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STATE OF THE NATION SPEECH BY

MEXICAN PRESIDENT DE LA MADRID

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President's State of the Nation Address

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[State of the nation speech delivered by President Miguel de la Madrid Hurtado at the San Lazaro Hall of the Legislative Palace in Mexico City — live]

[Text] Honorable Congress of the Union, Mexicans: Fulfilling the provisions of the Constitution of the Republic, I am attending the opening session of the regular session of the Honorable Congress of the Union to present the state of the nation report. I am also presenting a written expanded document, with various annexes. The officials of the federal executive branch offices will present their respective reports in due time.

The period from 1 September 1985 to date was characterized by tragic and acute problems which complicated and worsened the already severe difficulties we had confronted.

First of all, a devastating earthquake brought sorrow and mourning to our homes. The emergency shook our consciences and mobilized our people's utility and feeling of solidarity. Our society was not depressed nor did it fall into chaotic or anarchic situations. On the contrary, it knew how to react in a courageous manner and was able to organize itself effectively to act positively in the face of tragedy.

The complex problems and the damage provoked by the quakes forced us to immediately embark on the great task of reconstruction. It has been conducted through coordinated and agile actions and with the participation of all social groups and all levels of government: the federation, states, and municipalities. The citizens' participation has been a determining factor in the progress made. Without them, the government's work would not have been enough.

Reconstruction is being carried out with a spirit of renovation. It has not been an attempt simply replace what was destroyed. We have decided to simultaneously rebuild and renew.

We had not yet concluded the first steps for coping with the quake's effects when we were confronted by a true economic cataclysm: The price of oil — our main export product and main source of public revenue — suddenly dropped as a result of a generalized price and market war throughout the world. The drop in revenue from our oil sales abroad has meant a loss of one-third of the foreign currency we obtain from exports, and is equivalent to nearly 20 percent of the total public revenue and approximately 6 percent of the national production. This international challenge occurs after 3 years of great efforts by our peoples to resolve their internal and external problems.

In addition to these serious setbacks resulting from national calamities and economic difficulties, there have been unfavorable external circumstances. The world is undergoing tense international relations. In addition to the great anguish created over the possibility of a nuclear war where there would be no winners and mankind would disappear, there are critical circumstances in the world economy and attempts to impose viewpoints

and styles of life that are trying to form institutions and determine fates by imposing dogmatic ideologies.

Mexico cannot ignore what is around it, because today nations cannot be isolated from the rest of the world. This year we have endured pressures, criticism, misunderstandings, and foreign observations that have shown us that the sovereignty and independence left by our forefathers demand that we wage a constant battle for our sovereignty and independence.

We have had to collect strength and will so our country will not be discredited as an independent and sovereign nation. This year's serious events have created a very complex situation. They have made evident and promoted the deep process of changes that our society is enduring in the face of the challenges it must surpass.

Different and new demands have arisen, and new groups arise in the political and social spheres with an intensity much greater than what we were accustomed to having. Our society has become more complex and dynamic. Today, we are a different nation.

It is necessary that the social groups become aware of the new reality. We are a population that keeps growing. More Mexicans have been born from 1980 to date than from independence to the revolution.

In recent decades, we became a country where most of the population lives in the cities, yet with strong rural origins. New middle classes have appeared. More of their members participate in the country's activities. The mass news media have increased in number and criticizing ability and penetrate the people's consciences to a greater extent. General training and education levels are now higher and, as a result, numerous social groups are better informed about, pay more attention to, and are more critical of national events, particularly government actions. There is a new strength in the society, which makes it more able to effect initiatives and take actions of spontaneous solidarity. Ours is a more mature society, and its social leaders are competent and responsible in rural areas, in plants, and among youth and women, employers, professionals, students, and popular groups. Summing up, we have a civilian society more aware of its problems, more vigorous, more generous, and more determined.

In moments of economic crisis, this huge social transformation, together with natural adversities and pressures from the outside, has generated a sense of uncertainty. Although this uncertainty is natural in the current phenomena and times, it can sometimes be attributed exclusively to the government's action because of naivete, ignorance, or dishonesty. Minorities try to take advantage of the country's difficult situation to distort the system derived from the Mexican revolution.

Deep transformations do not occur in our country alone. It is often said in international circles that economic stability, security, and even liberty now encounter difficult times. It is said these are times dominated by fear. In various regions, the search for radical solutions hurls many in the arms of irrational prophets.

In developed countries, basic social programs are in peril, unemployment increases, and the people grow uncertain. In this way, the comfortable world of everyday things becomes sadly attractive, but these everyday things can be no more.

Finally, our planet is in great danger of being left desolate, either because of the deterioration of the environment or the danger of military conflicts. The entire world is immersed in situations of conflict and change.

Consequently, let us avoid the false fronts of the outside world that some try to present to us, such as the opportunity for happiness and trust. The current crisis is not exclusive to Mexico. We live in a world with serious threats and difficulties. Let us recognize the new times in which we live. These are times of change, either forced or deliberate. These times demand careful judgment and determined action. These are times that require the society to make a great objective effort to evaluate problems, actions, and results. These are times to take risks and incur the possible costs of so doing. These costs are much less than the costs of inactivity and an arms-folded stance.

Our revolutionary regime has had an answer for the changing times. Yesterday, this regime led the country through a process of social progress that moved forward faster than the population grew. In addition, the regime considerably expanded the basic education, health, and food services, and employment opportunities.

Today, my government has had to change to lead the nation through the deep changes that the new society has undergone and also to cope efficiently with the difficult and unexpected situations that pressure us. In my inauguration speech, I proposed a deliberate, planned, and orderly change, a result of our will and not of chance. I called the nation to improve our democratic life. I demanded a change in our behavior. I fostered reforms in the development process. Since the beginning of my administration, I have proposed a change in quality and structure. In view of the (?facts) that the new social awareness presents us and in view of unpredictable events, both domestic and foreign, we have determined the necessary strategic actions and have been willing to carry them out.

We have expanded the mechanisms of political participation, making consultations and negotiating daily, as well as reaching accords. We have admitted criticism, encouraged pluralism, and respected disagreement. We have rejected the notion that only the president's will exists in the country and that the nation can be made, or consummated in a 6-year period. We have spoken truth, and our government has abided by the standards that rule over the citizens. In view of desperation and uncertainty, we have acted calmly. In view of the new challenges, we have set reflection before urgings. We have followed the law in our actions and have always taken the necessary actions during each of the days of our government. In view of foreign insecurity, let us strengthen our convictions and our will to continue to execute our national project. We live in a time of challenge. It would be a grave historic mistake to let difficulties as well as domestic and outside pressures endanger our national existence.

The climate of change is such that the conditions of the crisis themselves have been changing. Now, we have serious problems. Their nature, however, is different from that of those of 1982. Had our oil revenues not dropped, our economy would have continued to grow more firmly during this year and inflation would have been reduced. This year, we would have completed the reorganization effort initiated at the end of 1982 to cope with the emergency at the time. Considering the unprecedented oil revenue drop — this is not merely an additional problem or a repetition of the 1982 crisis, but a considerable challenge — we have more solid bases that consist of the important advances of nearly 4 years of constant efforts.

In the face of the drastic drop in oil revenue, we brought to people's attention the magnitude of the problem and reaffirmed our international responsibility. We clearly stated that, our effort done, and faced by situations over which we had no control, we needed the responsible and reciprocal action of the international financial community. If times and circumstances change for us in a proportional manner, so must they change for others.

After the problem was brought to the attention of the people, we began the difficult process of foreign negotiations and domestic redefinition. Abroad, we expressed the impossibility of our absorbing the total impact of the situation. We had just undergone 3 years of great and constant efforts and of a very austere public budget. Therefore, we asked for better conditions of payment and an effort that would equal our domestic effort; we asked for the renewal of new loans.

Domestically, we adopted feasible measures. We established priorities and sought new margins of action. We clearly established that, despite the difficult foreign situation, the basic effort to overcome the crisis was our responsibility. As long as we leave the structural problems of our economy unresolved, we will not be able to overcome our economic vulnerability. The debt is not our main economic problem; it is the result of deeper matters. Our productive system, as well as our distribution system, must be more efficient and more equitable. To achieve this, we increased our actions of reorganization and structural changes. We undertook a huge task of reorganization.

Our economy needs to grow and needs better conditions in which to grow. The encouragement and growth plan we recently implemented, which involves the foreign and domestic fronts, is mainly aimed at preventing a worsening of the crisis and recovering a sustained growth. This must be done with more jobs and the expansion of income sources based on financial stability.

Our people have not committed the mistake of upsetting work with political excuses, nor have we harmed our rights with the excuse of the crisis. The economic solution calls for effort and work; politics calls for plural and responsible participation. In this general endeavor to maintain and reinforce the current pluralism existent within our society and to deepen the political and democratic development, the government is opening new spaces for consultation and participation. It did this in the face of tragedy and is doing this to perfect electoral participation at the national level and to improve the Federal District's government system.

We continue to promote the country's political development to give real life to the republic's institutions and to achieve respect and expand the rights of all Mexicans: the right of political thinking, participation, and the right to vote according to one's preference. At all times, dialogue and negotiation have been the instruments that have allowed us to confront our problems without distinction of origin or nature. We have talked with businessmen, laborers, middle class workers, peasants, intellectuals, professionals, representatives of the people, political parties, and media representatives. This has been a year in which our best political traditions have been put to a test, and in this manner we have overcome the difficulties and strengthened the democratic nature of the institutions.

We have worked hard and with tenacity to establish the bases for the change. We must advance as much as possible without thinking that our history is beginning or ending now. Independent of the many solutions presented to the sometimes simple and sometimes complex crisis, we have found no better way to handle it than through the path of respect for the main sectors of our society and by acting in accordance with the Constitution and the law. Our determination and firmness to work is based on this. The certainty is based on the decision and legality that our society calls for. In the respect for our constitutional values, in the support of nationalism, and in the defense of freedom and basic social rights, we have found, and will continue to find, our security and the security of our families. With these attitudes we are building a sure future for the new generations.

The state reaffirms its decision to become a full and independent political, social, and cultural democracy, and to promote qualitative changes to overcome the obstacles and support the structural change. The National Development Plan guarantees the unity and direction of the state's policy, efficiency in public management, and the perfecting of social and political participation.

With the active participation of the society and under the implementation of the plan, it has been possible to overcome difficult situations with full respect for democratic rights and without the conflicts overwhelming us. During these 4 years, the institutions have proven to be solid and flexible. The process of economic reorganization and cultural changes have been based on this.

The respect for the constitutional guarantees, the decentralization of the government offices through a redistribution of offices to other states and municipalities, the strengthening of the division of branches, the increase of electoral actions with the creation of two new political parties, and the encouragement of social participation in the analysis and resolution of our problems have revamped the institutions of the republic. In the face of the complex domestic and international situation, we have protected social peace through dialogue and understanding. The differences have been resolved through the law and through agreements.

We promoted a constitutional amendment to shorten the time between the elections and the swearing in of the president of the republic and, thanks to an initiative born within the Congress, two ordinary congressional sessions were established and the ordinary legislative period was increased by a month. Because of

constitutional limitations, these amendments will not be implemented until 1989. In accordance with my present powers, I proposed an extraordinary congressional period for the analysis, discussion, and approval of various issues.

We have good and respectful communications with the legislative branch. Various government officials appeared before the members of Congress to explain the executive branch's initiatives or to provide the Congress with the information it requested. At no time have we presented a draft bill when this was not included in the agreed upon schedule.

We have increased the budget of the judicial branch to help it improve its work and thereby strengthen the justice system. The number of courts has been increased and the wages of the judicial branch personnel have been improved. The federal government respects the decisions adopted by the judicial branch, abides by the Constitution, enforces its jurisdictional decisions, and contributes to safeguarding the constitutional order of the country.

The federal executive branch, to guarantee the right of the people to organize politically and in accordance with the Political Organizations and Electoral Process Law, which states that the registered political parties will enjoy the rights as established in the laws, granted the necessary elements for the development of their activities. In the period this report includes, elections for governor were held in Chihuahua, Durango, Michoacan, Zacatecas, and Oaxaca States. Likewise, 1,404 town councils were chosen in 15 states throughout the country, and the local councils in Tabasco, Jalisco, Campeche, Chihuahua, Durango, Michoacan, Zacatecas, Baja California, and Oaxaca were renewed; 189 local deputies were chosen — 148 chosen by relative majority and 41 by proportional representation. These electoral processes were held in accordance with the law. The people exercised their right to choose their candidate within an environment of full freedom. The media enjoyed full freedom to report to the people on these processes. The decisions consolidated a process of ideological and political pluralism and reaffirmed our democratic nature.

On previous occasions I have noted that our electoral processes are (?predictable). I am aware some people have not been pleased with some of these processes. Some people have asked me to directly intervene in the development [calificacion] of local elections. They are not aware that in keeping with the Constitution and current laws, such processes are under the jurisdiction of local electoral organizations: Thus, the president cannot and must not intervene in them; that would constitute a serious violation of our federal system. We are aware there are still deficiencies in the elections that must be corrected. However, this cannot be used as a pretext to create disturbances, intimidate citizens, or carry out violent actions. Our people resolve differences by honest and legal means. The majorities decide, with their votes, who will represent them, and they also demand respect for their decisions.

I reiterate my will and determination to promote the improvement of the electoral processes. Only in this way will we advance along the path of democratic development and promote a greater participation in the elections.

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SUPPLEMENT

The overall democratization of the society is a basic principle of my government plan. On 17 June, I issued an order for the Government Secretariat to convoke the political parties, the national political associations, social organizations, academic institutions, and citizens in general to participate in public consultation meetings regarding the amendment to the electoral policy and citizen participation within the government of the Federal District. After 16 meetings in the Federal District and 4 regional meetings, the results are satisfactory and encouraging. The ideas, opinions, and suggestions presented by the participants will substantially enrich the initiatives for the constitutional amendments and the amendments to the Law on Political Organizations and Electoral Processes which, at the right time, I will present before this Honorable Congress.

The municipal amendments continue. In this period we established the bases for municipal guidelines. Shortly, each of the 2,378 municipalities in the country will draft and approve its own guidelines and exercise its new powers as established in Article 15 of the Constitution and in the local constitutions of each of the states.

During the recent soccer World Cup, a security plan was implemented to protect the public and offer proper protection to the citizens and foreigners who visited us on that occasion. It was good to see that we showed, before the international community, the environment of peace and tranquillity that reigns in the country and our capacity to organize. The public sector covered the expenses of the World Cup with the income received from the games.

Jointly with the UN High Commissioner for Refugees, we have helped all Guatemalans who, in their condition as refugees, have settled in our territory.

During the Guatemalan president's recent visit to our country, we analyzed and established the criteria and mechanisms needed to facilitate the return of these refugees to their homeland with the guarantee that their right to live in their own territory will be respected.

To keep the public well informed, the government has followed a policy of social communications based on truth and a full respect for pluralism. In this way, we are strengthening the country's identity, sovereignty, and freedom.

The national population program has made great progress. The demographic change needed by the country is becoming consolidated in the direction we had planned. Early in this administration, the demographic growth rate was 2.6 percent. It is expected that it will be 2 percent at the end of this year, with a population that is higher than 80 million.

I made the commitment with the nation to preserve and perfect the de jure system and, for this reason, I have made an effort to make sure that social changes are reflected in the laws so that these laws will be true means for the development of the individual and his community. Following a national poll on the administration of justice in 1983, we have thoroughly changed the laws in this respect.

During the period this report refers to, we amended the Constitution to expand possibilities for the defense of the individual through the guarantee trial [juicio de garantia]. In an effort to improve the administration of justice, we promoted important amendments to various laws such as the law on habeas corpus and the organic law of the judicial federal branch, the penal and federal codes on penal procedures, the procedures code for the Federal District, and the organic laws of the Attorney General's Office and of the Federal District.

On 18 May 1968 [date as heard], the federal law to prevent and punish torture was issued. This law was promoted by a group of senators. With this law, we confirmed the political and juridical will to reject practices that harm human dignity and offend society.

Standard changes befit an institutional transformation. The Attorney General's Office began a thorough decentralization in line with the needs of prompt and expeditious justice and the policy to decentralize the country's administration. The circuit office system [sistema de delegaciones de circuito] of the Attorney General's Office started in 1984 already covers the entire territory. In addition, the penal procedures offices of the federal prosecuting office were created in the Federal District. All medium-sized cities in the urban planning program have been included in this system. In addition, we began a permanent hearings system to administer federal justice in towns where there are no agencies of the Attorney General's Office.

The Attorney General's Office has been working in coordination with the states of the country. This office maintains and will continue to maintain its determination to increase the ethical and professional level of public employees in this area. The idea that those who serve society in this delicate mission must meet strict standards of ability and honesty is gradually taking root.

The new appointments of agents of the federal prosecuting office are obtained through public examination and period of 1 year, which is a trial period to evaluate results to keep a person permanently. This system, which is being applied in the country for the first time, became a law during the last period of sessions of the Congress.

Drug trafficking activities are financed and conducted by international criminals who are very well organized. At the international level, instead of decreasing, this problem has tended to increase considerably. Production increases as drug use increases.

Mexico is allocating growing human resources and materiel to fight drug trafficking. Thus, the country continues to do its share in this bitter struggle. However, we were the target of pressures from abroad when it was said that the actions we have been conducting are not effective enough to fight this crime without recognizing that the activities carried out by the government are increasingly higher and proportionally better than those of other countries.

The Attorney General's Office, the Army, and the Navy are working very closely in this campaign against drug trafficking. At the outset of this administration, the Army and the Air Force

only carried out an operation called "Condor" and applied the Winner Plan [Plan Ganador] at the national level. Now, 18 special operations are carried out jointly in various parts of the country.

The advances in our struggle against drug trafficking are evident. Actions speak louder than words.

In this struggle, our people giving their lives. Since the "Condor" operation started, the Army has sustained 392 casualties. In 1985 alone, 10 federal judicial policemen were killed. The sacrifice of these compatriots is an example of honesty and courage.

Regarding the common authority of the Federal District, several actions were implemented. These actions include the establishment of a system to supervise the activities of the judicial police and the compliance with the penal procedures' code. In addition, a community cooperation program was started and it is already rendering its first fruits. Representatives of the communities of each of the 16 political delegations have joined this task.

In line with the principles to renew the moral values of the society, the Federal District's [words indistinct] prosecuting office has implemented several measures to improve its professional cadres. These measures include dismissal and seizure of assets, as the case may be, of public servants who have been proven to have committed irregularities in their work. On the other hand, their wages will be the same they obtained from the Attorney General's Office.

It has been my government's unrenounceable commitment to keep making efforts to improve our society's moral principles.

We have not stopped making efforts to apply the instruments to improve the quality and to guarantee the honesty of the federal government administration.

The significant decrease in the number of illegal actions committed by public officials is due, to a large extent, to the preventive measures applied to the state apparatus. Mechanisms have been set up to protect the citizen, who can participate in the control and vigilance of public administration through the complaints and reports system.

The number of complaints received regarding state projects and purchase contracts speaks for itself of the control there is to see that they are legally granted with substantial savings.

Meanwhile, the program to simplify the administration is in progress in all the departments. More than 50 organizations and parastate entities were incorporated this year into this program. The control and evaluation system of public administration, which involves all dependencies and parastate entities, is in full operation. This promotes, under a single coordinator, the implementation of uniform policies in handling administrative instruments.

This system gives the means to maintain a careful vigilance in the disbursement of public expenses. The supervision of federal investment in the states allows us to observe the progress of works that have been authorized, as well as the control of quality, time

of implementation, and proper plan of services for which they are intended.

Properly audited financial reports of the main state entities have been published. During the past period of special sessions, we sent to Congress a parastate entities bill which was approved and issued to provide state enterprises the legal framework to guarantee their autonomy of action and operational simplification.

We have managed strict control of the budget, a highly qualified and selective reduction of public [words indistinct] and purchases, and a strict verification of state imports, to improve quality and prices, which has saved us currency and prevented illegal practices.

The performance of public employees has improved. The supervision and control of state properties by middle and top ranking federal officials has also improved. The rapid and almost total elimination of the practice of giving a gift — which is the same as bribery — the suppression of nepotism, the enforcement of the law of responsibility, and other legal actions in the case of embezzlement duly proven, guarantee the people's will to improve the quality of public workers.

Detailed reports of the achievements mentioned in this chapter have been issued and we will continue doing so, so that they serve as instruments of democratization. We continue advancing in the modernization of public administration and in the struggle against corruption, aware of the fact that there is still much to be done, but highly encouraged by what we have accomplished.

By guaranteeing the country's internal security, and defending its integrity, independence, and sovereignty, the Armed Forces contribute to the country's development in many ways. The Armed Forces are permanently conducting tasks of social interest, civic and educational campaigns, aid to the community in cases of disaster, struggle against drug trafficking, reforestation, water distribution, and every sort of aid asked of our soldiers and sailors.

These tasks have become a tradition which the people acknowledge and appreciate.

I wish to stress the actions taken to modernize communications systems, to improve the [words indistinct] capacity, and to better the means of transportation and the rapid deployment of the members of the Armed Forces.

Besides, the Army and the Air Force [words indistinct] in their strategic plans, a task which consisted in the provision of a military territorial division and the relocation of units and installations.

Meanwhile, the Mexican Navy has achieved a high level of effectiveness in the vigilance and protection of the country's sovereignty on the seas, coasts, and islands.

In its field of action, the Armed Forces continue developing their technology to prevent dependency from abroad. The naval military industry maintains a permanent process of research and development. The Military Industry Department is man-

ufacturing two prototype armored vehicles, a light one called Lince and a medium sized one called Ocelote. A total of six DNB armored vehicles are under construction.

The naval military industry is building four coast guard boats of the eagle type. Two logistic boats were put into service this year, which were built in Mexico, and which will permit an increase in the Navy's efficiency in aiding the civilian population in case of disaster.

I must admit that the task conducted by soldiers and sailors is of great importance to achieve the great objectives that the people and government have established. I appreciate and recognize their loyalty and professionalism.

Our foreign policy is an important bastion of the country's defense. By its own nature, the foreign doctrine we advocate is a heritage to which all Mexicans are committed, free from partisan differences and ideological banners.

Two persistent situations have given the country more relevance in the efforts made by the international community to maintain a stable and safe system: the threats to peace and the deterioration of the world's economic structure. These important issues affect all the nations on earth.

Aware of this, the government invited the presidents of Argentina, Greece, India, and Sweden, and the first president of Tanzania, which together with Mexico comprise the Group of Six for peace and disarmament, to a meeting which was held in Ixtapa from 5 to 7 August.

During the meeting our governments reiterated the need for the atomic powers to stop the irrational arms race and to agree as soon as possible to a general and irreversible nuclear disarmament process.

Olof Palme, a great statesman, a colleague with whom we joined efforts, and a close friend of Mexico, tragically died at a time when political intelligence was so necessary. We wish to honor the memory of this great social fighter whose example we must follow to attain his ideals of peace, harmony, and welfare among nations.

We have maintained that authentic peace is impossible without effective development. Thus, the government has constantly said that the world's great economic problems cannot be handled in an isolated or disjointed way. The nations should jointly organize their struggle to establish a new international economic order which includes our countries' just goals. It is necessary to reject the prejudice that the new international economic order exclusively represents a search for developing nations' demands. It involves a rational distribution of benefits and pledges which favor all the states, without exception, and is directed toward productive relations with justice, harmony, and equity.

Conflicts are caused by insufficient development; world peace will only be possible to the extent that ancestral needs and historic problems are resolved. We will continue to defend the importance of resolving disputes and differences in a diplomatic way, through a political dialogue, and not by force. Given the current Central

American conflict, the Latin American governments which are exerting themselves to attain peace through the Contadora and Support Groups have not ceased to advocate a dialogue and negotiation, with the intention of safeguarding the legitimate interests of all the nations in the region and security in the area.

Mexico believes that it is necessary to strengthen and increase the diplomatic negotiation process as the best alternative to an overall war. However, this basically depends on the political will of all the parties involved in the conflict. Aware that meetings at the highest level contribute to analyzing problems and attaining solutions, I held meetings with heads of state or government in Venezuela, Uruguay, the FRG, Greece, India, Guatemala, and the United States, as well as with the president-elect of Colombia. I always kept in mind the nations's interests and acted as the representative of a dignified and sovereign nation.

My two meetings with the U.S. President were basically held to give fluidity to our dialogue and communication, as well as to activate and strengthen our bilateral cooperation relations. The topics we analyzed included migratory activities, border cooperation, drug trafficking, and a wide variety of commercial and financial affairs — as well as respect for individual, labor, and social rights of Mexican immigrant workers.

The government recognizes the vast possibilities offered by multilateral forums, particularly the UN, to resolve international conflicts and strengthen cooperation among nations. Thus, we reassert our invariable solidarity with the principles and values of this organization, and act accordingly. Within the framework of our inter-American system, the efforts aimed at attaining regional integration and the role of organizations such as the ECLA have been encouraged and supported. The ECLA's assembly was held here this year. During the assembly I urged everyone to analyze and renew the proposals for resolving basic problems in Latin America and the Caribbean.

The Cartagena Agreement was signed, and it includes substantial reforms to the OAS Charter and legitimizes every state's right to choose — without foreign intervention — the most convenient political, economic, and social system.

The earthquake and the drop in oil prices, late in 1985 and during 1986, made it necessary to adapt the national renewal strategy which my government has been conducting. The strategy was defined in the national development plan and, basically speaking, it is aimed at changing our economic structure as a whole. The production and distribution process must be reorganized and social justice must be strengthened, to overcome basic insufficiencies and establish firm bases for a durable and stable development.

Given the effects of the earthquakes on 19-20 September 1985, the solidarity, strength, and unity of our people was overwhelming. The government's actions alone would not have been enough to face the emergency even though we promptly mobilized the official organizations and institutions, Armed Forces, emergency teams, and rescue teams — both in the Federal District and in the states of Mexico, Guerrero, Jalisco, and Michoacan.

Referring to Mexico City, besides the irreplaceable loss of human lives, we lost 30 percent of our existing hospital installations; 1,658 schools were damaged; and there was a drop of 7.6 cubic meters per second in the primary and secondary network of our potable water system, leaving many neighborhoods without water. Furthermore, the two long distance telephone exchange centers we had were critically affected, interrupting our telephone communications with the rest of the country and the world; 1,280,000 electric installations were damaged; thousands of people demanded medical attention; 402 buildings were destroyed and 5,728 were damaged. The social impact was overwhelming because 100,000 families sustained damage to their houses. The situation was countered with energy, imagination, and dedication; epidemic diseases were prevented; and all the services were restored, one by one, with a quickness that, though not the best, was surprising given the circumstances.

Only 10 days after the first quake, 3,226 people had been rescued; 281 emergency centers had been established; more than 14,000 injured people had received medical attention; 4,900 patients had been transferred from damaged buildings in a quick and orderly fashion; 37,300 people had been sent to 144 shelter homes and 73 camps; 99 percent of the local telephone service had been restored, as well as 44 percent of the lines for international long distance calls, and 47 percent of the lines for receiving calls from outside the capital; a total of 1.146 million power lines had been repaired; 4.7 cubic meters per second of potable water had been recovered; and 280 water leaks had been repaired.

To resolve an emergency problem and respect the people's right to continue living in their communities, I ordered the expropriation of several lots in the central neighborhoods in the Federal District. The initial list of lots was modified based on justified observations. The expropriation was the most just and expeditious decision; it prevented serious social conflicts. The measure will benefit a large part of our society. The state's decision had to be based on the general interests. The houses built will become properties of the families occupying them, through credits.

The 4 housing projects currently under way will directly benefit 400,000 inhabitants. As a result of an effective democratic concerted effort, 80,000 families are being helped through credits, reconstruction of their homes, or construction of dignified homes. This effort includes the actions carried out by private organizations and foundations.

Society generously contributed with donations for reconstruction. To reorganize the use of resources, I decided to create the National Fund for Reconstruction, which is handled by public employees, as well as labor and business leaders. As of 15 August, the fund had grown to 42.898 billion pesos and \$14.112 million, including donations and interest. These funds have been used for hospitals and schools, for amounts entered in the corresponding public accounts.

The government created the National Reconstruction Commission, made up of six committees as organs for consultation and concerted effort, which received broad participation from various sectors. The commission's specific work and proposals have been the basis for the coordination of public and social programs

regarding reconstruction priorities, the encouragement of decentralization, promotion of financial sources, and adjustment to the government's plans and projects.

I express national recognition for their loyalty and human solidarity to our workers, our soldiers and Navy personnel, volunteers, women, international rescue teams, and above all to the many youths who spontaneously and unselfishly helped their brothers in distress. The fatherland will always be grateful to you.

As a result of the catastrophe, our country received gestures of affection and support from the international community. We received rescue teams and material donations from 43 countries. Mexico deeply appreciates the help received, and above all, fraternal and generous actions.

Almost 1 year after the September 1985 quakes, we have overcome adversity, and we have confirmed once more that united we are capable of facing the greatest challenges and difficulties. However, with the purpose of planning, organizing, and establishing a national system for civil defense that will guarantee adequate prevention, protection, and assistance to the population in the event of highly collective risk or disaster, the basis for a national civil defense system has been established. This was possible with the broad participation of citizens, social organizations and academic and public and private institutions.

History and nature often put us through difficult tests, all of which are painful. The nations and men who manage to resist them emerge stronger. That, certainly, will be our destiny.

A meeting has been scheduled for 19 September to evaluate the actions carried out within the reconstruction program. The results obtained to that date will be reported in detail. I hope to have representatives of the Honorable Congress of the union present on that occasion. In addition, I will send you the corresponding report for your analysis and discussion.

Significant changes in the economic structures and social participation to organize a well-defined production and distribution process within the 1983-88 National Development Plan will enable us to rechannel our growth on the durable basis of equity and efficiency. These changes include, among others, reducing the size of the public sector to adequate levels, expediting the decentralization of national life, making the national productive system more competitive in relation to those of other countries, promoting industrial retraining [reconversion industrial], and strengthening public finances and domestic savings.

My government is aware of the fact that the worsening of the oil crisis has made it necessary for us to implement those changes more strictly. However, we have to admit that structural changes will not occur overnight.

Regarding the efforts to improve public finances, the largest adjustment was a reduction in public expenses. The programmed expenditures — for goods and services — has continuously dropped during the past 5 years. Thus, out of a total of 31 percent of the 1981 budget, it dropped to approximately 22 percent in 1986. This adjustment of 9 percent in the budget in 5 years shows the budget restraint that was achieved.

In the international field, it has been admitted that the best way to show the tremendous fiscal effort done during this administration is by not considering the payment of interest on the public debt. With this perspective, the deficit becomes a surplus. The same surplus that amounted to 3.3 percent in 1983 with respect to the budget then grew to 5.8 percent in 1985, and will probably amount to 4 percent in 1986, in spite of the drop in oil prices.

The reorganization process in the parastate entities continues. To date, 205 entities have been liquidated, transferred, merged, or sold, while 261 are in the process of reorganization. This leaves a balance of approximately 700 entities, as compared to the 1,155 that existed in 1982.

As one of its goals, the plan established a thorough reorganization of the subsidies system. Conasupo [National Company for Basic Commodities] has rationalized the subsidies, concentrating mostly on the consumption of the majority. By 1986, the only subsidies granted are those to corn and wheat flour. This means that between 1984 and 1986, subsidies have been reduced by over 80 percent in real terms. Meanwhile, 500 Conasupo urban stores will be relocated as they are not located in priority areas.

Likewise, the plan also established that the public entities would be subjected to a process of reorganization and modernization to increase efficiency and productivity. Evidence of the greatest efficiency in the parastate sector is the fact that between 1983 and 1986, transfers to the entities with budget controls are estimated to have decreased by nearly 60 percent in real terms, not counting payment of the debt service.

The current industrial reconversion has been increased in the iron and steel area, and will continue in the other areas that have been mentioned. In December 1982, the economy was highly protected. This resulted in inefficiencies and abuses to the detriment of the consumer. The protection system was based on the excessive use of import permits. It was noted that 65 percent of the classification of import tariffs representing 80 percent of the value of imports in that year were subject to that restriction, and the levels of the import tariffs showed very wide margins.

By the end of 1985, 90 percent of the import tariff classification was exempted from quantitative restrictions, and only strategic goods, staples, and luxury items are still under control. In April 1986, we continued with a process that had been initiated earlier and announced a decrease in the import tariffs. The top level of import tariffs are now in a more adequate range, and show significant progress as compared to the previous levels. The highest tariff was reduced from 100 to 50 percent.

These measures are part of a structural change strategy the results of which should translate into sustainable high-rate growth to reduce the outside vulnerability and form an industrial sector efficiently integrated on a national level, in harmony with the national economy, and more competitive abroad. In sum, the idea is that foreign trade should become the generator of more autonomous and more balanced growth.

We knew that the most important results of our efforts would only be completed on a medium- and long-term basis. In addition, we were aware of the difficulties that we had to confront. We

were familiar with the force derived from an old and obsolete standard of industrialization and the importance of the interests that would be affected. Nevertheless, we were always fully aware that the nation's loftiest interests are above those of groups. With this perspective, a coordinated foreign trade and industrial development strategy was outlined to establish the basis of a structural change in these sectors. The foreign trade sector was assigned the responsibility of rationalizing protection, fostering nonoil exports, and conducting several commercial negotiations to expand and ensure the access of our products in international markets.

We conceive the strategy of commercial negotiations with an overall economic and political approach. It is understood as an instrument to support our domestic efforts in favor of development. During the period covered by this report, intense bilateral, regional, and multilateral negotiations were effected. Without bias or cliches, we reviewed our multilateral policy and evaluated the compatibility of our foreign trade policy with internationally accepted standards.

Neither advantages nor disadvantages were ignored. Everything was carefully examined. The negotiations on our country joining the GATT were within this context. The GATT is the legal instrument which regulates 85 percent of overall world trade, and more than 90 percent of the trade of those countries we trade with. Mexico has always sought increased multilateralism in the solution of and attention to international problems, without harming our bilateral relations, and has staunchly advocated that international relations be based on respect for law and the principles of justice and equity. In view of this, we could not remain outside the only multilateral forum which has as its objective the regulation of world trade; this regulation is based on legal and negotiated norms and the application of general principles. After consulting with the Senate, we began in November the procedures for our country to join the GATT. These procedures concluded in June with the signing of the protocol of admission. This protocol has been presented to the honorable Senate for ratification. It specifically protects our agricultural sector. It also recognizes the priority status that Mexico has granted to this sector. The national development plan and the sector and regional plans derived from it are also maintained under the protocol.

In addition, our country's right to establish the necessary instruments to execute these programs, as well as those of a fiscal and financial nature has also been ensured. In the mentioned protocol, it is specially stipulated that Mexico will exert sovereignty over its natural resources, particularly energy resources, in accord with our Constitution. Finally, it is recognized that we are a developing country and for this reason, is entitled to the special and more favorable treatment which both the general accord and other provisions deriving therefrom establish for developing countries. Separately and in a special publication, the nation has been informed in detail about the process of negotiation and its results. However, the fact that we have joined the general accord does not mean that an all-encompassing solution to our domestic problems has been found.

Our inclusion does not mean a lessening of our sovereignty or that this is an opportunity to foster outrageous (?stances) to the harm

of the majority. In reality, an opportunity to accurately evaluate the ability of our industry to be competitive abroad. It is an opportunity to generate revenues and jobs. It is also an opportunity to avoid excesses and squandering. Joining the GATT implies both advantages and challenges. The most important of the former include the possibility of participating as a full-fledged member in GATT-sponsored multilateral commercial negotiations. Also included is our right to better combat protectionistic measures and practices and unfair trade carried out by other countries to the detriment of our exports. The GATT is an international accord which fosters dialogue and multilateral negotiations. Its objective is to expand world trade and to prevent unfair or improper commercial practices. In joining this organization, we will have better instruments to effect its economic and commercial activities. The challenges implied in our joining the GATT are the same that the economy has been confronting during the past few years. These challenges are to raise the efficiency and productivity of Mexico's industry, which had become stagnant and was even dropping because of excessively protectionistic policies. This unduly harmed both domestic consumers and our international competitiveness.

With or without the GATT, the rationalization of our policy of protection has been an unpostponable need with the added advantage that, by belonging to the GATT, we will have better instruments for multilateral foreign trade negotiations. We can still make use of bilateral negotiations when this is of benefit to the national interests. The decentralization of our national way of life has been a genuine demand of our society. This has been a fundamental goal of my government. The implementation of this has required a major change in legislation, and the coordination of norms between the federation, the states, and the municipalities, and the federal public administration. It has also necessitated the broad participation of society.

The policy of regional development has become an effective instrument to correct the most important regional imbalances and foster the modernization of the production structures of the states. The tasks of planning, budgeting, execution, and follow-up of public investment in the states have contributed to the consolidation of the state planning systems. The planning committees for the development of the states have become instruments through which sector investments can be harmonized with regional, state, and municipal investments. Through these committees, social sectors participate in defining financial priorities.

From these expenditures of the federation, states and municipalities have enjoyed an unprecedented amount of resources. This has greatly improved their ability to carry out local works and participate in determining the use and destination of federal public investments. The generalization of public finance problems has been prevented. The decentralization efforts have reduced the crisis throughout the national territory. The earthquakes made evident the vulnerability of urban concentrations. That is why it was necessary to quicken the implementation of the federal administration decentralization program. This program has allowed us to establish new bases to improve government services and bring them closer to the people. The goal of decentralization is to take action in three areas: to move authority and decisionmaking away from the strong federal representations; to foster the transfer of operating centers and

services to the state governments; and to continue to relocate personnel and offices outside of Mexico City. Administrative decentralization cannot be conceived only as a transfer of personnel. It must be basically understood as the transfer of functions and authority to where the people demand that decisions be made.

Therefore, we are creating regional decision centers to prevent dispersion, inefficiency, and a reoccurrence of the problems of industrial urban concentration that the Federal District now experiences. We have established the Jalisco Regional Center and another will be added soon in Nuevo Leon.

Due to the magnitude and complexity of the decentralization process, it has been implemented gradually and in an orderly fashion. The schedules and activities have been adapted to the specific characteristics of each organization, and the main decisions have been adopted in agreement with each state's authorities and the public workers' organizations.

Referring to the transfer of operations and services to each state's authorities, we have organized and decentralized the health services in 12 states. We have installed 18 consultative committees to decentralize education and we have begun transferring the administration and operation of local highway programs. Likewise, the organizations that have a local or regional nature have been turned over to each state's authorities. Decentralization is one of the decisive structural changes which our nation must accept. However, our society must set the pace, establish the procedures, and define the priorities.

Our economy has faced, since early this year, one of the most adverse situations in this century. The drop in oil prices has severely affected many oil-exporting countries, above all those of us which remain developing nations. Even though this seems to offer the consumers an immediate advantage, it also has negative repercussions in the industrialized countries. I repeat: We are facing an international problem of extraordinary magnitude. The collapse of the international oil market worsened a series of structural problems which had not been properly solved. All this took place within a 3-year period and required considerable economic adjustment.

Early in 1986 we planned to analyze our economic policy so that the scant progress achieved in the struggle to control inflation, the service of our foreign debt, its impact on the public sector, and the increase of our public sector's efficiency reached acceptable levels. According to the latest estimates in oil prices, we have suddenly lost revenues equivalent to almost 6 points in our national product. The 1982 crisis was partly due to the drop in oil revenues, which was less than a third of the current decrease. The revenues lost this year represent an amount equal to the public sector's payroll and exceed the amount of public investment. The country has no economic or social possibility of internally absorbing this loss, much less in a short time.

The drop in oil prices, the drop in almost all the raw materials' international prices, and the fact that we had no net foreign resources available during most of 1985-86 not only worsened the problems we had been facing but created a new crisis. Nevertheless, contrary to 1982, we now have a more solid basis for

countering the situation, given the significant process achieved in 3 years of constant efforts. From 1983 to 1985, we met challenges with firmness and political ability. The country did not peacefully overcome the social crisis merely by chance, even though the worst effects were felt when the people's salaries proved inadequate and public investment declined. Dialogue allowed us to overcome the crisis and avoid the adoption of authoritarian measures. Social harmony has always been a priority.

The development of our states and the mixed economy were strengthened in 1983-85 by including the proper guidelines in our constitution. We have encouraged the citizens' participation in the development process through the national system for democratic planning. The bankruptcy of our production sector was prevented and new jobs were created despite the increase in our population. Inflation was controlled and reduced to levels lower than those achieved in 1982. Despite the demographic explosion in the last 3 years, medical and education services have not been neglected. A record figure was achieved in the production of foodstuffs and construction of housing units, thus preventing the crisis from affecting the workers' salaries even more. We have attained important progress in our structural changes and we would have consolidated our efforts this year if the oil prices had not dropped so low. The short-term program for economic reorganization which we began on 1 December 1982 was adequate considering the problems we faced at the time.

We now have a new challenge. In the face of the drop in oil revenues, on 21 February I said the government would firmly maintain the basic objectives for the country's development, would consolidate the strategy that had already been established, and would determine the margin for any additional maneuver that could be maintained domestically.

To accomplish this, I announced that we would follow 10 guidelines for economic policy, and I noted that we did not intend to blame others abroad for our problems. I said that we would first increase the domestic effort far beyond that which has been anticipated in the economic policy program for 1986.

At the same time, I stressed that it was economically, socially, and politically impossible to fully absorb, throughout the year, the effects of the drop in the international oil prices.

I highlighted the necessary co-responsibility of creditors in the solution of the foreign debt problem, and I mentioned nonconfrontation and dialogue as the main elements of the negotiation.

Based on the 10 guidelines I announced, we made new decisions that increased, in each case, the actions that had been underway since the beginning of this administration — internal actions the government has been systematically, carefully and firmly conducting. However, a continued increase in the oil crisis demanded a new effort that is different from the strategy followed in the first 6 months of the year, when the possibilities for the policy of restraint that had previously been used ran out.

For more than 240 days, we avoided an economic collapse and a massive loss of international reserves. We handled the tremendous impact coming from abroad, and an explosive economic

situation was prevented. However, maintaining that policy could have implied such an accelerated exchange slide that it would have led us to hyperinflation and, at the same time, would have demanded a credit restraint and interest rates that were so high they would have prompted an acute recession. In addition, it is clear that if production drops drastically, inflation and the loss of sources of foreign exchange would be even greater.

Certain members of society have been making a correct diagnosis of the problems we are currently facing. However, when they establish the causes of these problems, it seems they are implying these problems are caused by the policy we have adopted. This is not right.

The main reason for the inflationary and recessive process that we are experiencing is the drastic drop in oil revenues. For this reason, current problems cannot be presented as mere consequences of yesterday's problems or as a result of the economic policy adopted in the first 3 years.

I reiterate that the firm actions taken then have prevented larger problems and allow us now to more strongly face the new oil problem.

The strategy proposed at the beginning is still valid. We must strengthen structural changes to increase the general efficiency of our productive apparatus and the country's savings, as well as to strengthen the redistribution effort.

We will not abandon this strategy but we will continue to review the tactics to face the new challenge we are experiencing.

We need to have a healthy production capacity. We need public and private enterprises that are stronger to manage the economic policy in an orderly fashion. Consequently, the main endeavor is to defend production and employment that is laying the groundwork for a sustained recovery, by controlling the inflation caused by the new oil crisis, encouraging private investment and the improvement of private enterprises, obtaining larger revenues from our exports and from tourism, improving the terms of the renegotiation of the foreign debt, making progress in the strengthening of public finances, and clearing the way for public investments which are indispensable to accelerate structural changes and defend real salaries.

For this reason, we proposed the encouragement and growth program. This program seeks development with stability, two elements that are indispensable to give feasibility to the strategy.

The program shows a change in priorities. Regarding others abroad, the basic objective is to demand resources for our development that no longer permit a strict compliance with the obligations we contracted. Regarding the domestic situation, the priority is an active policy for economic recovery that is in line with the anti-inflationary struggle. This is the only economic strategy compatible with the basic principle of defending our country's development capacity.

Regarding public expenditures, we continue to advance in various aspects such as the reorientation of investment resources; the control of current expenditures to increase savings; the review of

regulations to guarantee discipline, efficiency, and honesty in their implementation; the redefinition of the allocation criteria; the adjustment of sectorial and regional priorities at a medium term; and the gradual and overall change in the system of transfers.

Regarding the policy of expenditures, we reiterate our firm intention to maintain budget discipline. The information contained in the 1985 public accounting shows that the budget was kept under control.

Last year, the federal government's programmable expenditures were almost 5 percent below the originally scheduled amount. The resources from transfers were 2.5 percent lower than the authorized budget, thus decreasing its participation in the GNP by almost 4 percent between 1982 and 1985.

Similarly, personal services decreased in the GNP during the same period. This information confirms the discipline that we have maintained in the budget.

Government expenses, excluding the servicing of the debt, shows an accumulated decrease of 40 percent in real terms since 1981. We have also advanced in the financial and administrative rehabilitation of the government entities by tying their decisions to the economic and social policy. To this end, we signed agreements and took actions for the federal government to assume the liabilities of some organizations and enterprises with the condition that integrated financial reorganization programs be drafted first. These programs include commitments in productivity and placing the entities on a sound footing, establishing priorities for investment programs, decreasing subsidies, and making rational efforts to improve efficiency at every level.

Starting with the 3d quarter of 1985, agreements were drawn up between the federal government and the parastatal enterprises to follow up, control, and evaluate the budget and deficit targets. These agreements constitute a fundamental change in the relations between the central and parastatal sectors because they give the enterprises greater administrative autonomy and promote a greater sense of responsibility.

During the first semester of 1986, in spite of losing more than 1 trillion pesos in oil income, the total deficit decreased 8 percent in real terms as a result of a real decrease of the federal government's programmable expenses of 22 percent, which reflects the maintenance and reinforcement of the budget discipline during the present year.

The growth program has required redoubling the budget efforts and changing the emphasis to achieve moderate growth with inflation control. This way, the novelty on the matter of expenses is that growth will be supported with stability, and budget expansion through the elimination of nonpriority programs to pay for basic additional expenses such as the growth of education, health, and security services; and implementation of justice the people demand — without increasing the number of government employees. To provide the necessary funds, we have been transferring appropriations from nonpriority to priority sectors. We have increased the resources for agriculture for food production, which is an indisputable priority. I have given precise

instructions for the decisive fulfillment of agriculture support programs and for the opportune purchase of the harvests by Conasupo [Government Basic Commodities Corporation] without excluding the search for greater participation by private individuals in these purchases at the current guaranteed prices, and for the continued promotion for banks to provide loans for agriculture to strengthen the national food program.

We will continue to strengthen, in an orderly and sustained fashion, the strategic investment programs in the coming years, principally those related to a sufficient production of crude, the adequate generation of electric power, the modernization of railroad tracks and locomotives, the maintenance and expansion of highways, the efficient production of fertilizers, and the expansion of telecommunications.

The government enterprise has been a basic factor of the Mexican state to attain its economic and social objectives. As a priority instrument for regional equilibrium, as a support mechanism to attract foreign currency, and as a basic vehicle to reorganize the economy and overcome the technological dependence, the public enterprise has contributed to social development and the promotion of productivity and employment.

At the start of my administration, we recognized the imperious necessity to purge the parastatal sector to strengthen it. Accordingly, we have carried out an intense review of its goals and objectives to give it greater flexibility, vigor, and capacity for action. We will continue making a detailed review of the size and coverage of the government sector because this is an indispensable requirement to increase the efficiency of the economy and to channel savings to cover the national priorities.

In spite of the serious budget limitation to which we are tied, it is necessary to continue with the investment programs in areas that have far-reaching effects on the country. We cannot postpone industrial reconversion, which implies the introduction of new technology through additional investments, the closing of obsolete production processes, and the raising of production, employment, and productivity.

It is appropriate to state the thoughts that restrict the government's participation in corporations. Article 28 of the Constitution determines the strategic areas in which the state has exclusive control as representative of the nation: petroleum and hydrocarbons, basic petrochemical industry, radioactive minerals and the generation of nuclear energy, electric power, railroads, printing of paper currency and minting of coins, postal service, telegraph service, radio telegraphy and satellite communications, and the public service of banks and credit. Strategic entities are those that by explicit mandate of the law must be the responsibility of the government and that constitute a constitutional property — that is, a basic instrument to protect the national interest to promote development. These are principally social service entities. The principal ones are the Mexican Social Security Institute, the Issste [Institute of Social Security and Services for Government Workers], the Infonavit [Institute of the National Fund for Workers Housing], as well as the Conasupo in the regulation of basic commodities.

In these strategic entities, there is no room for a withdrawal by the government sector, but only for its reinforcement and efficient expansion.

Because of varying circumstances, the state intervenes as owner and holds a majority of stocks in enterprises considered to be priority and that produce goods and services for the market. They include the steel industry, the production of fertilizers and sugar, and the shipyards, among others. Private companies also participate in these areas.

The national development plan indicates that to strengthen the strategic and priority enterprises considering the shortage of resources, it is necessary to prevent the nonstrategic and non-priority enterprises from cutting into the budget. For this reason, we have determined what are the state's strategic and priority enterprises. The rest of them will be separated from the public sector in an orderly manner through their sale, liquidation, merger, or transfer to the federal agencies. We will reinforce what is strategic and priority.

We will particularly stress the higher productivity of the basic public enterprises. We will stimulate their finances, introduce new technologies, and make their management more efficient.

It is essential to generate sufficient revenues to reorganize finances and reduce public expenditures. A fundamental objective of the fiscal policy is to make the tax system more equitable to make up for the distortion brought about by inflation, to protect the true fiscal revenues [words indistinct] and fair, and foster investment and jobs. No tax rates were raised during 1984 and 1985. Quite the contrary, some taxes were eliminated in the 1986 fiscal budget. These taxes had proved sensible with regard to the unfavorable effects of inflation.

The unproductive [words indistinct] and the consumption of dispensable articles, such as tobacco and alcoholic beverages, are borne only by middle- and upper-class people. In addition, the fiscal measures approved in May, which reduced the deadlines for the payment of some taxes to avoid a fiscal budget reduction, will generate additional revenues worth approximately 200 million pesos. We have continued to strengthen the finances of creative and municipal organizations, as well as the tax system, through the decentralization of fiscal collection functions toward the interior of the country. Regarding income tax, we have established additional taxes of a progressive and temporary nature on medium- and high-income taxpayers so those who pay more taxes can contribute toward the reconstruction tasks. The amendments introduced into the state's fiscal code show that, in addition to better defining taxes, control and vigilance mechanisms for the payment of taxes are improved, penalizing instruments are adjusted, and administrative procedures are improved.

As for fiscal stimuli, a temporary incentive for new investments was approved. For the first time, a fiscal incentive was approved to encourage technological investment and scientific development. Finally, the support of export consortiums and the sales of these enterprises already enjoy the zero rate regime of the (?IDA) [not further expanded]. Such sales have been regarded as comparable to exports.

The financial realization of the parastate sector, the drastic reduction of the subsidies implicit in the economy, and the rationalization and nonutilization of the explicit subsidies continue to be the fundamental objectives of the prices and rates policy. Simultaneously, to stabilize the public sector's relative prices and lessen the effect of inflation, additional adjustments have been made to a considerable number of prices and rates of the public sector's productive services. These adjustments are grievous, yet necessary to avoid new imbalances in public finances.

For instance, adjustments on public prices, like the one on oil products recently established, cause a genuine concern in various community groups. It is frequently asked why the price of oil and consequently that of gasoline must be raised while these prices are going down elsewhere in the world. It sounds paradoxical that the price of oil goes up here while it goes down in other countries. To understand this situation, we must take into consideration that in our country the export of oil represents an extremely important source of revenues for the public sector. To a large extent, these revenues allow the country to execute works that the people justly demand, such as schools, hospitals, roads, and potable water networks. These works also include making food available at a faster rate and, in general, to contribute toward basic services required for daily living. Substantial revenues were lost when the international oil price dropped. To continue to execute the fundamental works the community needs without these resources would have required financing them with the printing of currency. To have reduced the budget even further would have implied the feeding of recessive trends already present in the economy. In view of this situation, the government decided to reject these alternatives and adjust the price of oil products to be able to continue the scheduled public expenses originated in tax collections without increasing the fiscal deficit. This measure immediately affected the people's purchasing power, yet prevents inflation from increasing and lasting longer and recession from worsening.

One of the current administration's fundamental objectives regarding finances is to increase national savings. For this reason, a realistic policy of interest rates has been implemented to hold and protect the people's savings. The inflation process and the decreasing exchange rate have determined a structure of high nominal interest rates.

To promote financial savings, new instruments to collect revenues have been created which will give savers greater protection against inflation, increase domestic savings, and foster the return of capital from abroad. The promissory notes of the federation's treasury are a case in point. In July, measures to provide credit assistance to private citizens were adopted and credit resources which the national banks received since October of 1984 were deregulated by 25 percent totalling 100 billion pesos. And 40 percent of this amount will be funneled to agriculture, exports, low-income housing, and small and medium enterprises; the remaining 60 percent will be used to give credit assistance to private citizens.

Regarding interest rates, the foreign resources which we are negotiating will gradually allow them to drop and then there can be an expansion of credit to the private sector.

These measures are a frank and decisive encouragement to private investment. First of all, we will protect productive plants and existing jobs. From that point on, we will broadly encourage private investment.

The foreign exchange policy has maintained its fundamental purpose of avoiding abrupt short-term movements of capital while easing existing imbalances with foreign countries through the implementation of a flexible and realistic exchange rate, which gives competitiveness to exports and tourism and encourages the efficient replacement of imports. Thus, we continued with the dual foreign exchange market. Operational changes we made were solely to improve efficiency. The pattern of regulated fluctuations in the controlled market has gradually permitted adapting the level of the rate of foreign exchange to internal and external circumstances. Likewise, it has favored the development of nonoil exports and decreased the impact of the costs of importing component parts and servicing the foreign debt. Moreover, the free rate of exchange has prevented speculative movements of capital from affecting the Bank of Mexico's international reserves. Yesterday, the Bank of Mexico's international reserves totalled \$4.525 billion, that is, 1.281 billion fewer dollars than at the end of 1985. The drop in reserves during the current year is largely due to the net payment of foreign credit of \$900 million; the rest was caused by payments of commercial transactions.

In January, the law regulating foreign trade went into effect. This law establishes an updated legal framework to regulate and protect this activity. Measures banning disloyal practices in foreign trade were included in this law. It updated and improved the system of refunding import taxes. Also, based on the overall program to promote exports, measures to promote them, especially in the manufacturing field, were reinforced. The financial sector has supported with credit the country's export activities at the right time. Domestic letters of credit to promote the work by indirect exports and the program of temporary imports for exports are the most outstanding of these measures.

The behavior of the balance of payments for the first months of the year, on the one hand, shows a sensible deterioration in the current account as a result of the abrupt drop in oil revenues, which cannot be compensated by increases in exports and tourism. On the other hand, we note an improvement in the capital account. For the first time in many years, it shows capital flowing from the private sector as a reaction to credit restrictions and high real interest rates in the country.

In the postwar years, our foreign debt constituted an instrument that complemented domestic financial endeavors for the sake of the development of the country. Thus, with these resources it was possible to accelerate the pace of investments and reach high economic growth. Since then, we have counted on institutions such as World Bank and the Inter-American Development Bank, as well as on official bilateral credits destined to finance importing of equipment from industrialized nations. Mexico had broad access to world money markets, and credits from international commercial banks greatly increased in the past 15 years. In 1970, the public foreign debt amounted to 12 percent of the national product. From 1971 to 1976, the foreign debt began to be used more to finance growing public expenditures until it reached 20

percent of the national product. Starting in the second half of the seventies, discovery of vast oil fields in the country, within the framework of an oil market thirsty for hydrocarbons and with constant high prices, and the huge resources the international financial system had at its disposal, the country turned into a particularly attractive credit target. Therefore, oil and the foreign debt permitted financing spectacular increases in public and private investments. These exceeded 25 percent of the GNP.

However, since 1981, the international situation has radically changed. Interest rates rose to unprecedented levels.

The price of oil and other raw materials went down. In the meantime, the world's economy experienced a recession in view of the application of anti-inflationary policies in the developed countries.

Between 1977 and 1982, the public foreign debt increased by 156 percent. Of the total registered this past year, 17 percent had short-term maturities. In that period, most resources from the foreign debt were used to finance public and private investments, which allowed us to reach high levels of growth and to significantly expand the country's industrial capacity. This was directly shown in public projects, the exploration and exploitation of oil, the generation of electric energy, the expansion of the iron and steel industry, and the production of fertilizers, among other aspects.

Something similar occurred with the foreign debt of the private sector. It was used to increase the plant capacity of almost all the areas of production of the economy.

To the current administration, the policy of the public debt is based on contracting foreign financing only for the amount strictly necessary to complement domestic savings and cover the economy's foreign exchange requirements, within the context of rational use and moderate growth.

From 1983 to 1985, significant advances were made in reducing the relative value of the public debt. After increasing 60 percent in real terms from 1981 to 1982, the domestic debt has been reduced 30 percent in the past 3 years. As for the foreign debt, its growth has been particularly slow. Net indebtedness, which represented 7 percent of GNP in 1981, dropped to 0.5 percent in 1985. In sum, during the current administration, a strict policy has been implemented for the restructuring and reduction of the public sector's domestic and foreign net indebtedness.

For 1986, the economic program contemplated moderate growth, a public deficit that amounted to half of the 1985 deficit, and a foreign debt of up to \$4 billion. This program was based on the assumption that the average price of Mexican oil would be \$22.50 per barrel. However, the drastic drop in oil prices has forced us to review the foreign debt policy.

We must stress that the first half of 1986 went by without any foreign financial support and, at the same time, we met our obligations on time. In other words, in addition to covering the service on the debt, we made net payments on the principal of the public and private foreign debts. Such a situation became practically unbearable.

The increasing deterioration of the oil market forced us to review the relations with our creditors. First, we negotiated a new agreement with the IMF. In contrast to traditional agreements, we were able to impose the need to boost growth as a basic criteria. In addition, we were able to protect our economy from the fluctuations of international oil prices through a mechanism that permits the availability of sufficient foreign resources to maintain the imports demanded by an economic growth of between 3 and 4 percent. We also got support for new public investments in the event that the economic recovery for the first quarter of 1987 becomes insufficient. Last, we specifically recognized the important advances made in previous years, avoiding strict commitments above the nominal deficit, opening possibilities for productive investments, and rejecting any discussion about the strategic enterprises or the legislation on foreign investments.

In this way, we met the demand that I made in my 21 February speech. We are now in the phase of negotiating with creditor banks the concessions on the current debt and the new debt that we require. It is a difficult stage, but we trust the fairness of our arguments, the ability of our negotiators, and the support suggested by the seriousness and responsibility with which the country has acted to meet its obligations.

Uncertainty abroad and new problems demand congruence and perspective in our actions. For this reason, the national development plan is in force, both in regard to the national goals, as well as in the general development strategy.

In the face of the adverse conditions that prevailed in the past year, the flexibility of the national democratic planning system allowed us to update goals, increase actions, and adjust tactics.

Thus, when we presented to Congress the document with the views on the 1986 economic policies, we downgraded the goals for 1986, 1987, and 1988; we further defined our priorities; we reviewed the objectives and goals in the strategic programs; and we reassigned resources in a more efficient and equitable way. This was ratified in the report for the implementation of the plan which I sent to this honorable Congress.

Regarding social policy, the actions were aimed at counteracting the effects of the economic crisis on the people's well-being and at making structural changes that permit the expansion of services and an improvement in their quality.

The biggest efforts have been aimed at preventing a drop in the rate of employment. The services in the fields of education and health have increased their coverage and number of benefits. We promoted the production of basic foods and implemented plans for the processing, distribution, and sale of these foods.

Regarding the field of productive employment, my government has been faced with two negative aspects. We had to face, on the one hand, the strong pressures exerted by the unemployment crisis, and, on the other hand, the demographic phenomenon we tend to forget. In the past decades, Mexican society recorded the highest rates of population growth. Those who were born in those days are today youths who are searching for employment; this translates into additional pressures on the job market.

We must admit that the employees and employers have acted with the necessary responsibility to overcome problems and prevent the closure of job sources. In several cases, the government has implemented special plans, such as the plan for the protection of the productive system and employment, and has also made flexible the policy that encourages investment, especially to encourage the assembly industry.

The job market has yet to show the negative impact of the decrease in the productive activity and the levels of sale caused by the drop in the oil prices. This year the rate of employment in the urban areas registered a drop when compared to last year. However, the monthly industrial poll showed that employment in the manufacturing field dropped 1.5 percent in May when compared to May 1985, and, even though the total number of people permanently insured by the Mexican Social Security Institute grew, we have observed a loss in dynamism since the yearly average increase which was 3.9 percent during the first 3 months, has dropped to 2.3 percent in July. We will continue to closely follow the development of employment because there is justified concern on the part of the people who feel that the recessive tendencies of the economy will hinder the field of employment.

In the area of employer-employee relations, we have proven that conciliation is the best and most effective way to resolve the conflicts. By acting in this manner, the two parties have reiterated their maturity and their trust in the institutions responsible for labor justice.

The Conciliation and Arbitration Federal Board's commitment to offer a just resolution of the disputes and handle each individual or group conflict quickly to prevent undue delays has resulted in the timely resolution of almost 85,000 complaints. In May, only 9,000 complaints remained to be resolved. We can also mention that the conciliation process has resulted in a drop in the number of strikes. Between January and July 1982, we saw 586 strikes, whereas during the first 7 months of 1986, we only saw 224. This number of strikes includes some private enterprises.

As part of the sole development agreement [convenio unico de desarrollo], we expanded and increased the actions of the state's employment services. By August, this system was operating in 64 cities and in the 16 delegations of the Federal District. This year, through the sole development agreement, we have received 105,000 applications and filled 94,735 job vacancies, and placed 65,840 people in jobs or training positions. The National Employment Service, through its scholarships for unemployed workers, expects to attend to 10,088 unemployed people during 1986.

During the period covered by this report, the minimum wages have increased twice; 33.1 percent in January, and 25.1 percent in June. In this manner, the current minimum wage in August 1986 represented a nominal accumulated increase of 66.5 percent. Between January and August 1986, six contract laws [contrato ley] were revised as their expiration date drew near. The average wage increase specified in these contracts was 34 percent. In the common contractual negotiations, a moderate tendency to increase has been observed. The average value of the increase for the January to May 1986 period was 35 percent.

As a result of the joint declaration issued by the Economic Cabinet and the Labor Congress, in 1986 the National Fund for Development and Guarantee of the Consumption by Workers, among other actions, decreased its rate of interest between 6 and 7 percentage points, thereby helping the members with lower incomes. The maximum amount granted in loans this year was 249,715 pesos. It also increased its list of basic services [cuadros basicos] and the number of its subsidiaries.

We know that in the short term, it is not possible to completely achieve the objectives of the educational revolution, but we also know that we must tackle this task and advance quickly to confront the challenges of a society that is growing daily. The national community would not like to welcome the 21st century with Mexicans who do not have an education and an adequate educational system.

We have said this, and today we reiterate it; each new boost to the quality of education is essentially based on better trained teachers. The teacher is the main character in the field of education. Aware of this, we are working to improve the conditions under which the teachers have to work, and we are introducing mechanisms to give these professionals their deserved recognition.

Despite the economic difficulties, we have expanded educational services, we have protected the historic tendencies, and in some cases we have improved them. During the 1985-86 school year, 25.3 million people attended the schools in the educational system. This represents almost one third of the country's population and a sustained growth of 2.2 percent per year for this 6-year period. Two million students attended the preschool system.

We have advanced in various areas, and our index has improved noticeably. In 1970, the average education for a person 15 years old and above was just over third grade; in 1985 it was closer to sixth grade. Preschool education has expanded noticeably. Last year, 2.2 million students attended preschool, and this now includes 60 percent of the children under 5 years of age. We have met 100 percent of the demands of primary school education. However, the percentage of students graduating at this level is not satisfactory. Slightly more than half the number of students who begin their primary education complete their sixth year. We are working to improve this average.

The development of the primary education system calls for free textbooks. This is a goal that would guarantee the indispensable national unity in the formation of the citizen and true equality of the educational opportunities at this level of study. As in all pieces of work, textbooks should be revised, but we flatly reject the proposals calling for their elimination. In this new school year, 85.79 million textbooks will be distributed.

For many years, 14 percent of the population older than 15 was illiterate. We have reduced this rate to 9.2 percent, and we hope to teach 1 million more of our students to read and write this year. Last school year, we improved adult education programs. At the high school level, we maintained an appropriate rate of growth according to demand. High school education had a growth rate above 5 percent, college education had a 5 percent growth rate,

and technical schools had a 13 percent growth rate. This last increase shows the special interest we have in technological education because it effectively contributes to promoting our development. Next school year we will build 47 new technical schools. During 1985, we built 52,040 schools to keep up with demand.

The national research system has been expanded to include engineering and technological research. We also created the education and research system of agricultural technology.

We must also mention the public library program. This year we have built 534 new libraries. State and municipal governments worked together to achieve this. We also built five new regional museums and one plastic arts museum in Mexico City. We have allocated funds to install security equipment in museums to prevent thefts.

Among the numerous programs to promote fine arts, I can mention the cultural programs of the borders that were created during my administration. They are intended to promote the creativity and cultural identity of those important regions of the country.

To expand and improve physical education programs in the country, we have adopted them at the elementary and high school levels; we have also restructured the national sports council.

In the social field, we will seek to meet our commitments in matters of nutrition. The progress we have made in nutrition by means of the national food program is a result of the hard work of federal and state governments. Our main goal of strengthening nutrition programs has been achieved due to the increase in agriculture and fish production, the reduction of import of basic foodstuffs, and the increase of food reserves. We have also improved our systems of reserves, and we have paid close attention to social welfare programs that benefit the poor.

Proper weather conditions, new procedures guaranteeing prices and land ownership, and credit support have allowed us to become self-sufficient in wheat, rice, and sugar. We estimate that in 1986, production of the 10 basic crops will reach 27 million tons. Food imports will have decreased for the 4th year in a row. Since the beginning of this administration, food imports have decreased by 4 million tons. During my administration, food production has been higher than the demographic growth. We have been able to export wheat and sugar, and we are making progress in increasing production of other basic foodstuffs. We have observed progress in the fishing sector, which has helped increase revenue and has been a source of nutrition for the masses. The food industry has strengthened its productive capacity despite all the economic difficulties, and we have guaranteed the supply of basic foods for the population.

The rationalization of subsidies has allowed the government to concentrate on the needy groups and has allowed us to increase the supply of food and medical equipment for the poor.

As a result of the efforts made by food industries, state companies have been able to increase the production of bread, cooking oil, and milk — which are now sold at cheaper prices and are

benefiting low-income families in urban and rural areas. In the marketing of produce, we have been able to channel basic products worth 555 billion pesos to guarantee local supply and to prevent increases in prices because of scarcity.

In the field of food and nutrition, the government has acted to prevent a decrease in the level of consumption. Through health and social welfare institutions, we hope to distribute 122 million school breakfasts, 146 million portions of powdered milk, and 164 million portions of food. But this is not enough. We need the participation of all sectors of the country. The struggle for our food sovereignty will be endless because it is one of the best ways to overcome the crisis and a way of consolidating the progress we have made as a nation.

Since the beginning of this administration, we agreed the consolidation of the national health system was the basic instrument to improve the general health. We have decreased the number of persons not covered by permanent social security services from 14 million in 1982 to 10 million, despite the growth in population. This expanded coverage is due to an increase in productivity of health institutions and the improvement of social security programs. Over 24 million polio vaccination doses have been distributed during national vaccination drives, and we have covered 96 percent of the population needing protection. Volunteers from the public, private and military sectors participated in this drive.

Among the mechanisms implemented to improve the quality and extent of the services is the salary [word indistinct] for the medical and paramedical workers in the health sector.

The National Social Assistance System Law, approved on 19 December 1985, granted faculties for the DIF [System for Complete Family Development] to coordinate this sector and to regulate this field, to handle systematically the problem of the family, the child, the elderly, and the handicapped. Because of this law, great progress has been made in consolidating the National Social Assistance System at the state and municipal levels. The DIF's priority programs include social and family integration, social assistance to the homeless, educational assistance, rehabilitation, social nutritional assistance, promotion of community development, legal assistance, civic, artistic, and cultural development, and the creation and development of human resources and research.

The mortality rate has dropped considerably in the past few years. Life expectancy in 1985 was estimated at 78.2 years, which is almost 30 months higher than the 1980 average.

As part of its social solidarity actions, the Mexican Social Security Institute [IMSS] extended to 6 months the period during which a worker and his family are entitled to the rights and medical services after the worker loses a job. In addition, the IMSS paid more than 1 million bills for medical and pharmaceutical services, agreed to give emergency attention to the population as required, increased the amounts given as subsidies, and condoned employer-worker contributions to those who worked in their own homes.

We are committed to broadening the benefits and improving the quality of the services rendered by the Isste [Institute of Social

Security and Services for Government Workers] to guarantee the well-being of government employees and preserve their purchasing power.

Since January of this year, the minimum pension is the same as the current minimum wage. The commercial infrastructure of the store system was broadened by improving the quality, quantity, and availability of the supplies. In an effort to increase the institute's medical services this year, it was assigned the highest allotment for this purpose since (?1975). Altogether, the institute's benefits and services currently represent a transfer to the salaries of the state workers a sum equivalent to 56 percent of the current minimum wage.

The IMSS and the Secretariat of Labor and Social Welfare, together with the Labor Congress and the business sector have implemented the labor health and security program. A total of 2,000 enterprises with the highest incidence of accidents were selected for this program, and 5,500 small and medium enterprises were evaluated. The program is helpful in reducing the incidence of industrial accidents.

The great problems and unbalanced conditions in our cities are being handled actions that resolve, one by one, the cases of greater social impact. Coordination between institutions, the obtaining of credits, and new processes of adjusting [concentration] with society have been put together. With a clear social purpose, territorial reserves have been established; basins and lagoons have been cleaned; potable water and sewage systems have been inaugurated; and progressive housing programs are underway for the most needy population. More places are being subject to profound urban and ecological restructuring. Examples of this are the Manzanillo lake dwellings, the (Cazatualco) swamps, the marshlands in Puerto Progreso, Yucatan, and the Infiernillo neighborhoods in Mazatlan. The distribution of potable water is being given the highest priority. Potable water and sewer facilities are being built in the 22 cities with more serious deficiencies, including Ciudad Juarez, Susana, Hermosillo, Mazatlan, Tampico, Acapulco, Toluca, Monterrey, and Morelia. With these works, almost 3 million more Mexicans will have a permanent supply of this vital liquid.

In an effort to correct the phenomena of urban irregularities, we are implementing an active policy of creating territorial reserves to prevent the dispersion of investments and infrastructure, speculations, and irregularities.

During the current year, twice the number of territorial reserves built during the previous 3 years are underway in cities including Merida, Nogales, Monterrey, Queretaro, and Coatzacoalcos. For the first time, reserves correspond to the annual population growth in the cities.

Actions to protect historical monuments have not been neglected. The (Franz Mayers) Museum was built, and other museums to be finished this year will be Estampas, the museum at the entrance to the Cathedral, and the museum at the site of the Grand Temple. Important actions for the protection of cultural heritage have been implemented in Puebla, Tlascala, Zacatecas, Merida, Colima, and Queretaro.

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SUPPLEMENT

As a final step in the reconstruction process, there are projects for the utilization and revitalization of zones and historical monuments that will strengthen our identity and community life.

Despite the implementation and unprecedented magnitude of the housing reconstruction programs already underway, the normal programs and their financing continued without interruption. The number of houses built in the past 3 years was 30 percent higher than the previous 6 years.

With the experience we have acquired through the reconstruction program, we will carry out a broad and effective harmonizing [concertacion] in 1987 between the main industrial sectors, the labor movement, the organized peasants, and the middle-class sector to implement a special housing program that will encourage economic growth and create a large number of jobs.

During the 1985-86 winter, pollution in the Valley of Mexico reached unprecedented levels.

I ordered state secretariats to carry out 21 actions to improve the quality of the environment. I can report that the most important of these actions have already been carried out. It is up to the government and to society to expand their effects.

Noncontaminating transport services have been expanded. This is the case for the subway, the trolley bus and buses which have anticontamination devices.

Based on plans, gas has replaced [word indistinct] in the Mexico City Valley Thermoelectric Plant. Also, gasoline — which reduces the emanation of carbon monoxide, hydrocarbon waste, and lead — and special diesel for the public transportation sector are now being sold.

Restrictions have been placed on suburban bus traffic. Ecological subjects are being included in study plans and environment health education programs are being promoted. There are also educational programs on prevention and on the importance of the environment.

Since the closing of the cellulose plants in Loreto and Pena Pobre, efforts have begun, as a complementary measure, to either strictly regulate the environment upsetting effect of industries or to promote their dispersion.

The first agreements have been reached with a positive response from the most important industrial sectors. This winter we will be adopting measures in addition to the already listed 21 points and an environmental contingency plan will go into effect so that, making use of the information made available by the monitoring system, we may be able to foresee risky situations and adopt corrective measures in a coordinated fashion and with the intensity the matter may require.

Rehabilitation work is being carried out in river areas and deltas. The work for the recovery of the Saguapa River is almost over. Work for the recovery of the (Cuatacuaco) River has been initiated. The selector that will reduce the contamination of the San Juan River in Queretaro is being built. Drainage work, water

treatment and redirecting [desviacion] residual waters in Tijuana continues.

In Mexicali the Nuevo River is being cleaned and work will begin to clean the (Lerma-Santiago) River and to protect lake Chapala.

In the rural area of the (Lagunera) region, a [word indistinct] plant was installed to eliminate arsenic in the water used for human consumption, and work has been initiated to provide water to the suburban areas of Torreon and Gomez Palacio Lerdo, thereby coping with one of the most serious health problems in the region. The level of sulphur dioxide in the Caridad steel plant at (Acozal) will be checked with an investment of 35 billion pesos. Investments for the first solid waste disposal system will begin to be made in Monterrey's metropolitan zone. The reserve of [words indistinct] has been created in Quintana Roo State for the preservation of tropical jungles by the National Forest Commission. With full strength, the decisions to ensure the protection of the Lacandon Jungle will continue to be adopted, offering productive opportunities to its inhabitants. Special attention will be given to the protection of forest areas in the south of the Mexico City valley. An agreement has been reached in principle with the United States for the definitive control of transportation of waste across the border, which particularly affects the border cities. For the preservation of the flora and fauna, the sanctuaries of the Monarch butterfly have been protected; turtles, flamingos, and grey whales have been protected; regulations have been established against hunting endangered species, and illegal export of such specimens have been prohibited. The sector strategy contributes toward changes in the operation of production, distribution, and commercialization processes in accordance with the national development plan and the corresponding programs.

The overall rural development is a strategy of structural change directed toward the redefinition of productive processes, improving the peasants' social well-being, and modifying economic relations for their good. Through the execution of the overall rural development national program, during 1985 the agricultural, livestock, and forest sector showed a 2.2 percent growth rate above that of the population for the third consecutive year. This growth can be explained by our peasants' exemplary efforts and the support given to the production of basic grains, oilseeds, and fodder. Taken together, these contributed a total of 29,400,000 tons, most of which consisted of corn, beans, wheat, and rice. Forecasts for 1986 are encouraging, and positive results have already been achieved in the production of corn, wheat, and beans. This allows us to anticipate an additional decrease in the import of basic grains. In 1985, 60,303 irrigated hectares were incorporated into production; 42,563 hectares were rehabilitated, and infrastructure works were done in 151,329 hectares of seasonal products. All of these actions benefited more than 40,000 producers. Regarding credit, [words indistinct] and commercial banks in 1985 financed productive activities in 11,600,000 hectares. This financing was worth 1 trillion 200 billion pesos. In 1986, financing will be provided for a total of 15,700,000 hectares and 3,800,000 heads of cattle will be ensured. The direct benefit will reach more than 4 million peasants. During the past term, the production of fertilizers was 15 percent higher than that of the previous term. This permitted us to supply our agricultural

industry with 1.9 million tons of nitrogen, phosphorous, and potassium.

The producers of basic and seasonal products benefited from lower prices of these chemicals. Realistic levels were established for those producers engaged in the production of highly profitable produce.

During the first 5 months of 1986, the trade balances of the agricultural, livestock, and timber sectors showed a positive balance; exports of coffee, tomatoes, fresh fruits, cattle, and honey stood out. However, although the livestock sector grew in relation to 1984, a contraction in national demand has slowed down production.

[Word indistinct] production registered increases in 1985 and 1986. This will help reduce the shortages of cellulose and paper that are adversely affecting our trade balance. During the past 3 years, projects capable of supplying 20,000 liters of water per second were built to supply population centers and industrial areas.

The government has provided legal security to thousands of peasants and genuine small landowners to allow them to work their land in peace and without fear. In the period covered by this report alone, individual agrarian rights in 8,178 ejidos [small farms] and communities were registered. We also distributed more than 70,000 certificates in agricultural and livestock [word indistinct] to small landowners. The rural land register has been very useful in this task.

We acknowledge that there is increasingly less land to distribute. That is why the 3 million hectares distributed to date in this administration take on greater importance. During the period covered by this report alone, we published 339 resolutions that benefited 32,763 peasants with 1,010,688 hectares of land.

During the same period, the fish catch grew by 12.7 percent over the previous year. To support the repair, replacement, maintenance, and (?adaptation) programs of our fishing fleet, and further develop our industrial plant we funneled credits totalling more than 60 billion pesos. As part of a restructuring of the Mexican (?perishable) products industry, we arranged the fleet and industrial plant assets in enterprises specializing in those processes and kinds of products.

In the case of tuna fishing, we began a special program that allows our fleet to operate efficiently. We successfully obtained the lifting of the U.S. Government embargo on our tuna.

We have continued to promote fish breeding, because it is an additional food source for fishing and agrarian communities, increases supply and demand in landlocked states, and improves the production of exportable species, which brings foreign currency. Fish breeding accounts for 10 percent of the national production of fish products.

The financial support program for small, medium and tiny industries has (?funneled) more than 220 billion pesos. Fiscal incentives for investments, the creation of jobs, and the relocation of this kind of [word indistinct] have also been broadened. We

have successfully turned around the centralization focus of industry through decrees issued in January 1986 to support job-creating investments and industrial decentralization.

We also broadened the industrial parts plant. We now have approximately 100 throughout the national territory. We are continuing to carry out programs in strategic sectors. Among them are the rationalization of the automobile industry, promotion of the pharmaceutical industry, and integral industrial development programs in the electronics, textile, and petrochemical industries.

The encouragement of foreign investment has made possible the continuation of the active, systematic, and selective collection of foreign capital. Better facilities are being given to those who promote exports, substitute imports, generate employment, and promote technological development.

The priority given by the Federal Government to the promotion of exports is validated by progress in the trade balance, which between 1983 and the first half of 1986 registered an accumulated surplus of more than \$35 billion. We must note that exports in the manufacturing sector were equivalent to 2/3 of its imports. This surpassed the 1986 goal.

In the short run, there are no means to fully compensate for the drop in international oil prices. However, the market behavior so far allows us to predict that in 1986, we will bring in more than \$9.5 billion in foreign currency from nonpetroleum exports. Those revenues will account for approximately 80 percent of our exports.

To turn border markets and free zones into export platforms, we have tried to ensure the timely supply of goods through the promotion of a national consensus. We have established (?export) quotas to complement the supply of basic consumer goods and industrial inputs and promote tourism, especially at the northern border.

In an effort to defend our interests in the international oil market, in late January, I met in Cancun with the president of the Republic of Venezuela. With determination, we urged all oil-producing countries to join efforts to ensure market stability. However, short term special interests of some producing and consuming countries prevailed.

In December 1985, several OPEC members gave up the high discipline that prevailed in exports and the policy of official prices, and in their search for new markets, sacrificed price stability. Producing countries have felt the consequences, because international oil prices dropped from \$29 per barrel in November 1985 to less than \$10 a few weeks ago.

The OPEC countries recently adopted measures to help increase [oil] prices. We hope this trend will continue. To contribute to it, we have temporarily reduced oil exports by 150,000 barrels per day. Meanwhile, consuming countries must understand that price deterioration will benefit nobody over the medium term, because they will discourage industrial investments, and sooner or later, there will be a shortage again.

The collapse of the petroleum market demanded the intensification of efforts for structural change and the increase of productivity in Pemex. It has particularly reduced the burning and venting of gas from 15 percent of the production in 1981 to only 3 percent in May 1986. It has saved in its internal consumption of fuel and has reduced its imports from 66 percent in 1981 to 17 percent at this time.

Pemex allocates the greatest part of its investment budget to purchases from national suppliers and in this way strengthens the country's industry, especially that of capital goods.

Progress has been achieved in the Mexicanization of the petroleum merchant fleet. We have supported Pemex in its production programs to protect our domestic supply and export capabilities. Despite the decrease in its resources, this is one of the sectors with greater dynamism in public investment. The productivity and efficiency programs have continued in the enterprise which continues to maintain a solid financial position and standing as the main contributor to the Federal Treasury.

In the electricity industry, 965 megawatts per man hour were marketed in 1985. This represented a 1.4 percent increase compared to the previous year. In 1986, a 7.9 percent increase has been observed. The average annual outage time per customer continues to decrease. The installed capacity this year will be more than 10 percent higher than last year. This shows the positive results of the expansion and efficiency programs.

Thirteen new power plants will become operational this year. This will mean an addition of 2,106 megawatts to the national electricity system. It must be noted that of this amount, 57 percent will come from other than hydrocarbon power such as the hydroelectric plants of Penitas in Chiapas and El Caracol in Guerrero. The first unit of the Laguna Verde nuclear electricity plant will enter into commercial operation next year. We know that there are social groups that have expressed their concern about this project. We understand their concern. We will spare no efforts or expenditures for security measures.

During the period about which I am reporting, the mining-metallurgical sector employed 226,000 people and participated with 11.4 percent of the nonpetroleum exports and with 4.2 percent of the total exports, even though the international prices had dropped. This has been possible because the volume exported has increased and because of the diversification of the markets. Our country continues to be a prominent world mining producer.

The parastate mining sector has acted in line with both the measures for austerity and rationalization of expenditures as well as the priorities established in the national mining program for its investments. It has achieved a high degree of self-sufficiency in the investment programs, 66 percent of which are covered by the operation surplus while at the beginning of this administration it covered only 3.5 percent.

Despite the limited resources as a result of the crisis, the country has been able to continue to advance in the construction of the main national projects. We were able to fulfill the plans we announced a year ago. We installed 7 million telephones even though vital parts of our communications were destroyed by the

September earthquakes, and we considerably expanded our telecommunications capacity by placing into orbit the second Morelos satellite. In this way, we have incorporated 500 more rural towns into the telephone service, benefiting a little over 600,000 people.

We also installed 40 ground stations for communications via satellite. As a result, we now have 240 nationwide.

We continue to modernize and simplify the postal and telegraph services. We have created two decentralized institutions to provide a more efficient service.

We have expanded and modernized the stretches of highways of greatest value. We carried out maintenance work on 226,000 km of our road network. We built more than 1,300 km of new trunk roads, urban roads, and freeways.

We worked on modernizing the port infrastructure. We created the decentralized dredging system, and we registered ships that increase our available national fleet by more than 350,000 tons.

We have sought to rescue the railway system as an important basis of our transportation system. We worked on the construction of new railroad connections, especially in the transversal strip that joins Manzanillo, Guadalajara, and Monterrey. In this manner we will no longer have to cross the central area of the country. We also modernized the Huatecalco, Salinas, Cruz connection. We recently opened the new two lane system between Queretaro and Mexico City. This will help relieve congestion in this most difficult stretch of our national railway system. This is also proof of the changes being done to the system. We also opened part the Mexico-Veracruz stretch. This new stretch will bypass the most difficult part of this route where most of the accidents occurred.

We incorporated the Puebla, Puerto Escondido, and Tlaxcala airports to our national airport system. The national airlines transported almost 23 million passengers on domestic flights and more than 7 million passengers on international flights. This has been possible due to the proper use of our resources, the organization and work of our technicians, and because we have sought a financial balance for our enterprises by adjusting the rates to reduce the subsidies.

During the period included in this report, we carried out several actions aimed at promoting the production of basic consumer goods and improving the purchasing power of the real wages. Likewise, we advanced in the structural changes aimed at modernizing the infrastructure of the services linked to supply and to consolidate Conasupo's [National Company for Basic Commodities] regulating functions. We must underscore that this year we will import only half of what we imported 3 years ago. The subsidies have been rationalized within Conasupo. This has represented a transfer of these subsidies to the field of final products and this has directly benefited the consumer. The subsidies had increased in an outrageous manner; they did not always help the low income population. On many occasions, these subsidies only served to unjustifiably increase the utilities of private companies.

The drop in the purchasing power of the worker is a matter of constant concern for the government. To counteract as much as possible the effects of inflation on the wages, we signed an agreement with the Labor Congress that formalized the commitment to develop mechanisms for the supply of enough basic products, to protect the worker's purchasing power, and to improve the general welfare.

As part of the policy aimed at defending the family economy, we consolidated the plan for the distribution of powdered milk; we implemented a plan for the distribution of coupons for tortillas. This plan has helped more than 6 million people. We also continued to strengthen the marketing of basic products and other basic consumer goods in the urban and rural areas that because of their low purchasing nature are not handled properly by the private business sector.

In a parallel manner, we have advanced in the consolidation of the national supply system and in promoting the modernization of marketing system. By doing this, we are attempting to improve the link between the new basic structures of collection, storage, and distribution and the modernization of the already existing system. At the same time we are trying to incorporate a new system of packing oleaginous grains into the special storage system and into the national system of marketing information. This system is now functioning in six cities and is aimed at showing the price of the orchard grown products.

To increase the revenue received from tourism, we implemented an immediate action plan to promote tourism. This plan includes measures aimed at (?regionalizing) transportation, promoting investment, and supporting the promotion, publicity, and marketing of our tourist attractions. These measures allowed us to add, to the \$1.720 million we received in 1985 for tourism, 1 billion [currency not specified] during the first 6 months of this year. As part of this plan we set our air fares and promotion packages; we extended permits for charter flights; we gave facilities for the supply of fuel, promoting land tourism; we started a tourist train to cover the Chihuahua-Los Mochis route; we promoted maritime tourism; we improved the tourist attractions in various ports throughout the country; we promoted conventions, fairs, and exhibits; we improved the financial conditions for tourist investments; we gave facilities for the building of sports marinas; we improved our immigration and customs services; we encouraged promotion and publicity as well as tourist marketing programs. All this was reinforced by security measures that were coordinated among the various institutions.

During the first 6 months of this year, and by hosting soccer's World Cup, we received a net \$780 million from tourism. This amount equaled last year's income despite the fact that during the first months of 1986 we observed a drop in tourism because of the earthquakes.

The publicity we received from the World Cup will bring in a larger flow of tourists in the next few months. This will be reinforced with additional campaigns.

The plan to help finance the southern area was aimed at helping the hotel industry build an additional 5,000 rooms and remodel an equal number of rooms. To do this, loans in the amount of

46.213 billion pesos were granted during 1985. During the first 6 months of this year, Conatur [not further identified] approved 62.658 billion pesos in loans. The level of investment in Cancun and Ixtapa was maintained; we accelerated the development of Loreto and San Jose del Cabo, in southern Baja California, and of Puerto Escondido in Oaxaca; we also continued with the work of the new tourist center in Acapulco Bay.

Likewise, to give a larger number of people greater access to recreation and to strengthen our national identity, we increased the actions to promote our historical and cultural sites. We offered better and more travel alternatives through various economy packages, especially the packages offered by the Trusteeship for Worker's Tourism [Fideicomiso para el Turismo Obrero].

The capacity to create, teach, learn, and adapt scientific and technological knowledge represents an important factor in the development of a country. It is also an efficient measure to promote structural changes. We must increase the efficiency of scientific research and the technological development in our country. The activities conducted out during the period included in this report, have allowed us to advance toward our goals established in the National Plan for Technologic and Scientific Development as well as to strengthen and consolidate the Science and Technology National System.

In accordance with the law that establishes the guidelines for this system, the commission responsible for planning scientific and technological development was created. This commission's goal is to follow closely the work being done, thereby, avoiding duplicity.

Regarding the training of human resources, we supported post-graduate work in priority areas. We gave preference to the national institutions of higher education and requested help from abroad in only a complementary manner. Significant progress was achieved in the promotion of scientific research and technological development in the fields of agriculture, forestry, energy, fishery, poultry, nutrition, health, capital goods, agroindustry, construction, and ecology. Likewise, we sought stronger ties between the scientific and technological research and the productive system.

Mexico City is facing serious problems. It must tackle a difficult situation in the harmonious development of the community due to the excessive and irrational growth as well as the earthquakes. For this reason, several alternatives for the process of reconstruction have been suggested. These alternatives are not aimed at simply achieving immediate results but are also aimed at dignifying social coexistence and preventing future disasters. Within a framework of austerity, the capital city government's main actions have been aimed at attending the basic needs of the masses. The supply of drinking water for the metropolitan area has been increased and the distribution network has been expanded. Currently, the whole population of the capital city can be served. However, we must admit that the outskirts of the city, where 3 percent of the people live, receive their water through tank trucks.

The work begun in 1983 to resolve the problem of floods has continued. These floods occur mainly in the southeastern sector

of the city where the population growth has been so enormous that it is impossible to provide the area with the necessary sewer system. We have continued to build the main interceptor of the deep sewage system and the Tapalapa collection pond.

Important work has been done to strengthen the transportation service that 10 million Mexico City residents use on a daily basis. We extended the subway system by 9.7 km. The system now links highly populated areas with the work centers. We purchased 806 new buses to reinforce the urban transportation system, Route 100 [as heard], and the number of other buses was increased by 41 percent.

To improve the public security system we promoted the professionalism of the police corps; 1,464 graduates of the Police Academy joined the ranks of these police corps. The purging of the security corps is a permanent task.

The Federal District has adopted several actions to prevent and control contamination. The installation of new contaminating industries is being restricted; equipment has been approved to measure and check contamination caused by vehicles; reforestation and building of recreation parks. We also closed down 3,400 open or clandestine garbage dumps.

In the field of supply and marketing of products for daily use, we have guaranteed that the population will be supplied with meat and basic products. Noteworthy is the building of new dairy plants and the modernization of public markets where basic products are purchased with bonds that are promoted among organized sectors of the population. We also signed agreements with the producers to guarantee the timely distribution of these products.

Honorable Congress, this year has been one in which the people, despite adversity, have been able to strengthen their desire to continue waging a brave struggle in the nation's favor. Mexico is indomitable. We have proven that we are a strong nation capable of confronting our problems, no matter how unfortunate or difficult. In response to continuous problems we have not fallen prey to the burden of desperation. We have demonstrated our capacity to respond to challenges, to use strategy and tactics, and to turn decisions into actions. Our people have demonstrated their maturity and character, and in response to uncertainty and misfortune, have not lost their courage.

The basic strength sustaining us is our nationalism, our persevering desire to maintain our position as a united and sovereign people. Right now we are struggling against the crisis, not in a spirit of mere survival, but with the conviction that there will be a renewal. We are promoting the structural and qualitative changes that will allow us to continue our historic plan and arrive at the higher phases of our development. We are aware of the fact that these are times of transformation and change, and we are determined to continue building our future in an organized and peaceful manner through our institutions and laws, without incurring in authoritarianism or anarchy.

Most Mexicans know very well that our problems can only be overcome through a progressive renovation and not through a historical retrogression. We must continue consolidating the

institutions and values of independence, reform, and revolution. We do not only aspire to maintain our historical legacy — a valuable goal in itself in times of crisis — when reactionary forces, both domestic and abroad are thinking of destroying our liberal and revolutionary institutions. We are seeking continuity and the historical development of our national plan, which calls for a deliberate process of change and permanent adaptation in a progressive sense. We cannot overcome our problems with inactivity. We need innovation and change. It is essential that we renew our attitudes and change our behavior. We must execute this great task with faith. We are a capable and sovereign nation with vigorous and dynamic people. We are determined to continue being an independent and free community, capable of overcoming the obstacles that may emerge. We have an institutional ideological store that allows us to consolidate our values and at the same time head the transformations our state and society need in an organized and firm manner.

Our new awareness of our social transformations are added to the complex problems we face in our effort to establish a clear path and persevering firmness in our actions. There is no room for dismay at this time in our vitality as a modern nation, and despite adverse external circumstances, today we can look back at the lasting progress we have made while achieving our established goals. We have strengthened our revolutionary nationalism, increased our democratization, moved toward a more egalitarian society, persevered in seeking a moral renewal, made unprecedented progress in the decentralization of national life, made efforts to establish more firm bases for a recovery in the generation of jobs, struggled against inflation, and established the orderly and participatory process that has allowed us to make democratic plans. We have a plan, we know where we want to go, and we have already established important elements for the achievement of our goals.

To overcome our problems during the past 4 years, we have strengthened the country. During the remainder of this administration, during the next 2 years, we must maintain our basic objectives, consolidate those that have already been achieved, begin new tasks, and open more clear and more promising perspectives. We have transformed our political processes and will continue to do so. We intend to broaden society's participation, perfect the mechanisms of electoral legislation and Federal District government as of the present elections; we will increase our democratic renewal so our electoral processes will increasingly reflect the people's will as expressed by their votes, so these results will enjoy broad social credibility, and we will maintain order and tranquillity. The government is taking the initiative, but the citizens, political parties, and groups share the responsibility of finding adequate solutions that will indicate a path that will allow us to improve our democratic way of life and politics in an orderly manner.

Even though they are perceptible, we count on political and legal procedures that allow us to iron out our differences through admittedly imperfect [perfectibles] political and legal procedures. Democracy begins as a political exercise in dialogues, negotiations, and in the orderly solution to conflicts. It is based on political parties; and it must prevail in our social organization. Both the government and our society have the duty to serve democracy. We do not want any rights without democracy, and

we do not want democracy without laws. We must continue to improve our political system by respecting the consensus of the majority and by guaranteeing liberties and a just social order to benefit the people.

During the next 2 years, we will make progress in the area of municipal reforms which are already under way and are allowing for a reorganization in our government. We will strengthen the equilibrium among the branches of government just as the Constitution states.

In view of changes in our society, we will continue to exercise presidential powers in daily contact with different social groups. Problems cannot be solved by authority alone. The executive branch will continue to fulfill its obligations, and it will always take into consideration the people's needs and desires through their representatives in the legislature and social and political organizations.

We will maintain a moral renovation, as the permanent duty of the government to raise our levels of conscience and responsibility. We will continue to modernize the control mechanisms of our public resources by reorganizing the public resources administration systems and by improving on their evaluation. We will continue to renovate the administration of justice by establishing channels for the participation of all citizens and by raising the professionalism of those who participate in such activities. We will simplify judicial and administrative procedures, and we will improve the professional and ethical levels of our security forces. We will continue to promote the campaign against drug trafficking and drug addiction.

Our international relations will be conducted within the framework of [1 minute break in transmission] links with our Latin American brothers.

With the United States, we will maintain a dignified and positive dialogue that respects our cultural and historical differences and which takes advantage of our commercial and financial (?ties). In the next 2 years, we will continue to maintain a relationship beneficial to our country, with dignity and without confrontation.

In the economic field, we intend to follow the path of growth in a context of stability. We will organize ourselves to achieve a growth rate between 3 and 4 percent during 1987-1988. For this growth to be a permanent one, we will consolidate our most important accomplishments in matters of economic reorganization and structural change. In the area of production, there are the bases to generate more employment and to protect the already existing ones.

We will not avoid the fight against inflation. Its structural roots and dynamics force us to redouble our efforts. Inflation adversely affects housewives, workers, and students. It promotes speculation, and it discourages productive investments. It also prevents resources from being allocated properly. The increase in prices can only be stopped by correcting its fundamental causes. In the fight against inflation, we will not rule out any consistent and viable option, as long as it is not an illusion of temporary progress. The basis to recover growth and to face inflation during

the next 2 years has been partly the result of the process of renegotiating our foreign debt.

No developing country can have sustained and stable growth without complementing its internal savings efforts with resources from abroad, much less if the prices of its exports drop and large amounts of resources are transferred abroad. We have followed and will maintain the path of nonconfrontation that recognizes shared responsibility for the debt problem and payment according to capacity for growth.

We have taken an important step by achieving an agreement with the international financial community, which recognizes the need for growth and the need to strengthen the stability endangered by the drop in oil prices.

We are now in the difficult process of negotiating with our creditors. The result should be an additional benefit to our country regarding the cost of the debt's interest. My government will continue the policy of obtaining resources from abroad through new loans and concessions on the existing debt, to increase production and employment. The amount does not represent a burden for future generations if it is used to create productive resources to meet their demands.

The definite solution to the debt problem depends on the growth of our economy and on producing and exporting more, so the weight of the debt is reduced in relation to domestic production and the country's exporting capacity. This is the responsible way to handle the payment process.

In the next 2 years, we will increase with firm determination and perseverance the strategy of the structural transformation in progress. We must organize our economic system to adapt it to the new international conditions and to the nation's new situation.

The changes conducted during the past 3 years have turned us in the right direction. Structural changes are being modernized in the public sector, the productive apparatus, and in an efficient relation with the world market, which has contributed to improving our economy and making it more efficient and equitable.

Public expenditures will undergo a fast change during the next 2 years, as part of the national system of democratic planning. This will be accomplished by improving their efficiency and productivity, increasing discipline and control, and by simplifying formalities procedures.

In the internal revenue, we are going to try to make tax collection more effective and more equitable, to protect the taxpayer's income. At the same time we are going to promote work, savings, and productive investment. We will also try to prevent public sector credits and tariffs from being affected by inflation.

We are going to continue with the liquidation process of public enterprises which are neither of strategic nor priority interest, to strengthen those that are of strategic or priority interest.

We will intensify the strategy of reconvertng the parastate sector, to regulate its operation, modernize its technology,

strengthen its productivity, and increase the quality of the goods and services it provides.

The instruments for handling banking and financing policies will be made more efficient and functional, so as to promote and strengthen the country's savings and investment process. In the field of agriculture, private lands, national land currently in the possession of individuals, and the neighborhoods will be identified, and property titles will be distributed. The basic documents needed in the case of the ejidos will be completed. Also, the organization of the productive area will be intensified so that the handling, processing, and marketing of the products will make it possible to absorb the labor of those peasants who can no longer be provided with land.

In the forestry and fishery fields we will continue supporting production, promoting the most practical organizations systems, guaranteeing the supply of materials and loans, making investments in infrastructures of priority interest, and protecting producers in the lowest income bracket.

The main objective continues to be the improvement of the rural population welfare, through their organized participation and the rational use of natural and financial resources, based on social interests, efficient production, justice, and supporting its integration with the rest of the nation.

The simplification of administrative procedures, the rationalization of commercial protection, according to clear and stable rules, the selection of industrial fields to implement reconversion measures and industrial modernization, suitable development programs for small and medium-sized industry, and the promotion to create development centers in strategic zones will contribute to encouraging business interest and promote exports other than oil.

We are going to consolidate the integration of the communications and transportation system through the modernization, expansion, and access to its services to the largest geographic sectors of the country. We are going to establish a new and more reliable telephone technology. The Morelos system will be functioning at its full capacity. We are going to promote the railway system. We are going to continue the maintenance of highway, port, and airfield infrastructures, which will be modernized to meet the demands of the economic growth.

The national supply system will be consolidated, through the regulation of subsidies to production, transferring them to manufactured goods when it is justified, through social consumption mechanisms.

In the next 2 years, we are going to increase the government's social activities, which gives meaning and content to the new economic activities.

We will redouble attention to the social rights enshrined in the Constitution. We will continue to work for food self-sufficiency, vying to improve the nutritional standards of the low income segments of the population and of particularly underprivileged regions and groups. We will promote a more equitable distribution of foodstuffs.

Actions within the educational revolution will be strengthened to reduce illiteracy, to improve the training and qualification of teachers, to revise basic education programs and curricula, to improve the free-of-charge textbook program, to expand the use of television and radio in primary and secondary education and in the dissemination of the national culture, to raise the academic level of universities and technical schools, to strengthen the national research system, to standardize the quality of education in the rural and urban areas, to protect and to promote the popular arts and crafts and culture, to expand the national library network, to promote the nonscholastic open education, to decentralize the education of and attention to Indian groups, and to reaffirm the national culture at the borders.

We will continue expanding the access to educational, cultural, athletic, and recreational opportunities, improving services and increasing the quality of the educational system to promote the overall development of individuals and society. We will improve the basic health services and will extend coverage to sparsely populated rural areas. We will liberalize the family planning program and the programs against addiction, particularly those against drug abuse and alcoholism.

We will complete the program of reconstruction of installations damaged by the quakes. We will coordinate decisions on urban development and housing, centering efforts and resources on reducing the largest gaps and placing emphasis on the medium sized cities undergoing decentralization. We will link the creation of reserves to the use of the infrastructure and will set a clear cut system of priorities. We will continue stepping up actions for the protection of the environment in the Valley of Mexico, for the regeneration of rivers, and for a sanitary handling of solid wastes, placing utmost emphasis on the protection of the country's natural resources.

In the Federal District we will continue improving and expanding public transportation and will build new subway lines. We will increase the number of buses producing the least possible level of pollution and will increase the number of trolley buses and highways connected with those systems.

We will add more sufficiently trained personnel to the police corps so as to enhance their image as honest and efficient public servants who provide surveillance and protection to the population. We will bolster the district health councils. The 97-percent coverage of water services for the people will be maintained and we will try, to the extent possible, to prevent the flooding we frequently experience, particularly in the southeastern section of the city. The supply systems will continue to be increased and we will improve public services.

We will consolidate the national democratic planning system, strengthening its conceptual framework and the interrelationship of its components. We will update the national development plan in light of the new conditions faced by our country and will make an in depth evaluation of the results of the plan by sectors to adjust the respective national programs.

During the next 2 years we will maintain our seriousness, but will avoid pessimism in our attitudes. The austerity effort is permanent but entails a positive outlook of stimulus and growth. The

consolidation of our reorganization efforts will guarantee the continuity of our development process. The new impetus in the strategy for structural change will make it possible for us to build up the overall productivity of our economy, and to lay the groundwork for a gradual improvement in the levels of social wellbeing, and to brighten our outlook for a more promising future.

Mexicans: In my pledge as constitutional president of the United States of Mexico, I assumed the political and moral commitment of making the conduct of my administration adhere to our laws, to exercise my duties with loyalty and patriotism, and to look always and in every case after the republic's good and prosperity. During these almost 4 years we have waged a harsh battle for our nation. We have struggled to strengthen our institutions, to enforce our laws, to perfect our democracy, and to securely return to the path of growth and development.

This has not been an easy situation. It has been fraught with risks and adversity but, loyal to my commitment, I have acted with responsibility and calm.

I have weighed the advantages and disadvantages when making every decision and have always placed the good and prosperity of the nation over and above spectacularity.

Today our people must be proud of being a mature and responsible people. Faced with the greatest crisis in our contemporary history, we claimed that the fundamental solutions to our problems lay within ourselves and consequently we acted. In times of crisis and during the construction of nations, each action has its proper time and place. The effects of actions subside and new actions are required. It is not possible to resort to ideas and methods that have been surpassed to address new realities. The job of a head of state is to adopt adequate measures in favor of his people at the proper times.

We are faced with the challenge of modern times. The profile we will have as a nation during the next century is being defined now, during these years. We aspire to be modern but only on the basis of the values and principles consecrated by our history, on the basis of an economy that is rational, productive, balanced, and capable of meeting the basic needs of the population; and on the basis of guaranteeing rights and freedoms within the framework of a democratic state of legality. We want to be a modern nation recognized and respected because of its seriousness and spirit of work.

Let us be fully conscious of what must motivate our conduct today. Let us give the proper dimension to the fear of the unexpected and let us base our unified actions not on the decisions of authorities but on Mexicans' confidence in Mexico. Let us wage this battle for our homeland because we want to see it strong, developed, and modern. Let us wage this battle daily by fulfilling our respective duties to ourselves and to Mexico. These major tasks necessitate a daily and concerted effort by all Mexicans. No one must shirk this commitment and action.

We who are public servants have the first obligation. Let us work loyally and with internal cohesion. The government will continue working intensely up to the last day of its mandate. It behooves

the workers to increase the efficiency and productivity of their sources of employment, to preserve them, and to defend their real wages. They must participate in the work of industrial reconversion and to undertake the modernization of our production machinery with courage and vigor.

It is the duty of peasants and rural producers to continue the effort to increase our self-sufficiency in food through optimal use of land and water and efficient use of credits, fertilizers, insurance, improved seeds, and technical assistance. The modernization of the various modes of production is of fundamental importance for the country's rural area.

Businessmen have the important responsibility of organizing the various sectors to generate the production of goods and services demanded by our nation. Their challenge is to enhance the efficiency and productivity of business concerns to reduce costs and to be more competitive in the international market. Technological innovation and great effort are indispensable to do so; as is increasing our nonoil exports and tourism. To do so, they depend on the government's support and encouragement.

The middle class has the responsibility of continuing to work for the process of national modernization. We understand its concerns about the economic crisis; but we remind it that we continue living in peace and freedom and we have a country which will resolve its problems with its effort and talent.

The teachers, who have been and remain pillars of our sovereignty and upholders of our identity and culture, have a fundamental responsibility: to instill among children and youth patriotism and an indomitable determination to build a free, sovereign, democratic, and just society. Increasing the quality of education is essential for this task.

The people, on the basis of their inexhaustible vitality and social solidarity, will continue to expand their productive work and struggle to improve their living conditions. The government is with them in the fight against inflation, in consumer protection, in housing construction, in the expansion of health services, and in everything that contributes to their economic and social improvement.

I ask women to increase their participation and to strengthen their social work in benefit of the homeland. The government opens the possibilities and your presence in all areas of national development will increase irreversibly.

I ask the youth to prepare for the future, to contribute your vitality and idealism to improve your education, and your understanding of our country's reality. You will live in a competitive world, the site of a revolution in technology and production means, and even changes in the forms of social coexistence. The youths must prepare for the country to act aggressively in this changing world.

I ask the artists, intellectuals, journalists, and shapers of opinion to work for the expansion and protection of our national and regional cultures. You have the task of preserving them. I urge you to undertake constructive criticism that encourages and stimulates the tasks of society. You and the government have the

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commitment to maintain freedoms, respect ideological pluralism, and to abolish intolerance and dogmatism from our social life.

I urge the political parties to strengthen our climate of freedom and to expand our democratic life. Each party must maintain its independence and fulfill its constitutional duty of defending democracy, pluralism, and sovereignty of the nation within the state of law.

I urge the Armed Forces to continue their devotion to the constitutional principles, their respect for the institutions of the revolution to which they belong, and above all their fervent and unyielding defense of the national sovereignty.

I ask the governors of the states for their most resolute cooperation with the federation. We are going to strengthen our regional development and expand the participation of the municipal institutions. We need to adjust and define the priorities of each state along with those of the nation. We need to intensify dialogue and negotiation with the various sectors and guarantee that the resources will be used to benefit the development and well-being of society.

We have a historic responsibility today: to overcome the current difficulties, maintain our national projects and efficiently carry out the changes needed by a dynamic and vital society.

As president of the Mexicans I assume my responsibility. I must tell my people with frankness and sometimes with sorrow that the path is not easy, and the task is hard; everyday it requires more personal commitment and more effort from each of us. It is everyone's battle. No one can be excluded. Unity is Mexico's strength. The future will be promising if we are united to overcome the current circumstances. The challenge does not overwhelm us. Pessimism is not our motto. Here and now, courage and optimism lead our efforts. We base our expectations and development on firm and positive foundations. We will continue to be vigorous and opportune in our decisions. I will maintain discipline and order in the government. I will encourage the work and courage of our peoples. I will strengthen the state of law by promoting concerted action as a means of resolving differences. I will exercise the authority that the Constitution establishes and the legitimate mandate that the people have given me to support and encourage the sectors and organizations which participate in these changes, and in this way guarantee the possibilities for our social and economic development. I will defend nationalism and our institutions, and with the support of my compatriots, the national sovereignty will continue to be strengthened every day. Mexico will move forward, stronger, more democratic and with more freedom. There will be no obstacle, no matter how great, to prevent us from making the nation great. Viva Mexico! [crowd shouts: "Viva," applause]