

4-26-1995

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Recommended Citation

LADB Staff. "Economic Crisis, Peso Devaluation Squeeze State, Local Governments." (1995). <https://digitalrepository.unm.edu/sourcemex/3433>

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Economic Crisis, Peso Devaluation Squeeze State, Local Governments

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Category/Department: Mexico

Published: 1995-04-26

The economic crisis that followed the devaluation of the Mexican peso in December has created significant difficulties for state and municipal governments, which have been forced to reduce public services because of increasing debt problems and a drop in collection of fees. During March and April, the leadership of the opposition National Action Party (PAN) frequently hammered on the problems facing the states while simultaneously criticizing President Ernesto Zedillo's emergency economic plan, especially the increase in the national value-added tax (impuesto al valor agregado, IVA). The Zedillo plan, announced on March 9, also includes such unpopular steps as higher costs for gasoline and electricity, and tight restrictions on internal credit (see SourceMex, 03/15/95 and 04/12/95).

The possibility that many states will be forced to declare bankruptcy this year was first raised by newly elected Jalisco Governor Alberto Cardenas, a PAN member. Cardenas, who took office in March, warned that an economic crisis was imminent not only for his state but for other states unless the Zedillo administration took steps to provide direct assistance to state governments, especially by arranging for renegotiation of debts. Similarly, according to a PAN report released in April, the states of Mexico, Jalisco, Nuevo Leon, Queretaro, Chiapas, Durango, Baja California, and Sonora are all facing unsurmountable debt problems that will interfere with the ability of state governments to meet the needs of citizens.

PAN president Carlos Castillo Peraza and several party members in the Chamber of Deputies urged the Zedillo administration to take immediate steps to deal with the debt crisis at the state and municipal levels. For his part, PAN deputy David Vargas Santos noted that a reduction of federal financial support for local and state governments has been an ongoing process, initiated three years ago under the administration of former president Carlos Salinas de Gortari. The PAN managed to extract promises from officials in the Zedillo administration that the debt situation would be addressed. For example, Jesus Reyes Heróles, head of the government's public works bank (Banco Nacional de Obras y Servicios Públicos, Banobras), acknowledged that his institution has begun to work out rescheduling of debt payments for some state governments. He acknowledged that many states and cities are facing an "unprecedented liquidity crisis," caused by high interest rates.

While most cities were having to cope in their own way with the economic crisis, two developments in March and April gained notoriety: the decision by officials in Ciudad Juarez to erect their own toll booths near the bridge connecting the city with El Paso, Texas, and the bankruptcy of Mexico City's public transportation system. In the Juarez case, on April 4 Mayor Francisco Villarreal Torres, a PAN member, set up three municipal toll booths at the El Paso del Norte international bridge. By setting up the municipal toll booths, the mayor placed the city government in direct competition with federal toll booths. Villarreal justified the move, however, saying that none of the 32 million

nuevo pesos (US\$5.34 million) in fees collected at the federal booths annually stays in Juarez, even though a high portion of those revenues are generated from Juarez citizens.

After four days, the federal government sent troops to dismantle the municipal toll booths and ordered the arrest of Villarreal, who was charged with usurping federal powers, in violation of the Mexican Constitution. In response to the charges, Villarreal said his action was within the framework of the Mexican Constitution. He cited Article 105 of the Mexican Constitution, which gives city governments the right to make their own economic and political decisions. "This action will not only gain revenues from bridge collections, but also ensures our right to economic and political autonomy," said Villarreal. Villarreal's action received strong support from Juarez citizens, who set up picket signs near the federal toll booths the day after the municipal booths were dismantled. Most members of the PAN and some representatives of the Democratic Revolution Party (PRD) offered strong encouragement to Villarreal. For example, the PAN mayor of Ojinanga, Chihuahua state, raised the possibility of erecting his own municipal toll booths at a bridge connecting his city with Presidio, Texas.

For his part, Chihuahua Governor Francisco Barrio, also a PAN member, expressed cautious support for the Juarez mayor. Barrio said the complaints raised by Villarreal were legitimate, but he could not express his unconditional support because the actions "were not within the law he was elected to uphold. Ironically, Villarreal's arrest was ordered by Attorney General Antonio Lozano Gracia, the only member of the PAN in Zedillo's cabinet.

Meantime, on April 8, local and federal authorities assumed control of Mexico City's massive public transportation network, Autotransportes Urbanos de Pasajeros Ruta-100, after declaring the system bankrupt. The system, known more commonly as Ruta 100, covered most of metropolitan Mexico City. Hundreds of smaller routes are served by small private concessions, but some areas, especially on the outskirts, depend heavily on Ruta 100. City authorities said the Ruta 100 bankruptcy was caused both by the impact of the peso devaluation and by corruption within the system. Management of Ruta 100 was temporarily transferred to a syndicate led by federally based Banobras. Mexico City Mayor Oscar Espinosa Villarreal said a new reorganization plan would be in place by July. He raised the possibility of allowing private companies to operate city buses. However, Villarreal did not say whether the system would be fully privatized or whether the government would retain ownership of the system while offering concessions to private companies.

The takeover of Ruta 100, however, had some political overtones. Former employees accused the government of using the economic crisis as an excuse to break the union and fire more than 12,000 unionized bus drivers and mechanics. In a massive demonstration on April 24, about 20,000 union members and their sympathizers stopped traffic in downtown Mexico City, demanding reinstatement with back pay. However, it was unlikely that the workers would be rehired. A federal court in mid-April ruled that the government was within its rights to reorganize the Ruta 100 company. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 21, reported at 5.99 pesos per US\$1.00] (Sources: Reuter, 04/09/95; La Jornada, 03/24/95, 04/05/95, 04/08/95, 04/09-13/95, 04/16/95; Inter Press Service, 04/17/95; Excelsior, 04/19/95, 04/20/95; El Universal, 04/20/95; Reforma, 04/21/95; Notimex, 04/13/95, 04/16/95, 04/22/95; El Financiero International, 04/10/95, 04/24/95; El Financiero, 04/24/95; Associated Press, 04/25/95)

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