if it were necessary to make "an exchange-rate adjustment," he would do it.

Throughout his presidency the peso had traded within fixed upper and lower limits, known as a band, which restrained its fluctuations. When the currency hit the top of the band, the government spent some reserves to buy pesos and bring it down. Over the course of the *sexenio* Aspe had allowed the peso to slide by more than half of its original value. But he had always done it by widening the band in small increments that caused no alarm.

Now the discussion was about whether to widen the band by a bigger increment. Even though Serra had come to the meeting with no preparation, he got involved, thinking he had the necessary information to make educated judgments. From his position in the Trade Secretariat, he knew that the ballooning current-account deficit was a problem. Zedillo shared Serra's view, so they both argued for a substantial expansion of the band, by as much as 15 percent.

But Aspe expressed reservations. The markets were accustomed to his gradual increments, he argued. To make a change so late in the *sexenio* would rattle them, undermining the confidence he had built so painstakingly and raising doubts at a critical moment about the outgoing team, and the one coming in.

In Salinas's cabinet Aspe and Zedillo had fought countless bureaucratic skirmishes because Aspe, as Finance Secretary, was in charge of revenues and Zedillo, as Budget Secretary, was in charge of spending. Now the friction surfaced again as Aspe took a swipe at Zedillo, suggesting that the peso was falling because of "a perception" that the President-elect was not ready to shoulder the political costs of defending the band—in other words, that he was weak.

At the end of a morning of heated talk, Salinas broke off the meeting, saying that his men seemed to be approaching agreement on moving the band and instructing them to decide on how much. Then Salinas and Zedillo went off into another room to talk privately, inviting Serra to join them a few minutes later. The President informed Serra that Zedillo wanted to name him immediately as the President-elect's economic policy coordinator, to signal to the markets that the new economic team was in place. Serra's tenure as Trade Secretary was over, and on December 1, inauguration day, he would take over the far more powerful job of Finance Secretary.

"Okay, whatever you ask me to do," Serra said. The three men agreed

that Zedillo would go to his own offices to put out a press release announcing Serra's appointment immediately.

Serra stepped out of the room to make some phone calls, and Aspe went in. Not ten minutes later Aspe left, sober and silent. Salinas called Serra back again. "There's been a change of plan," he said. "Pedro says he will resign. He wants you to take over as Secretary right away. He wants you to do the devaluation. It will be yours."

At first stunned, Serra quickly became exasperated. "Look, we just spent the whole morning talking about this. We all agree that we want to minimize the trauma," he said. "Well, if Pedro resigns, that will be traumatic. Very traumatic."

"He doesn't want to stay," Salinas insisted. "He wants you to take it over."

They did not agree. So Salinas called Zedillo at the President-elect's offices to tell him of Aspe's position. Salinas and Zedillo did not agree either. Zedillo argued that Aspe's resignation would send disturbing signals of dissension between Salinas's team and his.

In the afternoon Salinas summoned everyone back to his library. Amid high tension, he and Zedillo went out to the garden by themselves; their talk was agitated, but they still reached no agreement. With all the side discussions, not everyone present in Salinas's library was fully informed of the terms of the debate. Aspe had argued in private to Salinas that a devaluation could only be carried out properly if it was accompanied by a package of coordinated anti-inflationary measures. He said there wasn't enough time left in Salinas's term to devise such a package. Aspe's view was sound economics, but Serra never heard him make that case.

Once all were assembled, Mancera, the central bank chief, said calmly that if Mexico's foreign reserves were allowed to drop below \$10 billion without an exchange-rate adjustment, he would feel obligated to resign. Aspe finally asked for the opinion of Labor Secretary Farrell, a crusty PRI veteran. Farrell observed that any devaluation would erode workers' salaries and could spell political disaster for the government in the final days of Salinas's term.

Farrell's comments seemed to seal it for Salinas: he wanted to avoid devaluation. The outgoing and incoming Presidents eyed each other,

unable to agree on moving the peso. Zedillo and Serra felt they had little leverage to demand a widening of the band, since they were not yet in positions of authority. The decision was still up to President Salinas.

In the end the group opted for a third, default option. That evening, with Salinas's assent, Zedillo and Serra appeared with Aspe and Mancera before a roomful of labor and business representatives. Known as El Pacto, the Pact, the group had been convened regularly since the time of de la Madrid to endorse the government's economic policy changes. Zedillo, talking tough, pledged to enforce fiscal discipline and keep the economy on an even keel; he didn't say a word about devaluing the peso.

On Monday morning Aspe followed up with an intensive round of his famous telephone diplomacy. By that afternoon the markets' upset had begun to subside, and the markets remained tranquil through November 30, the last day of the *sexenio*.

Indeed, Salinas completed his term on a high note. Late in the afternoon of his final day in office, he, along with a number of officials and diplomats who had served in his government, was riding back to Los Pinos in the presidential bus after having spent the day in the streets of Mexico City—inaugurating social works and doling out property titles and kisses to the end. As dusk fell, Salinas received a phone call on the presidential hot line from Pedro Aspe, who was calling with his report on the final day of business in the markets.

As he heard Aspe's brief message, Salinas's face opened into a smile of relief and satisfaction.

"I am the first Mexican President in thirty years who didn't devalue," he said.

Jaime Serra went to work on December 1 in the Finance Secretary's suite atop an office tower on the Avenida de los Insurgentes. From the first day he encountered difficulties gathering all the information he needed and assembling a top-flight staff. Many of the Secretariat's most proficient officials, following the traditional group dynamics of the PRI system, had left to follow outgoing mentors to other agencies. Even though he was taking over from a PRI administration, his own camp, Serra found surprisingly little continuity.

As part of his preparation for the post, Serra had received from Pedro Aspe, days before the presidential handover, a thick volume of briefing papers known as the "100-Day Book." It was a compendium of all the information, both public and confidential, that the outgoing Finance Secretary considered his successor would need to guide the economy during the first three months of the new administration. Only nine days into his tenure, Serra was scheduled to present the federal budget for the following year at a hearing before the Congress.

The "100-Day Book" described an economy that was ailing but manageable, Serra concluded, although one item gave him a chill when he first saw it: Aspe and his team had projected an immense deficit in the current account for 1995, a total of \$30 billion.

But after he took office and saw all the Secretariat's most closely held figures, Serra realized there was a troubling omission in Aspe's briefing book. Nowhere did it mention the *tesobonos*. These were short-term treasury bills, which Mexico had begun to issue under Aspe, denominated in pesos but pegged to the dollar. For investors these bills were very nearly as good as dollars; the burden was on Mexico to provide enough pesos to pay for them at whatever rate the dollar was trading. In his strategic planning Serra had not been factoring in the overall *tesobono* debt—a confidential figure—because the briefing book didn't refer to it. The *tesobonos* had never been discussed in Salinas's economic cabinet, and Salinas had not said anything about them to Zedillo.

But the Secretariat's figures showed an ominous picture. On December 1, the reserves stood at \$12.5 billion. But over the past year Salinas's government had issued twice that much—\$25 billion—in *tesobonos*. In sum, Serra realized that there was a staggering short-term foreign debt about which he had known virtually nothing before taking office. In 1993 the *tesobonos* had been 3 percent of the total foreign debt. By 1994 they had reached 40 percent.

Moreover, Aspe's team had not included the debts of the state development bank in the overall federal budget deficit. In practice, Serra understood, the deficit was also much larger than reported.

On December 6, three days before his congressional budget presentation, Serra finally received all the data he needed from the outgoing team. In a marathon session with his aides, Serra devised a *tesobono*

strategy. If he could just hold the line through December, he concluded, in early 1995 he would negotiate with Washington, where he had many friends, a fast-trigger credit arrangement that would reassure investors. Given the exceptional credibility of Zedillo's election, Serra felt confident that he had the political wherewithal to finesse December. Then, he calculated, with NAFTA in full swing the economy would almost certainly start to grow in early 1995.

Serra's budget presentation to the Congress on December 9 went well enough. The PRI-dominated lawmakers did not balk at his report of the lopsided trade figures and asked only one question about the *tesobonos*. The following week he gave an interview to *The Wall Street Journal*. He said the economy was well in hand and he did not expect to make any changes in exchange-rate policy. (What am I supposed to say? he thought as he listened to the reporter's question. *Yes, we're going to devalue next week?*)

Then suddenly everything started to come undone. After a year of cease-fire the confrontation with the Zapatistas sharpened once again, reviving the markets' jitters. On December 15, the central bank stepped in to prop up the peso, but it didn't help. The following day Mexico lost \$855 million in reserves. On December 19, the Mexican press was filled with declarations from Subcomandante Marcos saying that the Zapatistas had occupied thirty-eight Chiapas villages. Reporters rushed to the area. It turned out that the guerrillas had briefly seized one town and blocked some highways, then vanished back into the rain forest. But the peso and the Mexican stock index both plunged.

Serra decided that a peso policy change could no longer be postponed. So he called a meeting on the night of December 19 between the financial authorities and the business and labor leaders in El Pacto. The purpose of that organization, established over a decade of practice, was to secure the support of PRI labor leaders for economic adjustments, ensuring their help in holding down workers' wages and discontent through one punishing anti-inflation program after another. Serra recalled that all changes in exchange-rate policy, dating back years, had been discussed with El Pacto. That was certainly what Salinas had done.

Serra informed Zedillo, who was on the road outside Mexico City, about the planned session. With Zedillo's assent, and after consulting the

rest of the economic cabinet, Serra and Miguel Mancera, who had remained as head of the central bank, went into the evening meeting prepared to argue that it was time to stop holding up the peso and let it float. But they met resolute resistance from bankers, industrialists, and agribusiness leaders, who argued that abandoning the limited peso band would be a psychological shock to investors that could sink the currency far lower than its real value. With the businessmen adamant, Mancera finally signaled Serra to step out of the meeting for a moment. Mancera consulted by phone with Zedillo. Then he and Serra decided to give up on floating the peso for the time being and settle for a 15 percent increase in the range of the fluctuation band.

The meeting ended after midnight. Serra rose at dawn on December 20, and on Zedillo's orders he started giving interviews, before the Mexican markets opened at 9 a.m., to Mexican television and radio stations announcing the 15 percent band increase. Serra insisted, undiplomatically, on a narrow economist's definition of the change, saying repeatedly that widening the band did not constitute a devaluation. He blamed the financial instability on the Zapatistas.

After several hours of interviews Serra returned to his office at midday to find mayhem. Top people from Wall Street had been calling and were livid that they could not get hold of Serra in person, especially when they realized that he was out talking to the Mexican public instead. Pedro Aspe would never have left them out in the cold, the American money managers fumed. Several Wall Street callers demanded to know why Serra had not warned them of a devaluation. It rankled him that they had expected he would inform New York before Mexico.

All in all, though, December 20 did not end badly. The leakage of reserves came to only \$90 million, a minor scratch compared with the hemorrhage of earlier days.

But the next day it all fell apart. Panic seized the markets. By the afternoon Mexico had lost \$4 billion of its reserves and had only \$6 billion left. The gap between the reserves and the *tesobonos* went to \$16 billion. In just a few hours the country ran out of money to pay its debts. Serra saw that even foreigners were unloading their *tesobonos*, the safest investment Mexico had offered the world. The government, his government, had lost all credibility.

In the evening Serra met again with the Mexican business and labor leaders in El Pacto. They quickly relented and agreed that the peso should float freely and also agreed to a sixty-day freeze on wages and prices. Just after 11 p.m. Mexican television announced the government's decision to let the peso float. The next morning it dropped by 20 percent.

Serra flew that same day, December 22, to New York to face the money managers, representing hundreds of thousands of middle-class Americans who had sustained sudden, huge, and baffling losses. Even in the roughest hours of the NAFTA negotiations Serra had never encountered that kind of unveiled hostility. Staunchly defending his decision to consult the players in El Pacto about the peso change, he offered the American investors a primer lesson in the dynamics of Mexican decision making. The investors were incensed that Serra was patronizing them while billions of dollars of their firms' money were draining away. They felt betrayed; they longed, none too discreetly, for Pedro Aspe. Serra was shocked to see how psychological factors he regarded as secondary could generate a stampede in the globalized economy. It seemed absurd to him that such complex and weighty economic decision making had gone awry to some degree because he lacked Aspe's touch.

In the following days Zedillo and Serra turned to the U.S. government for help and began to get it almost immediately (even though Washington was also in a transition between Treasury Secretaries). Whereas Wall Street did not know or trust Serra, Washington did, because of his role in NAFTA. Officials there quickly activated a standing mechanism providing \$5 billion in credit for Mexico in an emergency. (Later, in the spring of 1995, Mexico would be aided with a \$52 billion bailout led by the Clinton administration.)

After his trip to New York, Serra realized that to restore investors' confidence, Zedillo would need a completely new economic program, one that would be very hard on the Mexican people—but that Serra now lacked the political means to carry out. On the day after Christmas he sent a note to the President attached to a proposal for the new adjustment program. Addressing the President as Ernesto, and using the familiar *tú*, Serra wrote that his credibility was shot. As Trade Secretary, Serra pointed out, he had defended the big balance-of-payments deficit,

arguing that it was necessary to get NAFTA off the ground. Now he would have to blame the devaluation on a policy he had vigorously promoted.

For several days Zedillo wouldn't hear of Serra's resigning. In the first predawn hours of December 28, Serra, exhausted, arrived home from his Secretariat offices to find his wife in labor. He drove her to the hospital. There he received a call from Los Pinos, where Zedillo was waiting to see him.

The President had realized that Serra would have to go, and he could not conceal his desolation. "This is unfair," Zedillo said.

"Ernesto, this is not a problem of fairness. This is a problem of state," Serra replied. "You have to put it all on me. I'll take the hit."

Zedillo had never expected that he would have to govern without Serra, one of the few people in the government whom he trusted as a friend. Zedillo was discovering the solitude of the Mexican President just when he had to face the fury of his people over another economic catastrophe.

For a moment the two men were overwhelmed with sadness. Then it dawned on them that Serra's brief career as Finance Secretary would end with a moment of the absurd. That day, December 28, was the Mexican equivalent of April Fools' Day. Serra could not announce his resignation on this day, because half of Mexico might think it was a tasteless joke.

He resigned on December 29.

Mexicans had been through peso plunges before; it had become an end-of-*sexenio* routine. But this devaluation was humiliating: it left Mexicans feeling that they had allowed Carlos Salinas to play them for fools. He had persuaded them to set aside their native skepticism and to believe that Mexico had finally escaped the Third World for modernity. In the end that turned out to be another illusion.

"I really thought we were growing and that our economy had reached new stability," a carpenter named José Romero told a *New York Times* reporter in the first days of January 1995. As he hammered together a simple roof for a one-room shack, he was still wearing the cap that showed

he had voted for the PRI in 1994, but only because he could no longer afford another. He had concluded that the government's promise of progress had been a simple lie. "They've just been trying to trick us," he said.

For poor people, especially in the big cities, the 1994 devaluation brought the return of hunger. Despite the government's freeze, the prices of basic goods shot up. People had to forgo meat, chicken, oranges, and squash and go back to beans and tortillas, the fare of the bare-bones villages from which so many had fled.

But the most painful devastation came to the middle class, the Mexicans who had believed in Salinas the most. During the Salinas years the credit card reached the Mexican masses for the first time. People confidently used their cards to buy big-screen televisions, video players, and home computers. After the devaluation the value of their savings collapsed, and many lost their jobs. When they didn't pay their bills, the credit card companies treated them like criminals. Even more disastrous was the plight of those who bought into the dream by signing adjustable-rate mortgages to purchase homes. (With the country's history of chronic inflation, Mexican banks did not offer fixed-rate mortgage loans.) By February 1995, when interest rates soared to over 100 percent, those debtors faced the choice of becoming credit renegades or being turned into the street by the banks.

On January 3, 1995, Zedillo announced his first program to revive the economy. It was harsh, but not harsh enough; investors stayed away. In that environment the new government began to blame the old one more vocally for the catastrophe. While Zedillo and his new Finance Secretary, Guillermo Ortiz, acknowledged that the devaluation was mishandled, they also pointed up the weaknesses of the economy they inherited from Salinas. At first Salinas, watching from his Coyoacán home, maintained the silence that PRI tradition demanded of former Presidents.

But PRI tradition was blown away on February 28, when federal agents set a trap for Salinas's brother Raúl and arrested him at their sister Adriana's home on charges of masterminding the murder of José Francisco Ruiz Massieu. In all the PRI's years of corruption and foul play, no immediate relative of a former President had ever been arrested. A bold

stroke by Zedillo against impunity in high places, it was also nothing less than a declaration of war with his predecessor.

That same afternoon Carlos Salinas called the news show on Televisa, saying he wanted to set the record straight on the peso crisis, because Zedillo's version "did not take into account the errors that were made in December." In other interviews that day Salinas blamed Serra for starting the whole calamity at the meeting with the business and labor groups in El Pacto on December 19. Salinas charged that Serra had tipped off the Mexican bankers there that the government could no longer sustain the peso and they had rushed out with that privileged information to send \$13 billion out of Mexico "in a single day."

In the next days Salinas turned once again to political theater to try to salvage his reputation. He showed up on March 3 at a home in a working-class neighborhood in Monterrey that belonged to a beneficiary of his government's social programs. Sitting on a sagging bed in a cramped room, Salinas said he was joining a "battle for truth, for honor, and for dignity" by starting a hunger strike. But the protest didn't even last long enough for him to work up an appetite. Three hours after it started, he flew back to Mexico City in a private jet for talks with Zedillo.

In the meeting, on the evening of March 3 at the Mexico City home of a man who had served in Salinas's cabinet, Zedillo was keen to describe the details of Raúl Salinas's indictment, as if he hoped to persuade his predecessor that he had been right to proceed with it. Salinas countered that his hunger strike was not to protest Raúl's arrest. He was concerned about his own reputation. The press was filled with accusations, blaming Salinas for the financial fiasco and for engineering a cover-up in the Colosio murder investigation. Salinas demanded that Zedillo order his Attorney General to make a public statement clearing him in the Colosio case, and correct the imbalance in the public blame for the economic disaster. Zedillo gave his word that he would.

Zedillo did not try to force Salinas to leave Mexico, nor did he offer him any guarantees if he did. No deal on Salinas's future was reached or even proposed.

In the following days the Attorney General did make a statement exonerating Salinas in the Colosio case, but Zedillo continued to deflect public rage about the peso crash toward the former President. On

March 10, Salinas left Mexico, forced by the events into self-imposed exile.

Sam writes:

Salinas flew to New York City, where he arrived unperceived by the media and dropped from public view for three days. On Sunday, March 12, Zedillo's aides told Tim Golden, the *New York Times* bureau chief in Mexico City, a slanted but politically useful version of the events, saying that Zedillo had forced Salinas into exile. Golden wrote a story outlining a power struggle unmatched in Mexico since President Lázaro Cárdenas had forced his predecessor out of Mexico in 1936. News organizations across the hemisphere went hunting for the former President.

On Tuesday morning, March 14, Salinas telephoned the *Times* in New York, the only American publication he contacted, saying he wanted to get together with Joe Lelyveld, the executive editor. Lelyveld, however, was busy. I was then an education reporter on the *Times's* metro desk. Because I spoke Spanish and had some reporting experience in Mexico, I was asked to accompany the new foreign editor, Bill Keller, to interview Salinas.

I had about an hour to refocus from New York City's schools to the turmoil in Mexico. Keller and I took a taxi from the *Times* offices across town to the official residence of Mexico's ambassador to the United Nations, an elegant five-story brownstone on East Seventy-second Street, where Salinas had been at lunch with the envoy.

We were ushered up a carpeted stairway to a sitting room on an upper floor. Salinas, smiling affably and dressed in a double-breasted suit, rose to greet us, then sat back again into an easy chair, drinking herbal tea.

The interview was a tug-of-war. We wanted to hear how President Zedillo had forced him into exile. He rejected that notion. "Can I return to Mexico?" Mr. Salinas asked rhetorically. "At any moment! Yes!" He paused. "But I don't have plans now to do so."

He only wanted to talk about the Mexican economy. He was seeking to set the record straight, he said, and plunged into a lengthy discourse

on the financial debacle. But for once Salinas did not want his remarks to be quoted.

"Then why did you phone our newspaper?" we asked.

"I phoned to speak with Lelyveld," Salinas reminded us.

"But we're a newspaper," we insisted. "Our role is to publish news stories."

We went back and forth. We talked mostly in English, but he and I conversed for a time in Spanish.

"Your Spanish is very good," Salinas lied, eyeing me as he poured on the flattery, as he had with many foreign correspondents who covered his presidency.

He talked about the strengths of the economy he had turned over to his successor. Events had spiraled into crisis, he argued, because of the way Zedillo and his team had managed the economy in their first weeks in office, not because it was ailing at the end of his presidency.

Could we quote his saying that?

Not now, Salinas insisted. Such comments, if published, could undermine what little stability Zedillo had been able to restore, he said.

"The situation in Mexico is delicate," he said. "It is important not to disturb that." Eventually Keller and I persuaded him to allow us to quote him on those two sentences.

At the end I decided to get personal. What did it feel like for a Mexican President, who has enjoyed all the storied powers that go with the post, to leave office and return to being a mere citizen?

"This has been a difficult ninety days," Salinas said, sipping forlornly at his tea. "A former President of Mexico has to adjust to a different way of life. You have so many duties and responsibilities that end sharply. And that's it."

The story ran the next day on the front page of *The New York Times*. Salinas had made himself into a media phenomenon during his presidency, and his buzz was only amplified by the mysteries about his exile and whereabouts. So even when he said almost nothing, Salinas was still big news.

As Zedillo struggled to rebuild the economy during the spring, Jaime Serra and Pedro Aspe remained silent. In July, Aspe wrote an article that

appeared in the Mexican newspaper *Reforma* and in *The Wall Street Journal*, defending his opposition back in November to a devaluation. Serra took a more muted approach, airing some of his views in a letter to the magazine *The Economist*. Months later the central bank put out a technical report on the devaluation containing an item of information that undercut Salinas's central contention: that Mexican bankers who attended the December 19 meeting of El Pacto, where Serra had discussed devaluation, had rushed out to protect their positions ahead of the game. The final central bank figures confirmed that on December 20, the trading session after the notorious meeting, there had been no run on the reserves, as Salinas had charged. The peso sell-off was on December 21.

The recriminations were not surprising, given the bitter times, but they were misplaced. The peso crisis was not primarily the result of the mistakes of one official or another—of Pedro Aspe or Jaime Serra—although mistakes were made on both sides. The crisis resulted from a systemic breakdown in the transfer of power from one PRI President to another.

The critical moment had occurred on November 20 in Salinas's library when he and Zedillo failed to agree on devaluation. In a time of mounting crisis there was no longer any stable institutional framework for transferring control of the economy from one President to the next. Like so much of Salinas's *sexenio*, it boiled down to a confrontation between a handful of politicians and spur-of-the-moment choices by the President. Even though both he and Zedillo were within the PRI system, Salinas held the only effective power in the final weeks of his term. As he hesitated to devalue, asserting the political interests of his presidency over those of his successor's, consensus and even communication about the economy broke down between the two men and their administrations.

The peso crisis marked the failure of the *dedazo*, which had been the central pivot of the PRI system, as the mechanism for transferring power. It was a delayed consequence of the doubtful mandate with which Salinas started his term. During his *sexenio* Salinas had tried to overcome the doubts about his legitimacy by reinforcing his own power, centralizing more and more decisions in his own hands rather than fortifying the

democratic process in Mexican society. But the trade opening that Salinas carried out made economic decision making infinitely more complex, while it also stimulated political diversity at the grass roots. By 1994 it had become too much for Salinas to handle. The lack of a pluralistic foundation, democratic method, and institutional armature for the presidential turnover made the whole system unstable. At the moment of the handoff, when Salinas needed to convey control of a wavering economy to his successor, the system cracked.

As for Salinas, after he left, Mexicans turned against him with an almost pathological vengeance. In a few brief months the imagery of progress that had sustained his presidency dissolved, and his reformist achievements were banished from popular memory. He had to withdraw his candidacy to head the World Trade Organization and was denied any credit for the trade explosion under NAFTA that soon took place. The PRI tried to expel him, and its leaders rushed to show that none of them had ever been close to him. Not more than a handful of Mexicans dared to admit publicly that they had ever admired him, and his presidency was treated in Mexico as a historical void, six years left blank. His principal public monument was a rubber mask with a bald head and floppy ears that sold briskly to motorists on the Paseo de la Reforma. After his presidency Mexico made Salinas play one more dramatic role, that of the unredeemable villain.

He did have one small victory. His phrase "the errors of December" became the folk term for the devaluation, giving some life to the notion that it was not entirely his fault.

Ernesto Zedillo, the Outsider

Until just a few days before Ernesto Zedillo was tapped by President Salinas to replace the slain Luis Donaldo Colosio as the PRI presidential candidate, no one really thought he could be the next President of Mexico—least of all Zedillo himself.

One of the rare light moments at Los Pinos in Zedillo's early days in office came after his private secretary, Liébano Sáenz, made a casual mention of something Colosio had done in his effort to win the tap as the PRI candidate. Sáenz, who had been part of Colosio's inner circle, recalled that he had ordered his staff to prepare secret profiles of all his competitors. Colosio wanted to study them to figure out how to outshine them in Salinas's eyes. His staff had gone to work to uncover the idiosyncrasies of Pedro Aspe, Manuel Camacho, and several others whom Sáenz named for Zedillo. When he came to the end of the list, Sáenz stopped short, embarrassed.

Zedillo asked the logical question. "No profile of me?"

"No profile of you," Sáenz said. "We didn't think there was any chance that you would be President."

Zedillo chuckled. "Neither did I," he said.

Because he wasn't a player in the PRI system, few people considered Zedillo a contender. Even though he had served for more than a decade in government and held two cabinet posts, he remained something of an unknown to the PRI elite. They weren't sure what he stood for or wanted. They regarded him as an outsider.

In many ways he was. Zedillo had never joined the Revolutionary Family, as the extended PRI dynasty was known. Although he was born