

Nation in Jeopardy

Mexico's Future Grows Even More Incalculable After the Earthquake

Prior Plan to Spur Economy Now Seems Incompatible With Speedy Rebuilding

Some Fear Disorderly Change

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MEXICO CITY—All bets are off on the future course of Mexico.

Even before the horrible human tragedy and economic devastation of last week's earthquake, the world's 13th-largest economy lurched along in a state of undeclared disaster. A showdown with U.S. and other foreign banks holding \$96 billion in unpayable Mexican debt seemed inevitable.

Mexico's leaders governed on borrowed time. At home, their austerity measures required painful long-term sacrifice from a constituency eager for short-term relief; abroad, they feared that a further decline in oil prices coupled with a rise in interest rates would make it impossible even to pay the interest on the foreign debt—much less obtain badly needed new credit.

When last week began, the apocalyptic vision worrying the Western financial order was: Mexico fails to pay its interest; major U.S. banks are forced to swallow huge losses; other Latin debtors—who look to Mexico for leadership—tumble. Reflecting these fears, and a sag in world oil prices, the peso hit a record low last Wednesday.

Then on Thursday, Mexico City suffered its worst disaster since Hernan Cortes destroyed it in 1521, and the scope of Mexico's problems moved beyond measurement. In some ways, the tragedy pushed the country through a sort of economic "looking glass," making its difficulties almost impossible to evaluate in real terms; black is no longer black, white no longer white.

"This really is likely to be a watershed in the country's history," says Alan Stoga, a senior analyst at Kissinger Associates Inc., the Washington consulting firm. "One of the consequences of the earthquake is that it probably shortened even further the time that the president has to show results."

As tragic as the quake was, it could have been worse. Most of the country's industrial plants held together, and Mexican authorities moved quickly to assure social order. Also, it seems likely that the disaster will temporarily forestall pressure from creditors. Nevertheless, the earthquake must be assessed within the crisis context in which it struck.

President Miguel de la Madrid had already been giving grave warnings about Mexico's debt. "The domino theory must be kept in mind," he said in an interview with this newspaper shortly before the earthquake. "If a heavy piece falls, the whole game can collapse." His finance minister, Jesus Silva-Herzog, was equally blunt. Asked what strategy he would take if oil prices continue their decline he made a motion of washing his hands of the problem.

These two Ivy-League-educated technocrats, along with others of similar background like central bank president Miguel Mancera, have charted a course of long-term recovery that calls for a greatly reduced public budget and the opening of competition in key industries. It is difficult now to see how such a plan is compatible with the speedy reconstruction of the world's most populous city—already gasping for services before suffering damages estimated in the tens of billions of dollars.

In all this, the U.S. holds a stake of inestimable importance. Some Washington analysts, such as Mr. Stoga, believe that U.S.-Mexican relations should rank just behind superpower politics and maintenance of the Western alliance as Washington priorities. Yet, as Mr. Stoga notes, "there has been a tendency to look at Mexican problems only when they blow up." Even with Mexico threatening the Western banking system's stability, it has received attention that rises and falls with interest rates—or earthquakes.

While the U.S. gropes to embrace its prickly neighbor as an ally, Mexico, for its part, is bound by history and political tradition to oppose the U.S. in public forums. The U.S. Marine invasion of Veracruz and the "Halls of Montezuma" of the Marine Hymn are part of Mexico's living history, kept alive by a Museum of Intervention in Mexico City. A recent editorial on the front page of Mexico City's leading newspaper, *Excelsior*, began: "The United States is the worst political problem in Mexico," and went on to denounce the U.S. ambassador, economic policy and the press.

The visceral anti-U.S. sentiment permeates Mexican policy in the cause of independence, often at great cost. Fearing domination by the U.S., Mexico refuses to join such developed-world forums as the



Miguel de la Madrid

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