



**MEXICAN BUSINESS AND THE STATE  
THE POLITICAL ECONOMY OF A "MUDDLED" TRANSITION**

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## **ABSTRACT**

In the late 1970s and early 1980s Mexico, in common with most of Latin America, experienced heightened levels of conflict in state-private-sector relations along with growing politicization on the part of domestic entrepreneurs. In contrast to most other authoritarian regimes in the region, however, conflict in state-business relations stopped short of rupture and business elites' political activation failed to facilitate a full-fledged transition to democracy. While democracy may evolve in the future, business elites have thus far only succeeded in ushering in a process of partial and segmented political liberalization which has tended to reinforce, rather than erode, the basic pillars of authoritarian rule. The main argument developed in this paper is that Mexican entrepreneurs' failure to play a role similar to that performed by other business elites in authoritarian settings during the early 1980s was due to the comparatively greater capacity of the Mexican government to both initially withstand and then effectively respond to business elites' demands. That capacity was, in turn, dependent upon the Mexican state elites' command over large economic and political resources, relative to those controlled by other Latin American authoritarian elites. The first section of the paper examines the conditions that led to high levels of state-private-sector conflict and growing politicization of Mexican business elites during the 1970-1982 period. The second section analyzes the process through which the government managed to deal with and relatively rapidly undermine business elites' opposition after 1982.

## **RESUMEN**

A fines de los años setenta y principios de los ochenta, México, al igual que la mayor parte de Latinoamérica, experimentó altos niveles de conflicto en las relaciones entre el estado y el sector privado junto con una creciente politización de los empresarios locales. Sin embargo, en contraste con la mayoría de los regímenes autoritarios de la región, el conflicto en las relaciones entre el estado y los empresarios no llegó a la ruptura y la activación política de las élites empresariales no alcanzó a promover una completa transición hacia la democracia. Aunque existe la posibilidad de una evolución hacia la democracia en el futuro, las élites empresariales sólo han conseguido hasta ahora desencadenar un proceso de liberalización política parcial y segmentada, el cual ha tendido a reforzar, en lugar de desgastar, los pilares básicos del régimen autoritario. El principal argumento que se desarrolla en este ensayo es que el fracaso de los empresarios mexicanos en desempeñar un papel similar al de otras élites empresariales en regímenes autoritarios a principios de la década de los ochentas se debió a la mayor capacidad del gobierno mexicano tanto de resistir inicialmente como de responder posteriormente con efectividad a las demandas de las élites empresariales. Dicha capacidad dependió, a su vez, del control por parte de las élites estatales mexicanas de gran cantidad de recursos económicos y políticos, en relación a aquéllos manejados por otras élites autoritarias latinoamericanas. La primera parte del ensayo analiza las condiciones que condujeron a altos niveles de conflicto entre el sector estatal y el privado así como a una politización creciente de las élites empresariales mexicanas durante el período comprendido entre 1970 y 1982. La segunda parte analiza el proceso a través del cual el gobierno logró manejar y desactivar relativamente rápido la oposición de las élites empresariales después de 1982.

## INTRODUCTION

In the course of the late 1970s and early 1980s, authoritarian regimes throughout Latin America experienced severe and, in most cases, unmanageable stress. The most pivotal factors working against authoritarian stability were heightened levels of conflict in state-private-sector relations along with growing politicization on the part of domestic entrepreneurs. In most cases, in fact, the collapse of authoritarianism and the transition towards democratic forms of rule tended to be strongly associated with rupture in state-private-sector relations as well as with new and more diverse forms of business involvement in social and political life.

As elsewhere in Latin America, business-government relations in Mexico deteriorated sharply in the course of the early 1980s, and political activation of important segments of the Mexican private sector increased likewise. In contrast to the changes in most other authoritarian regimes in the region, however, conflict in Mexican state-business relations stopped short of rupture and business elites' political activation failed to facilitate a full-fledged transition to democracy. While democracy may evolve in the future, business elites have thus far only succeeded in ushering in a process of partial and segmented political liberalization which has tended to reinforce, rather than erode, the basic pillars of authoritarian rule.

To explain the role Mexican business elites play in what remains a 'muddled' political transition, I focus upon the strategic interaction between economic and political elites. Such a focus highlights the essentially interdependent quality of the choices that together determine whether business elites withdraw their support from authoritarianism or not. This approach is also appropriate from a comparative vantage point since it explores how political elites' choices and resources shape the political and economic behavior of businesspeople.

The main argument developed in this essay is that Mexican entrepreneurs' failure to play a role similar to that performed by other business elites in authoritarian settings during the early 1980s was due to the comparatively greater capacity of the Mexican government to both initially withstand and effectively respond to business elites' demands. That capacity was, in turn, dependent upon the Mexican state elites' command over large economic and political resources, relative to those controlled by other Latin American authoritarian elites.

Key among such resources were those provided by state ownership of the main source of foreign exchange (i.e., oil) as well as those produced by a number of peculiar features of the Mexican political system (e.g., the prohibition against presidential reelection, highly inclusionary structures of corporatist control over popular sectors, official party dominance in the electoral

sphere, along with considerable technocratic insularity and competence in key economic policy-making institutions). Superior capabilities largely explain why state elites in Mexico were less vulnerable to business opposition and more capable of rebuilding an alliance with major economic groups than most other authoritarian elites in the region.

The essay begins with an examination of the conditions that led to high levels of conflict in state-private-sector relations and growing politicization of Mexican business elites during the 1970-1982 period. The second section analyzes the process through which the government managed to deal with and relatively rapidly undermine business elites' opposition after 1982.

## **BUSINESS-GOVERNMENT RELATIONS UNDER STRESS**

### **The Sources of Estrangement: Structural and Economic Policy Dimensions**

After long decades of relatively high levels of cooperation between the state and the Mexican private sector, the potential for rupture increased substantially in the course of the 1970s. Larger opportunities for conflict were the result of two major factors: the social transformations brought about by 30 years of rapid and sustained economic growth on one hand, and Mexico's integration into the liquid international financial markets of the 1970s on the other.

From 1940 to 1970 the Mexican economy grew at an average annual rate of over 6 percent. Manufacturing production during the same period expanded at around 8 percent per year. Throughout the period, and especially from 1954 to 1970, rapid growth was accompanied by low rates of inflation, exchange rate stability, and relatively small fiscal deficits.<sup>i</sup> Industry, primarily in private hands, increased its share in GNP from 24 percent to 34 percent,<sup>ii</sup> and private investment as a percentage of total investment went from 51 percent to 67 percent during the same period.<sup>iii</sup> The total number of industrial establishments jumped from 31,195 in 1945 to 120,802 in 1975, and the total number of private commercial firms experienced a similar expansion.<sup>iv</sup>

As a result of this process, both the overall size and strength of the private sector underwent a steady rise. Through the expansion of middle sectors, rapid and sustained economic growth also provided business elites with new and extremely important potential allies in their relationship with government. Equally significant were the effects of a long period of economic growth upon the internal diversification of the private sector. Greater diversity in terms of the size as well as the geographical and sectoral location of private firms turned out to be a mixed blessing, however, in political terms. On one hand, it created both the incentives and the

opportunities for more explicit forms of collective action on the part of business. On the other hand, it tended to undermine the historical role of large business firms as the sole political representatives of the private sector. Greater diversification generated new sources of instability in government-business relations as well as the potential for the creation of new and more diverse vehicles for the exercise of business elites' political influence.

Thirty years of high economic growth also had extremely important consequences for government. A set of political institutions created during the 1920s and 1930s in an essentially rural and agricultural country were now forced to deal with an increasingly complex urban and industrial society. The sharply unequal distribution of the benefits of growth in both income and regional terms had created increasingly urgent social demands.<sup>V</sup> Strict budgetary and monetary policies since 1954 had significantly reduced the space for social spending, thus further accelerating the accumulated social and political pressures associated with a highly skewed income and wealth structure.

Hence the long period of rapid and sustained economic growth was significant in terms of private-sector-government relations because it altered the balance of forces upon which the cooperative relationship of previous decades had been premised. Growth gave added economic and social weight to business while simultaneously placing urgent challenges and demands on the government's agenda. The resulting tension in government-private-sector relations was inevitable.

Changes in the world economy were also extremely important in generating conflict in state-business relations in Mexico in the course of the 1970s and early 1980s. Especially salient in this regard was Mexico's rapid integration into the highly liquid financial markets of the 1970s. Ready access to low-cost foreign credit had two important effects upon private-sector-government relations. First, it substantially increased the short-term financial autonomy of government and, therefore, decreased its vulnerability and responsiveness to the most powerful segment of the Mexican business community: private bankers. Second, it made capital more mobile than ever before and thus significantly limited the ability of the state to influence the allocation of private investment. By simultaneously increasing the financial autonomy of the state and the mobility of capital, easy access to international financial markets eroded some of the key mechanisms through which reciprocal restraint and cooperation had been ensured in the past. It therefore debilitated the historical capacity of private financiers to constrain economic policymakers and the capacity of state elites to channel private funds—through both incentives and controls—into long-term productive investment.<sup>VI</sup>

By the late 1960s, the remarkable dynamism of the Mexican economy appeared to be losing momentum. Behind the stable growth of previous decades, tensions had steadily accumulated. Agricultural production had become virtually stagnant, an inward-oriented trade regime had become increasingly incompatible with the maintenance of a fixed nominal exchange rate, and the growth of the budgetary deficit since the mid-1960s along with wage raises unsustained by productivity increases appeared to be threatening price stability.<sup>vii</sup> Equally problematic were the increasing number of bottlenecks produced by lags in infrastructural investment, higher deficits in the current account, and the trend towards lower levels of private investment.

Rather than pursuing the costly though badly needed microeconomic reforms, the government decided after 1972 to embark upon a rapidly expansive fiscal course. Since repeated attempts at fiscal reform had failed, increasing government spending had to be financed through a rapidly growing public foreign debt and rising inflation. High liquidity in international credit markets along with the very substantial revenues from oil exports after 1978 were critical in allowing the Mexican government to pursue such a course.<sup>viii</sup> Financial affluence created incentives against politically costly structural reforms, while at the same time generating the illusion among policymakers that budgetary constraints had somehow disappeared. Though different in terms of their political objectives and thus in their political effects, populist policies during the Luis Echeverría (1970-1976) and the José Lopez Portillo (1976-1982) administrations were both premised upon the availability of a previously nonexistent level of abundant financial resources.

Populist macroeconomic policies throughout most of the 1972-1982 period produced high, though unstable, rates of economic growth. However, the formidable expansion of the public economy during those years had deleterious effects upon government finances as well as upon price stability. As a result of postponing the microeconomic reforms, the populist economic policies magnified many of the structural constraints that prevented balanced and self-sustained economic growth.

Within the economic policy-making apparatus, financial abundance contributed to the ascent of a new generation of statist-oriented technocrats who challenged the traditional control by fiscal conservatives. The rising influence of statist orientations and developmental agencies in economic policymaking during the 1973-82 period, however, never fully undermined the fiscal conservatives' control over the finance ministry and the Central Bank. Instead the two warring factions competed, leading to decreasing levels of policy coherence and effectiveness.<sup>ix</sup> The extraordinarily swift expansion of the public economy as a whole, on the other hand, also

contributed to the steady erosion of the executive's ability to manage its own bureaucratic structure.

The rapid expansion of the public economy, the reduced power of financial conservatives in policy formulation, growing incompetence in the policy-making apparatus, and the exclusion of large financially based economic groups from the policy process increased conflict in government-business relations. Together with the wider societal changes produced by a long period of rapid economic growth, these developments precipitated an unprecedented level of intense business-state confrontation during the Echeverría administration and the last year of the Lopez Portillo government. However, business-state relations were not consistently antagonistic throughout the period, suggesting other equally important factors affecting these relations. Particularly significant in this regard were the changing political constraints and opportunities that government and business elites faced in dealing with each other.

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**PUBLIC-SECTOR INDICATORS**  
(percent of GDP)

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|      | <b>Oil<br/>Revenues</b> | <b>Total<br/>Expenditures</b> | <b>Financial<br/>Deficit</b> |
|------|-------------------------|-------------------------------|------------------------------|
| 1970 | --                      | 22.4                          | 3.8                          |
| 1971 | 3.0                     | 20.5                          | 2.5                          |
| 1972 | 2.8                     | 22.9                          | 4.9                          |
| 1973 | 2.6                     | 25.8                          | 6.9                          |
| 1974 | 3.4                     | 27.0                          | 7.2                          |
| 1975 | 3.3                     | 31.9                          | 10.0                         |
| 1976 | 3.3                     | 32.0                          | 9.9                          |
| 1977 | 3.8                     | 30.0                          | 6.7                          |
| 1978 | 4.5                     | 31.4                          | 6.7                          |
| 1979 | 5.6                     | 33.0                          | 7.6                          |
| 1980 | 7.3                     | 33.5                          | 7.5                          |
| 1981 | 7.3                     | 39.7                          | 14.1                         |
| 1982 | 9.9                     | 44.5                          | 16.9                         |

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Source: Bazdresch and Levy, "Populism and Economic Policy in Mexico," Table 8.2

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**The Political Economy of Government-Business Relations:  
1970-1982**

Government-business relations during the 1970-1982 period can be divided into three main phases: acrimonious conflict from 1972 to 1976; reconciliation and close cooperation from 1977 to 1981; and renewed confrontation in 1982. This evolution indicates that despite a similar orientation in economic policy and similar structural constraints, business-government relations evolved along very different lines during the two administrations. Key features of the Mexican political system and the specific political challenges faced by each administration account for these differences.

Among the various mechanisms that have granted the Mexican political system its remarkable resiliency, the prohibition against reelection is paramount. This prohibition constitutes one of the few, and clearly the most important, formal objective constraints on presidential power.<sup>X</sup> Nonreelection has provided for significant political mobility and has allowed the system to periodically adjust to new configurations of power. Losers in any particular six-year term can reasonably assume that compensation will be forthcoming during the next presidential period. This reduces the incentives for defection while increasing those in favor of continued cooperation.

From the point of view of presidential behavior and its effects upon regime stability, nonreelection has tended to generate a pattern of 'delayed responsiveness.' Nonreelection, along with the formidable legal and informal faculties of the executive, have made Mexican presidents virtually unaccountable for their behavior. The system tends to make incumbents insensitive to the long-term costs of their decisions or omissions. It provides them with significant incentives for embarking upon policies capable of generating short-term gains, and it pushes them to delay as much as possible taking decisions that would be costly in the short run. This pattern tends to systematically burden incoming presidents with the problems and tensions accumulated during the previous term. It also creates incentives, however, for dealing with those inherited problems as fast as possible, both because of their often pressing nature and also as a means through which to assert the new president's autonomy vis-à-vis his predecessor. This last incentive is particularly important in a political system in which presidents, almost single-handedly, decide who is to become the next head of state.

This brief description of one key dimension of the Mexican political system is important in order to understand the very different nature of the political constraints that Luis Echeverría and José Lopez Portillo faced upon assuming office. The distinct political challenges produced very different approaches towards business.



## **The Echeverría Administration: Conflict and Political Activation**

Luis Echeverría inherited two main challenges from his predecessor when he became president in December 1970. First, he had to deal with the political costs of the previous administration's violent repression of the 1968 student movement in addition to the mounting political and social tensions resulting from the highly skewed pattern of economic growth. Second, he faced a number of problems on the economic front, all of which centered around sustaining previous rates of growth.

The Echeverría administration dealt with those challenges through two basic strategies: the adoption of populist macroeconomic policies and the initiation of a process of political reform. The combination of the two strategies provided the government with the means through which to reconcile the need to respond rapidly to pressing tensions in the political sphere with the need to promote the continuation of high economic growth.

Political tension during this period was particularly acute. Social groups questioned the regime's commitment to democracy and revolutionary ideals. These criticisms came primarily from members of the previous administration as well as the disaffected and radicalized student, independent trade union, and rural leaders. The regime silenced its political opponents with subsidies and pay-offs, made possible as a result of renewed economic dynamism and an expanded public budget.<sup>x1</sup> By creating new channels of political participation and political inclusion, the regime further defused political opposition. These political reforms and changes in economic policy were accompanied by equally significant shifts in official rhetoric. The government's discourse became increasingly populist and nationalistic. The new rhetoric reflected both the changes in the composition of government (i.e., the rise of statist-oriented technocrats and the incorporation of 'leftist' and progressive opponents into the administration) and the regime's determination to reassert the government's commitment to its revolutionary origins. The regime also adopted a more active, diversified, and militant foreign policy. It emphasized bilateral relations with other developing countries and assumed a visibly confrontational position towards the developed world.

The regime's strategies proved successful in defusing opposition from leftist groups. However, its political and economic reforms exacerbated government-private-sector conflict. Business elites resented and feared the rapid expansion of the public economy. The state had heretofore assumed an important but essentially subsidiary presence in the economy. Major business groups viewed the state's heightened role as a violation of the rules of the game upon

which previous cooperation had depended—profits for business and political power for regime elites—and as a clear threat to their long-term interests.

Business elites also feared the Echeverría administration's nationalistic, populist, and 'revolutionary' appeal. Business leaders perceived the administration's discourse and its incorporation of 'leftist' political opponents as a direct assault against the private sector.<sup>xii</sup> Business elites viewed the growth of guerrilla activity and particularly the assassination of major business figures such as Eugenio Garza Sada (the top representative of the powerful Monterrey group) as clear indications that the government was either incapable of controlling or was actually promoting antibusiness political action. The administration's Third World orientation in foreign policy, particularly its active support of socialist president Salvador Allende in Chile, further reinforced business elites' perceptions and strengthened the deeply entrenched anticommunist attitudes within most of the Mexican business community.

In this highly charged political and ideological environment radical antigovernment groups within the private sector increased their activities, strength, and visibility. Behind these movements was a new generation of regionally based business elites from mid-size firms.<sup>xiii</sup> In contrast to the anticommunist ideology among big business groups, this new group developed more sophisticated ideological convictions and political programs. They did not view political involvement as purely instrumental.<sup>xiv</sup>

The group enjoyed strong bases of social support. This resulted from the proliferation of these mid-size firms outside the traditional centers of industrial development and especially in the North.<sup>xv</sup> They also joined the expanding urban middle classes and their struggle for increased citizen participation. These links increased opportunities for sustained political involvement.

During this period strategies that had been viewed as relatively marginal to the pursuit of business interests became increasingly salient. For example, business elites engaged in the production and diffusion of ideas. From 1970 to 1980, business organizations created or strengthened the administrative departments responsible for ideological production and diffusion and research on culture and society.<sup>xvi</sup> In addition, members of the business community funded private institutes engaged in these areas,<sup>xvii</sup> as well as private universities.<sup>xviii</sup> Business organizations also developed highly popular courses for business executives which included political doctrine along with technical training.<sup>xix</sup>

During the Echeverría years, private entrepreneurs became active in various ways in the PAN (National Action Party).<sup>xx</sup> The members of the pro-PAN business movement from large enterprises tended to assume a more instrumental attitude towards the party and provided behind-the-scenes financial backing rather than open political support. Mid-size regional

entrepreneurs, in contrast, were often much more willing to affiliate openly and to run as PAN candidates in elections. The increasing influence of business elites within PAN during these years accelerated the internal transformation of the party, giving new weight to the more liberal and combative currents within it; those currents, that is, ideologically closer to business and more eager than the traditional party elite to transform the PAN into a true electoral alternative to the PRI.

Businesspeople's political activism during the 1970s was marked, however, by the multiple tensions generated by cleavages at various levels. Differences arising from the size, the sectoral and geographical location of private firms, and their respective degrees of dependence on state protection, as well as from the diversity of ideological orientations present among the most vocal political representatives of the private sector, often made internal communication and sustained collective action in the public arena extremely difficult. As long as the confrontation between big business and government remained high, unity was possible. As soon as the confrontation abated, however, internal fragmentation resurfaced.

President Luis Echeverría's term ended during a major economic crisis. The initial success of expansionary policies was soon followed by the acceleration of inflation (above 20 percent in 1973-74) as well as a sharp deterioration of the balance of payments. In 1976 the peso was devalued for the first time since 1954 and both inflation and capital flight reached unprecedented levels. The mounting government-business tensions escalated astronomically when Echeverría made a virtually last-minute decision to expropriate land from private owners in the North.

### **The Lopez Portillo Years: Reconciliation and Confrontation**

In contrast to his predecessor, the first priority for president Lopez Portillo was to stabilize the economy and restore private-sector confidence. During its first year, the new administration reached an agreement with the IMF and adopted orthodox stabilization measures. Eventually, however, the government abandoned these orthodox strategies and resumed the pattern of escalating public spending. This resulted from the discovery of abundant oil reserves and the access to foreign credit this discovery entailed. Both public and private investment soared after 1977 producing an unprecedented annual growth rate of 8 percent between 1979 to 1982.

Lopez Portillo's conciliatory stance towards business, along with the formidable opportunities for profit-making provided by the oil boom, allowed the new government to quickly mend fences with major economic elites. Prior tensions could easily be attributed to Echeverría's

incompetent economic management and strident antibusiness rhetoric rather than to the authoritarian regime as a whole. Business elites even accepted Lopez Portillo's brand of populism stripped of 'leftist' and nationalistic overtones and oriented towards rapid and seemingly cost-free economic gain.

Below the surface problems accumulated. Public-sector foreign debt,<sup>xxi</sup> and inflation<sup>xxii</sup> spiralled. Fiscal and current account deficits also rose steadily.<sup>xxiii</sup> The conflict between statist-oriented policy currents and fiscal conservatives grew increasingly intense. When oil prices began to fall in mid-1981 and interest rates rose in 1982, both the economy and the government's capacity to manage it were vulnerable.

In 1982, after three years of spectacular prosperity, GNP dropped to -0.5 percent. Inflation, historically quite low, reached 99 percent. The peso during that year was devaluated by 466 percent, and the government increased its foreign debt by almost six billion dollars. By the end of 1982, the fiscal deficit stood at a record 18 percent of GNP, the total foreign debt reached 84 billion dollars (89 percent of GNP), and interest payments absorbed 44 percent of the total value of exports.<sup>xxiv</sup>

In an effort to deal with the worst economic crisis in the country's modern history, the government resorted to desperate measures. In September of 1982 Lopez Portillo used his discretionary facilities to expropriate the assets of private bankers and holders of dollar-denominated assets and impose a strict system of foreign exchange controls.<sup>xxv</sup>

The reconciliation between big business and the government ended, almost totally discredited. At the same time, the antigovernment business group had been greatly weakened during the reconciliation period. The activist antigovernment business leaders who had flourished during the Echeverría years had lost their critical base of support from large economic groups during the reconciliation. However, rather than retreat, many of these leaders had gone ahead with their political, ideological, and organizational activities, albeit at a slower pace and in a more subtle way than before.

The expropriation of the private banking system had the unintended consequence of catapulting these elites back onto center stage. These leaders had, after all, repeatedly warned the business community about the dangers of the unrestrained authoritarian regime. Their prophetic admonitions, their enduring opposition to the regime, and the considerable influence they acquired within major private-sector organizations enabled them in 1982 to lead the mobilization against the government.<sup>xxvi</sup> Indeed, it was this group of business elites, rather than the expropriated bankers, who organized and led collective action. Expropriated bankers remained politically cautious in order to secure adequate compensation from the government.

In protesting the expropriation measure, business leaders explicitly incorporated the demand for democracy into their discourse for the first time.<sup>xxvii</sup> Rather than condemning the administrative errors of one president, they questioned the nature of the political system itself. They construed their opposition to expropriation as part of society's defense against arbitrary government. Their identification of private-sector needs with civil society enabled business leaders to merge antistatism and antiauthoritarianism and to portray themselves as the leaders of a broad national movement against the authoritarian state.<sup>xxviii</sup>

The use of political democracy in a context marked by the expansion of antiauthoritarian trends throughout Mexican society, especially among the urban middle classes, provided these group of mostly regional business leaders with an unprecedented capacity to forge wider societal coalitions in support of business interests. More businesspeople openly supported the PAN and became PAN candidates in regional and national elections.<sup>xxix</sup> These business leaders, while not homogeneous in ideological terms, proved critical in raising the political awareness of Mexican businesspeople, strengthening private-sector organizations,<sup>xxx</sup> building cross-class electoral and civic coalitions, and granting the Mexican private sector an extraordinary ideological, political, and social visibility.

The long decade of erratic relations between political and economic elites culminated in open confrontation. Business elites' confidence in the regime plummeted. Capital flight assumed momentous proportions. And active opposition against the government regained its lost momentum.

## **THE POLITICAL ECONOMY OF RECONCILIATION**

It took the de la Madrid administration (1982-88) five years of determined efforts to fully reestablish a working relationship with the Mexican private sector. Given the intensity of the 1982 confrontation, as well as the severe and protracted economic crisis, this was not very long. However, considering how easy it had been to mend fences with business groups in the past and taking into account the costs entailed by failing to do so earlier, five years seem to be an excessively long period. Hence, while the eventual reconciliation is important to understand, the ability of the de la Madrid government to withstand business elites' prolonged political and economic recalcitrance during a economic crisis of major proportions is equally significant.

### **The de la Madrid Administration: Challenges and Constraints**

When president Miguel de la Madrid assumed power in December 1982, the economy stood at the brink of collapse. Inflation was about 100 percent, the public deficit was the highest in postrevolutionary history, private and public debt had reached unprecedented levels, and the government suddenly found that foreign credit was no longer available.<sup>xxx</sup> The acute balance-of-payments crisis generated by the drop in oil prices, the rise in interest rates, and the virtual drying up of foreign financial resources forced the Mexican government to declare a temporary moratorium on interest payments in August 1982 and to adopt, a few months later, one of the most severe IMF-sponsored austerity programs in the region. What initially appeared to some, both within and outside the new administration, to be a short-term liquidity crisis soon became a structural crisis of unprecedented proportions. What began as a short-term stabilization program and a vaguely defined attempt to alter the country's developmental strategy soon opened a new chapter in Mexico's economic and political history.

In the electoral and partisan terrain the ruling party also faced new challenges. The increasing visibility of elections and the strengthening of opposition parties (particularly the PAN), both partial outcomes of the regime's political reformism of the 1970s, also reduced the regime's room to maneuver. Finally, a new administration in the United States, firmly committed to the recuperation of US hegemony in world affairs, placed additional constraints upon the new government's behavior. The Reagan administration's reduced tolerance for Mexico's relatively independent foreign policy, particularly towards Central America, along with its heightened concerns about the Mexican political system's capacity to deal effectively with the economic crisis, limited the policy choices available to the de la Madrid administration.

Almost from its inception, the de la Madrid administration emphasized the opportunities for economic transformation inherent in the crisis. De la Madrid and his economic cabinet viewed the crisis as the means to overcome the obstacles to further growth. In particular, they hoped to destroy the conditions that had made possible the economic excesses of the two previous administrations.<sup>xxx</sup> At first, the nature of this transformation was only very vaguely defined. By 1985, however, the administration had formulated a distinctively promarket orientation and began carrying out in earnest this program of structural change.

A crucial precondition for the effective pursuit of both stabilization and structural adjustment was the reconciliation between business and the state. The legacy of distrust generated by the expropriation of the private banking system, the climate of uncertainty naturally associated with the economic crisis, along with the virtually irreversible effects produced by the private sector's politicization, however, made such reconstruction lengthy and difficult.

President Miguel de la Madrid had to deal with a deeply mistrustful, resentful, and politically active private sector. In 1982, for instance, the presidents of three of the most important private-sector organizations in the country (i.e. the Mexican Employers Association, COPARMEX; the National Confederation of Commercial Chambers, CONCANACO; and the Consejo Coordinador Empresarial, CCE) came from the ranks of the most actively politicized and antigovernment currents within the business community. Business leaders of the same political orientation had made important inroads into other business organizations as well, especially at the regional level.

Vocal opposition against government was also widespread among local entrepreneurial elites in various regions, and especially so in the rich northern states of Chihuahua and Nuevo León. Closer ties among the PAN, regional business elites, and Catholic groups added strength to the complex mosaic of pressures coming from the private sector.

The owners of the largest economic groups were less openly confrontational in their relationship with the de la Madrid administration, but their attitude towards it was permeated with deep mistrust. While reluctant to engage in open opposition against the government, they tended, at least initially, to both sympathize with and provide behind-the-scenes financial support for those organizations and leaders that did.

Equally significant and costly to the government was the economic behavior of business elites. Though capital flight lessened after 1983, it continued throughout the period. Private investment stagnated. While both phenomena could be attributed to adverse economic conditions, business elites also failed to respond to positive signals whenever they arose, thus demonstrating the enduring costs of business elites' loss of confidence in government. As a result of this economic behavior, from 1980 to 1990 private savings as a percentage of nominal GNP fell from 15 to 11 percent, and the value of the net acquisition of foreign assets by Mexican business as a percentage of GNP increased from 2.5 to 5.7 percent.<sup>xxxiii</sup>

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### Business Elites' Economic Behavior

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|      | <b>Capital Flight<br/>(Billions of Dollars)</b> | <b>Private Investment<br/>(Annual Rate of Growth)</b> |
|------|---|---|
| 1982 | 6.5   | -17.1   |
| 1983 | 2.7   | -22.1   |
| 1984 | 1.6   | 7.9   |
| 1985 | 0.7   | 12.2  |

|      |      |       |
|------|------|-------|
| 1986 | -2.2 | -10.4 |
| 1987 | 0.3  | 4.3   |
| 1988 | 1.1  | 13.6  |

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Nora Lustig, *Mexico: The Remaking of an Economy* (Washington: Brookings Institution, forthcoming).

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## **Enduring Resistance and Rebuilding Support: Capabilities and Strategies**

### **The Capabilities**

A number of conditions appear to have been critical in allowing the de la Madrid administration to both stabilize and restructure the economy as well as to initially withstand and eventually reverse business elites' economic and political resistance. Salient among them were Mexico's macroeconomic structure and some key features of its political system.

As persuasively argued by Jaime Ros, Mexico's macroeconomic structure, especially in terms of its large income from oil, initially moderate inflation rate, and considerable room to maneuver in wage setting, provided policymakers with significant assets in their efforts to stabilize the economy.<sup>xxxiv</sup> Particularly important in this regard was the large foreign exchange surplus that accrued to the government from massive oil exports.

Like copper revenues in Chile and coffee export tariffs in Colombia, oil revenues in Mexico (as in Venezuela) turned the exchange rates adjustments required to close the external gap into an automatic mechanism of fiscal adjustment. The importance of this feature can hardly be exaggerated: the 1982 devaluations almost fully explain the increase in Mexico's public savings in that year, as a consequence of the real revaluation of the government's external surplus by 2 percentage points of GDP; in Argentina and Brazil, by comparison, without any similar export/fiscal revenues, the fiscal effects of currency depreciations in the same year determined, respectively, a 5 and 2 percentage points expansion of the fiscal deficit as a proportion of GDP.<sup>xxxv</sup>

The Mexican state's direct control of the main source of foreign exchange is of paramount importance. At least initially, the government successfully attained a major fiscal adjustment by simply devaluing the currency. Moreover, in terms of business-government relations after 1982, this control had a number of very positive consequences for government. First, its quick and



substantial fiscal adjustment allowed the government to comply with the IMF agreement, retain the support of international financial institutions, reassert its reliability and, thus, both send a positive signal to private investors and lessen the administration's vulnerability to them. Second, the government's ability to close the external gap and simultaneously reduce the fiscal one through exchange rate adjustments allowed it to subsidize the repayment of private foreign debt without incurring the inflationary costs of doing so since it did not face a sizable public foreign exchange surplus. Third, this same mechanism afforded the de la Madrid administration the added benefit of mitigating the inflationary costs of adjustment and reducing its negative effects upon middle sectors. By so doing, it granted the government the capacity to retain the critically important backing of those groups and thus, once again, to lessen its vulnerability vis-à-vis business elites' uncooperative behavior.<sup>xxxvi</sup>

Key political institutions and practices also proved extremely important in directly and indirectly facilitating the de la Madrid administration's ability to cope with business elites' resistance. They also enabled the administration to gradually restore its alliance with the dominant segments of the private sector.

As in the past the constitutional prohibition against presidential reelection was crucial in both allowing and forcing the government to rapidly adjust to new political and economic conditions. During the de la Madrid administration, however, the concurrence of an explosive economic crisis and the beginning of a new presidential term was particularly significant. The sheer magnitude of the crisis created the opportunity to change the traditional means by which new administrations departed from past administration practices. Nonetheless, these changes did not undermine the continued representation of major political forces and policy currents.<sup>xxxvii</sup>

One of the most salient features of the new administration was the drastic reduction in representation of different social factions within the upper echelons of government. Technocratic elites associated with public financial institutions gained a virtual monopoly over the 'commanding heights' of the executive branch.<sup>xxxviii</sup> Almost half of the new ministers came from the ministry of budget and planning, headed by de la Madrid from 1979 to 1981. The rest came mostly from the finance ministry or from the Central Bank.<sup>xxxix</sup>

The close ties between the president and his ministerial appointees, along with the unprecedented degree of both professional and ideological homogeneity among them, constituted one of the most valuable political resources of the de la Madrid administration. The development of these resources was due, no doubt, to the acute costs of the war of attrition among rival policy currents within the state's economic bureaucracy during the previous administration, as well as the virtually complete loss of prestige of statist and developmentalist

policy orientations during 1982. These earlier developments paved the way for a radical redefinition of the balance of forces within the government as well as a forceful comeback for those groups associated with the state's most powerful policy-making institutions: the Central Bank and the finance ministry.

The return of public financial institutions to the center of policy formulation was further bolstered by acute financial scarcity and the need to reestablish relations with international creditors. The ascendancy of institutions that had traditionally been much less open than developmentalist agencies to the particularistic demands of large numbers of societal groups also made it possible, to introduce very sharp cuts in government spending. Their rise, in fact, helps explain why the administration was able to turn a primary budget deficit of 9 percent of GNP in 1982 into a primary budget surplus of 4 percent in 1983 and to retain a positive primary balance throughout the period.<sup>xl</sup>

Public financial institutions' traditionally close ties with major economic elites were also key in reestablishing communication with ex-bankers and other powerful business groups. Their promarket stance, their significant levels of policy consistency, and their receptiveness to the demands of big business were powerful assets in facilitating both the initial rapprochement as well as the lengthier process of recovering business confidence.

Three other institutional factors played a major role in assisting the government in its efforts to rebuild ties with the private sector: 1) the government's corporatist controls over labor; 2) its quasi-corporatist relations with key business organizations (particularly those representing private industrialists); and 3) the hegemonic position of the official party in the electoral sphere.

Mexico's official union structure provides state officials with numerous instruments with which to control workers and their organizations.<sup>xli</sup> From 1982 to 1988 these instruments allowed the government to pursue an adjustment program that, while relatively less costly than other programs in the region in inflationary terms was, nevertheless, extremely costly in terms of its impact on wages as well as on economic growth. During those years, real minimum wages were cut in half and the average annual growth rate for the whole period was zero. Thus, while labor and the popular sector in general bore the cost of adjustment, corporatist controls safeguarded the government against explosive social rebellions.

However, because the de la Madrid administration hoped to ensure continued cooperation from official union leaders (who control one of the three sectors in the dominant party), the administration reversed its initial tolerance towards the growth of opposition parties. Although the reversal generated heightened opposition from a number of regional business elites actively involved in the PAN, it proved quite useful in maintaining support from labor leaders.

## **The Strategies**

The de la Madrid administration offered tangible evidence of its commitment to mend fences with the private sector from the very beginning. Soon after assuming office, de la Madrid provided generous compensation to the expropriated bankers and returned their nonbanking assets (e.g. industrial commercial firms, brokerage houses, and various other financially related concerns). In addition, the government allowed private investors to buy up to 34 percent of the nationalized banking sector.

Three factors proved decisive in the administration's success in regaining the support of large business: the government's 1983 rescue plan for highly indebted private firms; the dramatic expansion of the nonbanking financial sector; and the adoption of market-oriented reforms, especially the privatization of state firms.

The rescue plan was designed to assist those private firms whose economic viability was in jeopardy due to heavy borrowing during the cheap foreign credit binge of the 1970s. From 1976 to 1982, the total foreign debt of the Mexican private sector had jumped from 6.2 to 21.9 million dollars.<sup>Xlii</sup> In 1982, two major devaluations along with the explosion of the crisis led to virtual bankruptcy for many firms. In an effort to forestall a wave of bankruptcies and defaults, the Central Bank created a program to assist private firms in their efforts to repay their foreign obligations. The program involved several financial relief mechanisms. For example, it helped firms renegotiate longer term horizons for meeting their debt obligations. It further provided highly indebted firms with various credit schemes in pesos so as to make it possible for them to continue servicing their foreign-denominated debts. By converting dollar debts into pesos, the government ended up assuming the cost of the exchange rate differential between the moment in which the credit was granted and the moment in which payments were due.<sup>Xliii</sup> The main beneficiaries of the government's debt relief scheme were the largest firms in the country since they had the highest foreign debts.

The formidable expansion of private (i.e. nonbanking) financial markets during the 1983-1987 period facilitated a rapprochement in government-business relations for two basic reasons. First, it created high profit outlets for private investors. Second, and most importantly, it stimulated the rapid emergence of a new financial elite within the private sector, indebted to the government for its existence. By the end of de la Madrid's term, this new elite became what the private banking community had been up to 1982: the most powerful economic group in the country and the most important ally of the government within the business community.

The return of nonbanking financial firms to their ex-owners created a financial system in which the private financial sector coexisted with the government-owned financial sector. The growth of the private financial sector resulted from the government's need to both raise credit domestically (due to the end of foreign credit flows) and curb capital flight. Government treasury bills became the main mechanism in this endeavor. Since private brokerage houses were granted the exclusive right to trade those bonds in the primary market, both the stock exchange and the brokerage houses experienced a formidable expansion.

From 1982 to 1990, the participation of brokerage houses in the overall flow of funds managed by the financial system increased 587 percent while that of the banking system decreased by 40 percent.<sup>xliv</sup> From 1983 to 1988, on the other hand, the capital assets of brokerage houses grew almost 600 times.<sup>xlv</sup> It is important to note that the brokerage houses that experienced the highest rates of expansion were not those owned by ex-bankers but rather the firms owned by the few (at least at that point) new investors.

The expansion of the private financial system became self-reinforcing because it provided extremely attractive short-term financial gains in a context in which productive investment seemed excessively risky. As a result, during the 1982-88 period the number of investors in the segment of the market controlled by brokerage houses increased five-fold.<sup>xlvi</sup>

The large gains generated by the exponential growth of the private financial sector were concentrated in a very small number of firms. Those that profited most directly were brokerage houses themselves. The reduced number of firms registered in the stock exchange also obtained large profits through both speculation and access to lower cost credit.<sup>xlvii</sup> The gains obtained in the booming stock exchange allowed a small number of individuals and groups to buy out a large number of private firms as well as acquire many of the public enterprises sold by government during both the de la Madrid and Salinas (1988-1994) administrations.

The program of market-oriented reform, launched during the mid-1980s and expanded during the first half of the Salinas government, provided the third most important strategy by which the government reconstructed the business-state alliance. Particularly salient in this regard was the privatization of a large number of public firms.

Most of the investors in these firms came from the ranks of new private financiers who had risen to power during the financially volatile 1980s. The reprivatization of the banking system had both increased the visibility of this new group of private entrepreneurs and further consolidated their power. Most of the major banks sold by the government in 1991 were bought by financial groups whose economic power at the end of the 1970s was negligible. One case in point is the Acciones y Valores brokerage house. This economic group bought the largest bank in the

country—Banco Nacional de México—in 1991. Equally significant in the context of the overall privatization process was the acquisition of Teléfonos de México by the economic group CARSO whose head, Carlos Slim, had started out as an independent stock broker in the 1970s.

The emergence and rapid consolidation of a new private financial elite significantly reduced the economic weight of the understandably mistrustful ex-bankers while simultaneously providing the government with a fresh, loyal, and extremely powerful ally within the private sector. Though ultimately crucial in the regime's efforts to rebuild cooperative linkages with the business community, this process of internal recomposition within the private sector did not occur overnight.

To understand how relations between economic and political elites evolved after 1982, one must explore the government's political strategies. It was through these strategies that the government restored business elites' confidence in the economy and government and overcame the political opposition organized by important segments of the private sector.

As pointed out earlier, when president de la Madrid assumed office in 1982, he confronted a newly recalcitrant and vocal private sector. The government was particularly vulnerable to the radical antigovernment business leaders who headed up major private-sector organizations such as the Consejo Coordinador Empresarial. It was also sensitive to the political activation of growing numbers of regional business elites. The government used a number of strategies in dealing with this potentially paralyzing state of affairs. For example, it actively attempted to reestablish a working relationship with major business elites and managed to do so relatively quickly through both political and economic means. Along with providing financial assistance to large economic firms, the government and the heads of key ministries renewed the practice of frequent meetings with the owners of those firms. The government used the Mexican Council of Businessmen, which represents the largest entrepreneurs in the country, as the organizational structure for these meetings. The highly informal and closed character of this association was useful because it allowed the government to reestablish contact with these groups outside the larger, more public and, during those initial years, highly politicized private-sector organizations such as the CCE, CONCANACO, and COPARMEX.

The progressive marginalization of radical antigovernment business leaders that this process entailed was further aided by the government's traditionally close ties and extensive controls over private industrialists. Both the National Confederation of Industrial Chambers (CONCAMIN) and its largest member chamber (CANACINTRA which represents essentially middle- and small-size industrial firms) provided, in fact, a critical source of support to the

government during the initial years of the de la Madrid administration.<sup>xlvi</sup> This backing balanced out the lack of support for the government from other very important private-sector organizations.

Also significant in both marginalizing antigovernment currents within the private sector and regaining the political support of business were the administration's active efforts to influence the leadership selection processes within private-sector organizations. Equally important was the government's use of inducements and constraints in both luring opponents back into a cooperative game and punishing those who persisted in actively resisting the government.<sup>xlix</sup> Such devices proved considerably effective because, as one of my interview subjects pointed out, "Saying 'no' to the government is virtually impossible for any individual businessman in Mexico."

A more general feature of the de la Madrid administration's strategy towards business, and one that allowed it to be extraordinarily effective, was its flexibility. This flexibility made it possible for the government to both provide highly differential treatment to individuals and groups within the private sector and adjust to—and profit from—the rapid changes in the constellation of forces within the Mexican business community.

Rapid shifts in the balance of power among different groups and sectors within the business community resulted from a protracted economic crisis as well as radical changes in the rules of the economic game associated with both stabilization and structural reform. The abrupt 1985 break with the inward-oriented and state-led growth strategies that had been followed since the 1940s was crucial since it shifted the balance of power away from those sectors that had most profited from protection and increased opportunities for outward-oriented firms. The expansion of private financial markets and its effects upon the composition of the private financial community proved equally important contributing factors.

A flexible strategy vis-à-vis business allowed the government to modify its alliances within the private sector in response to the changing constellation of forces. Up to 1985-86, the government relied on the support of inward-oriented industrialists while simultaneously seeking to rebuild its pre-1982 ties with large economic groups through subsidies of various kinds. When oil prices fell in 1986 and structural reform was accelerated, however, it began to rely increasingly on the newly rising export-oriented firms and groups.<sup>l</sup>

The de la Madrid administration's enduring attempts to regain the support of the Mexican private sector culminated during the negotiation of his government's last stabilization package: the Economic Solidarity Pact (PSE). The PSE was a tripartite agreement involving the government, the private sector, and labor in a concerted effort to control inflation. It was an agreement to adopt orthodox fiscal adjustment measures (e.g., reduction of the budget deficit

and adjustment of public-sector prices), 'concerted' income and price controls, and accelerated trade liberalization (begun in 1985).

The open commitment of powerful business leaders and all major private-sector organizations to participate alongside government in the implementation of the PSE was the first visible indicator that the de la Madrid administration's active and enduring efforts to mend fences with business had finally succeeded. Such a public commitment also signalled the beginning of a new period of close and remarkably unabashed collaboration between major economic elites and the authoritarian regime.

When, in the presidential elections of July 1988, the PRI won a slim majority for the first time, the PAN performed relatively poorly, and the left-of-center coalition led by Cuauhtemoc Cárdenas had a spectacular showing, big business became firmly convinced that it should restore its support for the PRI.

### **The Balance: Continuity and Change in Business-Government Relations**

The government's ability to reconstruct an alliance with dominant economic elites did not entail, however, simply a return to the status quo ante 1970. The Mexican economy, society, and business had undergone major transformations rendering such a return impossible. A once relatively small and predictable public sphere had been infused with new voices, new issues, and novel and more autonomous forms of collective action. Electoral contests for the first time became open and increasingly competitive. The previous popular quiescence was replaced with new and more diverse forms of social and political participation.

Private entrepreneurs were neither immune to nor absent from these transformations. Business political activation, which began in the early 1970s, receded in the latter part of the decade, and reappeared with vigor at the beginning of the 1980s, was an outgrowth of those transformations.<sup>li</sup> Even though the intensity and the orientation of the business community's political involvement were affected by government behavior, particularly state-big business relations, the growth and development of that involvement sprang from a wider and more complex process that neither government nor large business groups could control.<sup>lii</sup>

In spite of the growing rapprochement between government and dominant economic elites, then, and in sharp contrast with the past, important segments of the Mexican business community continued to engage in a diverse range of political and civic activities throughout the 1980s.<sup>liii</sup> Active and extraordinarily open involvement in partisan politics, in civic associations of various sorts, as well in cultural, educational, and philanthropic endeavors, continued to expand.

Businesspeople's participation in electoral contests—especially at the regional level—expanded likewise. Business elites' involvement became particularly noteworthy in the local elections in states like Baja California Norte, Chihuahua, Nuevo León, San Luis Potosí, Guanajuato, and Yucatán. However, business elites' participation has included *both* PAN and PRI activities. Though the former has tended to rouse more attention, the direct involvement of both local and national business elites in the PRI has increased and become more visible than in the past.<sup>liv</sup>

The PRI has adopted strategies to deal with those states where the links between the PAN and the business community are strong. It seeks the support and endorsement of dominant regional economic elites by promoting candidates who are either entrepreneurs themselves or have important ties with local economic groups.<sup>lv</sup> This strategy appeared to result from PAN's victory in the 1983 municipal elections in the state of Chihuahua. This victory was due in no small part to the active participation of business elites and their opposition to the government. Soon after that election, the government actively sought to divide regional entrepreneurs and to regain the support of the most powerful economic groups in the region. By the time gubernatorial elections took place in 1986, it had essentially succeeded in its endeavors. This strategy allowed the PRI to both regain the capital city from the PAN and defeat the popular PAN candidate, Francisco Barrio, in the election for governor.<sup>lvi</sup>

In addition, since the early 1980s business support for various civic associations and movements has continued unabated. This support, like that of PAN, has come primarily from entrepreneurs in mid-size firms. Business groups have developed and strengthened their ties to politically active middle-class and lay catholic groups through their involvement in anti-abortion, ballot-defense, and education-related movements.<sup>lvii</sup>

Business involvement in philanthropy has also openly increased and at an unprecedented pace. Numerous philanthropic associations have been created in the areas of health, education, culture, environment, and community development. The greatest contributors are the owners of the largest private concerns in the country.<sup>lviii</sup>

All of these trends, and especially the enduring participation and support of important segments of the business community for the PAN, have contributed to the opening up of new spaces for political and social participation in Mexico. Their impact upon the political system as a whole has been moderate and deeply segmented. Continued political participation on the part of business sectors has proved decisive in allowing for the PAN's growing electoral strength in various regions, but it has failed to push in the direction of a full-fledged transition to democracy.



In a number of ways, in fact, these processes have contributed to an overall process of political liberalization that has occurred within the context of existing political institutions and ensured practices rather than outside them. This has ensured political stability but has simultaneously reproduced some of the key mechanisms upon which authoritarian rule has historically rested.

A particularly revealing example of the nature of this process is the evolution and role of the PAN within the political system during the Carlos Salinas administration (1988-1994). Changes in electoral and party politics over the past few years have included two basic components: the incorporation of opposition parties—most notably PAN; and the subordination of the PRI to the executive in the areas of public goods and services. The inclusion of PAN in the electoral arena has proceeded via negotiations between PAN leaders and high-level government officials and has resulted in what amounts to a virtual market-sharing arrangement—an arrangement, however, that excludes the presidency, ensures a majority for the official party in congress, and depends on negotiated electoral results rather than the actual counting of votes.<sup>lix</sup>

The incorporation of PAN into the electoral arena is clearly not the result of a generous concession from government. The PAN has won a strong presence among urban middle classes in a number of regions over a long period of time. The government has learned, especially after July 1988, that it is more costly to ignore PAN's strength than to accept it. Furthermore, despite its success PAN has proved to be both a loyal player and relatively nonthreatening contender in what remains an essentially one-prize-only political system.

PAN's limitations as a truly national contender in presidential elections are not solely due to its allegedly unsurmountable difficulties in expanding its social base. Its inability to consolidate linkages with large business groups also appears to have been decisive.<sup>lx</sup> PAN's growth, for example, has depended on serious crisis in state-big business relations. Moreover, its electoral success has depended on strong backing from local business elites.<sup>lxi</sup> Thus, if PAN consolidated support from business elites—regardless of number—it would become a more powerful contender.

The Salinas administration's negotiation of PAN's incorporation into the electoral arena as a subordinated partner of government was, in many ways, the result of both the successes and the costs of economic policy-making during president de la Madrid's government. For the regime, the most important cost in this area was the ability of PAN to capitalize upon the widespread discontent generated by economic reform among middle- and small-size regional entrepreneurs. The costs that stabilization and structural adjustment entailed for large numbers of middle- and small-size firms accelerated and consolidated a process of politicization that had begun in the

1970s. By becoming the vehicle of such discontent, PAN acquired a crucial asset in regional electoral contests and thus a major bargaining chip in its relationship with the government.

The negotiation terms with PAN were also decisively influenced, however, by the reconciliation between big business and the state. That reconciliation—well underway by the time Salinas entered office—deprived PAN of support from big business. And it relied on that support to become an effective national contender. Thus, support for PAN grew among middle-size regional entrepreneurs and urban middle classes because of the costs they incurred as a result of economic restructuring. This gave PAN the power to negotiate a larger slice of the electoral pie. Yet the government's ability to reestablish cooperative relations with major economic groups constrained PAN's further growth at the national level. As a result, the government proved capable of incorporating and subordinating PAN into the electoral system.

In contrast to the past, the politicized business elites did not retreat once the government and major economic elites restored their close ties. The restoration, nevertheless, significantly diminished the impact of the opposition sectors within the Mexican business community on authoritarian stability.

## **CONCLUSIONS**

Conflict in state-big business relations in Mexico in the course of the early 1970s and early 1980s created a propitious environment for the political activation of growing numbers of private entrepreneurs. This activation, however, was part of a larger process of societal change resulting from decades of rapid economic growth, severe crisis, and economic policies adopted to resolve that crisis.

In dealing with a new adversarial business community during the early 1980s, authoritarian elites in Mexico were endowed with resources unavailable to their counterparts in other countries of the region. Those resources enabled the regime to survive the prolonged political and economic recalcitrance of business that damaged other authoritarian regimes. Moreover, eventually these resources were instrumental in regaining the full support of dominant economic elites.

Despite recovering close big business-state relations, the regime has not remained intact. Confrontation in business-state relations created a process of partial and segmented political liberalization. In the short term, this liberalization has strengthened the presidential system and incorporated and subordinated PAN in electoral politics. The longer term consequences, however, are far from clear.



## ENDNOTES

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<sup>i</sup> During the years 1954 to 1970, known as the 'stabilizing development' period, the annual inflation rate averaged 3.8 percent. Edward F. Buffie and Allen Sangines Krause "Mexico 1958-86: From Stabilizing Development to the Debt Crisis," in *Developing Country Debt and the World Economy*, ed. Jeffrey D. Sachs (Chicago/London: The University of Chicago Press, 1989), 142.

<sup>ii</sup> Robert E. Looney, *Economic Policymaking in Mexico: Factors Underlying the 1982 Crisis* (Durham, NC: Duke University Press, 1985), figures based upon IMF and Central Bank data.

<sup>iii</sup> Instituto Nacional de Estadística, Geografía e Informática, *Estadísticas históricas de México* (Mexico: INEGI, 1990), vol. 2, 629.

<sup>iv</sup> INEGI, *Censos Industriales*, various issues.

<sup>v</sup> According to one of the most reliable studies on the subject, "Whatever measure of inequality is observed and whatever indicator of relative position is used, whether income or expenditure, the main conclusion...is that the income distribution structure of the country remained basically unaltered between 1950 and 1977." Pedro Aspe and Javier Beristain, "Towards a First Estimate of the Evolution of Inequality in Mexico," in *The Political Economy of Income Distribution in Mexico*, ed. Pedro Aspe and Paul Sigmund (New York: Holmes and Meir, 1984), 54.

<sup>vi</sup> On the effects of international financial integration upon business-government relations in Mexico, see Sylvia Maxfield's excellent study, *Governing Capital: International Finance and Mexican Politics* (Ithaca/London: Cornell University Press, 1990), especially chapters 1 and 4.

<sup>vii</sup> Carlos Bazdresch and Santiago Levy, "Populism and Economic Policy in Mexico, 1970-1982," in *The Macroeconomics of Populism in Latin America*, ed. Rudiger Dornbusch and Sebastian Edwards (Chicago/London: The University of Chicago Press, 1991), 235.

<sup>viii</sup> The annual average rate of growth of government's foreign debt jumped from 16 percent in 1955-1972 to 29 percent during the 1973-1981 period. Secretaría de Hacienda y Crédito Público, *Deuda externa pública mexicana* (Mexico: SHCP/Fondo de Cultura Económica, 1988), 18, 24.

<sup>ix</sup> On the policy orientations of the two currents, see Rolando Cordera and Carlos Tello, *México: La disputa por la nación* (Mexico: Siglo XXI, 1981), chapter 3. On the policy effects of the mounting confrontation between them, Judith A. Teichman, *Policymaking in Mexico: From Boom to Crisis* (Boston: Allen & Unwin, 1988), chapter 5.

<sup>x</sup> On the importance of presidential nonreelection, see Daniel Cosío Villegas, *El sistema político mexicano* (Mexico: Joaquín Mortiz, 1982), 22-35.

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xi From 1972 to 1976 employment in the public sector doubled and the participation of total public-sector spending in GDP increased from 20.5 percent to 30 percent. Buffie and Krause, "Mexico 1958-86," 145. Public investment as a percentage of total investment also grew significantly, and the number of public firms increased from 491 in 1970 to 845 in 1976. See Alejandro Carrillo Castro, "La empresa pública y la reforma administrativa," *Empresas Públicas* (Mexico: Presidencia de la República, 1978), 17.

xii Personal interviews with: Lorenzo Servitge (president of the Grupo Bimbo and one of the most prominent leaders and ideologues of the Mexican private sector), Mexico City, 15 February, 1990; Bernardo Ardavín (president of COPARMEX from 1986 to 1988), Mexico City, 19 February 1990; Emilio Goicochea Luna (president of CONCANACO from 1982 to 1984), Mexico City, 17 May 1990; and Roberto Guajardo Suárez (president of COPARMEX from 1960 to 1973), Mexico City, 6 June 1990.

xiii On the generational question, see Rogelio Hernández Rodríguez, "La reconciliación con el empresariado en el gobierno de Miguel de la Madrid," unpublished manuscript, 1989.

xiv Relevant members of this group include, among others, Bernardo Ardavín, Manuel Clouthier, Francisco Barrios Terrazas, Emilio Goicochea Luna, Jorge Ocejo, and Ernesto Ruffo Appel.

xv For a more detailed treatment of this issue, see Blanca Heredia, "Politics, Profits and Size: The Political Transformation of Mexican Business," in *The Right and Democracy in Latin America*, ed. Douglas Chalmers, Atilio Borón, and Maria do Carmo Campello de Souza (New York: Praeger, forthcoming). For empirical data on the evolution of middle-size firms, see Rogelio Hernández Rodríguez, "Los problemas de representación en los organismos empresariales," unpublished manuscript, 1990.

xvi The CCE created the Centro de Estudios Sociales (1977). CONCANACO created the Coordinación de Ideología e Imagen (1980) which is currently the División de Pensamiento Empresarial. BANAMEX created the Fomento Cultural Banamex (1971), and Unidad de Estudios Sociales (1977) which was originally part of the Departamento de Estudios Económicos and later (1982) became an independent Departamento de Estudios Sociales.

xvii Two examples are the Instituto Mexicano de Estudios Políticos (1970) and the Instituto de Banca y Finanzas (1980).

xviii A good indicator of the rapid growth of private higher education is the absolute and relative evolution of student enrollment. In 1970 the total number of students enrolled in private universities was 32,160, which represented 13.7 percent of the national total. By 1986 the number had risen to 154,862 students, representing 18.8 percent of the total at the national level. ANUIES, *Anuario Estadístico*, 1986.

xix Especially CONCANACO's 'Operación Impacto'—Impulso al Comercio y Turismo Organizado, and COPARMEX's 'Curso de Liderazgo Empresarial.'

xx For a more detailed treatment of this question, see Ricardo Tirado, "Los empresarios y la política partidaria," unpublished manuscript.

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xxi Long-term public foreign debt increased from 25.6 billion dollars in 1978 to 51.9 billion dollars in 1982. Banco Interamericano de Desarrollo, *La deuda externa de América Latina: Antecedentes y perspectivas* (Washington: BID, 1984), 82.

xxii Annual rates of inflation grew from 15.8 percent in 1976 to 58.9 percent in 1982. See Bazdresch and Levy, "Populism and Economic Policy in Mexico," 232.

xxiii The fiscal deficit jumped from 5.2 percent of GNP in 1977—after the one year of financial discipline that had brought it down from 7.5 in 1976—to 16.9 percent of GNP in 1982. See Banco Interamericano de Desarrollo, *Deuda externa*, 186. The current deficit also experienced a steady rise during the period, increasing from 2.6 billion dollars in 1978 to 12.5 billion dollars in 1982. *Ibid.*, 82.

xxiv Presidencia de la República, *Las razones y las obras*, Crónica del Sexenio 1982-1988, Sexto Año (Mexico: Unidad de la Crónica Presidencial/Fondo de Cultura Económica), 19, 25.

xxv Though a wide consensus exists concerning the decisive importance of Lopez Portillo's bank nationalization, interpretations about its true goals vary profoundly. For the president's views on this issue, see José Lopez Portillo, *Mis tiempos* (Mexico: Fernández Editores, 1988), 1227-49. For the analysis of one of Lopez Portillo's key supporters during those critical times, the Director of the Central Bank, see Carlos Tello, *La nacionalización de la banca* (Mexico: Siglo XXI, 1984). For an excellent and more balanced account that portrays the decision as an attempt to restore the power of the state, see Hernández Rodríguez, "La reconciliación con el empresariado." For an interpretation that reflects the private sector's views of the subject, see Roberto Newell G. and Luis Rubio F, *Mexico's Dilemma: The Political Origins of Economic Crisis* (Boulder/London: Westview Press, 1984), chapters 9 and 10.

xxvi Personal interview, Mexico City, 3 March 1990, with Carlos Abedrop, former owner of Banco del Atlántico, president of the Asociación de Banqueros de México during the bank nationalization, and one of the most important businessmen in the country.

xxvii For examples of this new discourse, see business leaders' speeches in *Decisión* (CONCANACO, 1982), October-December.

xxviii See Matilde Luna, Ricardo Tirado, and Francisco Valdés (1987) "Businessmen and Politics in Mexico, 1982-1986," in Sylvia Maxfield and Ricardo Anzaldúa Montoya, eds., *Government and Private Sector in Contemporary Mexico*, Monograph Series, no. 20 (San Diego: Center for US-Mexican Studies, University of California, San Diego), 13-43; Maria Amparo Casar (1988), "Empresarios y Democracia en México"; and Rolando Cordera et al., eds., *México: El reclamo democrático* (Mexico: ILET/Siglo XXI), 165-74.

xxix See Tirado, "Los empresarios y la política partidaria"; and Graciela Guadarrama, "Entrepreneurs and Politics: Businessmen in Electoral Contests in Sonora and Nuevo León, July 1985," in *Electoral Patterns and Perspective in Mexico*, Monograph Series no. 22, Arturo Alvarado ed. (San Diego: Center for US-Mexican Studies, University of California, San Diego, 1987), pp. 81-110.

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xxx A good indicator of this process was the expansion of COPARMEX during the 1980s. In 1978, the organization had 22 'Centros Patronales' (regional units). By 1990, the number of those units had risen to 58 'Centros Patronales' in provincial Mexico and six 'Delegaciones' in Mexico City. Personal interview with Guillermo Velasco, Mexico City, April 1990, general secretary of the organization from 1978 to 1988 and currently director of the Instituto de Proposiciones Estratégicas.

xxxi Presidencia de la República, *Las razones y las obras*, Crónica del Sexenio 1982-1988, Primer Año (Mexico: Unidad de la Crónica Presidencial/Fondo de Cultura Económica), 14.

xxxii A good example of this general orientation can be found in the constitutional reforms initiated by president de la Madrid only four days after he assumed power. Through these reforms, the roles and function of the public, social, and private sectors were constitutionally defined. Though the measures failed to satisfy anyone—the left argued that the state was in fact building its own straitjacket while the most radical fractions of business argued that the reforms simply confirmed the trend towards greater and more obtrusive state intervention—their basic intent, i.e., to regulate state intervention explicitly so as to limit the margins for discretionary action, was clear. See Miguel de la Madrid Hurtado, *El marco legislativo para el cambio*, vol. II (Mexico: Dirección General de Asuntos Jurídicos de la Presidencia de la República Mexicana, 1983).

xxxiii Jaime Ros, "On the Political Economy of Market and State Reform in Mexico," paper presented at the conference on "Democracy, Markets and Structural Reforms in Contemporary Latin America," North-South Center, University of Miami, and CEDES, Buenos Aires, 25-27 March 1992, table 1.

xxxiv Ibid., 7.

xxxv Ibid.

xxxvi I am indebted to Carlos Elizondo for pointing out the significance of this last issue. Personal communication.

xxxvii On the issue of political turnover in Mexico, see Peter Smith, *Labyrinths of Power: Political Recruitment in Twentieth Century Mexico* (Princeton: Princeton University Press, 1979).

xxxviii Robert Kaufman, *The Politics of Debt in Argentina, Brazil, and Mexico: Economic Stabilization in the 1980s* (Berkeley: Institute of International Studies, University of California, Berkeley, 1988), 83.

xxxix Rogelio Hernández Rodríguez, "Los hombres del presidente de la Madrid," *Foro Internacional* 109 (July-September, 1987), pp. 5-38.

xl The primary budget balance (i.e. income minus spending *excluding* interest payments) reflects actual fiscal efforts by the incumbent administration.

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**PRIMARY BUDGET BALANCE  
(percent GNP)**

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|      |      |
|------|------|
| 1982 | -7.6 |
| 1983 | 4.0  |
| 1984 | 4.6  |
| 1985 | 3.3  |
| 1986 | 1.7  |
| 1987 | 4.9  |
| 1988 | 7.6  |
| 1989 | 8.3  |

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Banco de México, *Informe Anual*, various issues.

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xli A thorough examination of the various means through which the state and the ruling party have controlled organized labor can be found in Ilan Bizberg, *Estado y sindicalismo en México* (Mexico: El Colegio de México, 1990). Also useful is Angelina Alonso and Roberto Lopez's case study of the oil union, *El Sindicato de Trabajadores Petroleros y sus relaciones con PEMEX y el estado, 1970-1985* (Mexico: El Colegio de México, 1986).

xlii Presidencia de la República, *Las razones y las obras*, Crónica del Sexenio 1982-1988, Primer Año (Mexico: Unidad de la Crónica Presidencial/Fondo de Cultura Económica), 104.

xliii Though information about the overall cost of FICORCA is not publicly available, analysts have estimated that by 1987 the program had effectively assumed 21.3 million dollars of the private sector's foreign debt. *Expansión*, 27 April 1987, quoted in Cristina Puga and Constanzo de la Vega, "Modernización capitalista y política empresarial," in *Testimonios de la crisis*, ed. Estela Gutierrez Garza, vol. 4, 253 (Mexico: Siglo XXI, 1990).

xliv *La Jornada*, 6 January 1992, 27. (Figure based on Central Bank data).

xlv Secretaría de Hacienda y Crédito Público, *Cuadernos de Renovación Nacional: Reestructuración del sistema financiero* (Mexico: Presidencia de la República, 1988), 143.

xlvi *Ibid.*

xlvii According to Sylvia Maxfield, "[f]inancing obtained through the parallel financial system, by selling stock or commercial paper, was as much as 20 percent less expensive than that available through the banking system. However, access to this source of financing is limited to the 200 Mexican corporations which are registered on the stock exchange." "International Economic Opening and Government-Business Relations in Mexico," Paper presented at the Workshop on Mexico's Alternative Political Futures, San Diego, Center for US-Mexican Studies, 1988, 19.



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xlvi For a detailed analysis of this question, see Carlos Elizondo, "Property Rights in Business-State Relations: The Case of the Bank Nationalization" (Ph.D. diss., Oxford University, forthcoming), chapter 7.

xlix Inducements included subsidies and special concessions of various kinds, and constraints ranged from fiscal auditing to failure to support employers in their dealings with workers, as well as simple law enforcement. This last feature is particularly important because the high levels of tolerance for illegal practices and behavior provide the government with an extremely powerful instrument in dealing with political opponents.

l Elizondo, "Property Rights," chapter 7.

li On the nature of these transformations, see Héctor Aguilar Camín, *Después del Milagro* (Mexico: Cal y Arena, 1988).

lii For an analysis of the growth of the PAN along these same lines, see the excellent essay by Leticia Barraza and Ilan Bizberg, "El Partido Acción Nacional y el régimen político mexicano," *Foro Internacional* 123 (January-May, 1991), pp. 418-455.

liii On business elites' political and ideological activism in the course of the 1980s, see Ricardo Pozas and Matilde Luna, eds., *Las empresas y los empresarios en el México contemporáneo* (Mexico: Grijalbo, 1991), part I.

liv In the August 1991 congressional elections, for instance, 17 percent of the PRI came from the ranks of the business sector. Equally significant has been the growing presence of private entrepreneurs among PRI candidates in regional electoral contests and private-sector financial support for PRI electoral campaigns, both at the national and the regional level. *Proceso* 800 (2 March 1992), p. 21.

lv Since the late 1980s private-sector financial committees have been created by the PRI in 24 states. José Ignacio Rodríguez Reyna, "Nuevo empresariado: La política como inversión," *Este País* 10 (January 1992): 3. These committees include the largest economic firms in the various states, some of which are also among the most powerful entrepreneurs in the country. Such is the case of the state of Nuevo León, where members include the owners of groups such as VISA, CEMEX, and PROTEXA.

lvi On this process, see Alberto Azia Nassif, "Neopanismo and neopriismo en Chihuahua," in *Las empresas y los empresarios*, ed. Pozas and Luna, 217-32.

lvii On this question, see the issue of *El Cotidiano* devoted to some of its most salient dimensions, July-August 1988.

lviii Salient among them stand Lorenzo Servitge, owner of BIMBO, the ninth largest economic group in the country; Roberto Hernández Ramírez who, along with Alfredo Harp Helu, bought the Banco Nacional de México in 1991; Carlos Slim, owner of the recently privatized Teléfonos de México; Agustín Legorreta, ex-owner of BANAMEX and currently shareholder in various holdings; and Andrés Marcelo Sada from CYDSA. *Proceso* 798 (17 February 1992): 22-25.

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lix A clear example can be found in last year's electoral process in the state of Guanajuato where widespread allegations of fraud resulted in the resignation of the PRI gubernatorial candidate right before assuming office. A good showing on the part of Acción Nacional led to what appears to have been an arrangement between the government and the party whereby the PAN mayor of the capital of the state was appointed—by the local congress—as interim governor.

lx Theoretical support for this argument can be found in Edward Gibson's very important contribution to the study of conservative electoral movements in Latin America, "Conservative Parties and Democratic Politics: Argentina in Comparative Perspective" (Ph.D. diss., Department of Political Science, Columbia University, 1991).

lxi In relation to this question, see Barraza and Bizberg, "El Partido Accion Nacional."