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**BOSTON UNIVERSITY**  
**GRADUATE SCHOOL OF ARTS AND SCIENCES**

Dissertation

**INSTITUTIONS AND ECONOMIC REFORM IN MEXICO:  
THE CASE OF ECONOMIC PACTS, 1987-1997**

by

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Submitted in partial fulfillment of the  
requirements for the degree of  
Doctor of Philosophy

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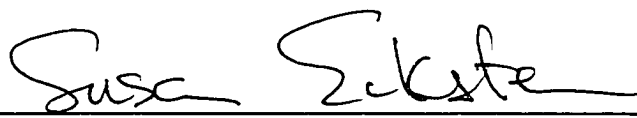
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**INSTITUTIONS AND ECONOMIC REFORM IN MEXICO:  
THE CASE OF ECONOMIC PACTS, 1987-1997**

(Order No. )

**JUAN MANUEL ORTEGA RIQUELME**

Boston University Graduate School of Arts and Sciences, 2002

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**ABSTRACT**

During the 1980s, most Latin American economies went into crisis with increasing foreign debt, budget deficits, and recurring inflation. Most governments in the region undertook market-oriented stabilization and adjustment programs. These stabilization programs encountered major opposition in many of the new democracies in the region, leading to the failure of the programs. Mexico, however, was able with a series of economic pacts starting in 1987 to institute a stabilization and adjustment program that met little political resistance.

The central objectives of this thesis are to understand how these pacts came about and helped solve inflation and reform the economy. To explain policy preferences, studies on corporatism and economic reform in Mexico tend to

focus on macro-structural factors or on the economic interests of individuals. This study deviates from these approaches in arguing that institutions also play a role in shaping policy preferences.

I use institutional analysis to investigate policy preference for tripartite concertation (or *Pactos*) in Mexico, between 1987 and 1997. Institutional variables such as State capacities (ideas, knowledge and expertise), corporatism, and the *Pacto* institutions, created the conditions that fostered cooperation.

This dissertation argues that the *Pactos* were the result of, first, a governing coalition of technocrats and big business interest for economic reform and the management of political conflict. Second, the regime's concerns of the lack of access to economic resources and a recurring inflation. Finally, institutional factors that helped create a policy mechanism that minimized uncertainty and free-riding through an system of rules that monitored, coordinated, and sanctioned political actors. This study suggests that social partnership mechanisms can help reduce uncertainty and foster cooperation in the context of economic reform and increasing competition

Data for this research were obtained from primary sources (archival documents, minutes, and organization's reports) and interviews. Forty-nine top-ranking government officials, business, and labor leaders were interviewed in Mexico City between 1996-1999.

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## LIST OF ABBREVIATIONS

**ABM:** Mexican Bankers Association  
(Asociación de Banqueros de México)

**AMIS:** Mexican Association of Insurance Institutions  
(Asociación Mexicana de Intermediarios Bursátiles)

**CCE:** Business Coordinating Council  
(Consejo Coordinador Empresarial)

**CANACINTRA:** National Chamber of Manufacturing Industry  
(Cámara Nacional de la Industria de Transformación)

**CANACO CIUDAD DE MEXICO:** Mexico City National Chamber of Commerce  
(Cámara Nacional de Comercio de la Ciudad de México)

**CMHN:** Businessmen Mexican Council,  
(Consejo Mexicano de Hombres de Negocios)

**CNA:** National Agricultural Council  
(Consejo Nacional Agropecuario)

**CNOP:** National Confederation of “Popular” Organizations  
(Confederación Nacional de Organizaciones Populares)

**CNC:** National Peasants Confederation  
(Confederación Nacional Campesina)

**COECE:** Coordinator of Entrepreneurial Organisms on Foreign Trade  
(Coordinadora de Organismos Empresariales de Comercio Exterior)

**CONASUPO:** National “Popular” Subsistence Corporation  
(Compañía Nacional de Subsistencias Populares)

**CONCAMIN:** Confederation of Industry Chambers of the Mexican United States  
(Confederación de Cámaras Industriales de los Estados Unidos Mexicanos)

**CONCANACO-SERVYTUR:** Confederation of National Chambers of  
Commerce,  
Services and Tourism  
(Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo)



**COPARMEX:** Confederation of Employers of the Mexican Republic  
(Confederación Patronal de la República Mexicana)

**COR:** Revolutionary Workers Confederation  
(Confederación Obrera Revolucionaria)

**CROC:** Revolutionary Confederation of Workers and Peasants  
(Confederación Revolucionaria de Obreros y Campesinos,)

**CROM:** Regional Confederation of Mexican Workers  
(Confederación Regional Obrera Mexicana)

**CT:** Workers Congress  
(Congreso del Trabajo)

**CTM:** Mexican Confederation of Labor  
(Confederación de Trabajadores Mexicanos)

**FONACOT:** The National Fund for Workers Consumption  
( Fondo Nacional para el Consumo de los Trabajadores)

**FSTE:** Federation of Unions of State Workers  
(Federación de Sindicatos de Trabajadores al Servicios del Estado)

**IMSS:** Mexican Institute of Social Security  
(Instituto Mexicano de Seguro Social)

**INFONAVIT:** National Institute for the Development of Workers Housing  
(Instituto Nacional de Fomento a la Vivienda de los Trabajadores)

**ISSSTE:** Social Security Institute for Government Workers  
(Instituto de Seguridad y Servicios Sociales de los Trabajadores al Servicio del Estado)

**NAFTA:** North American Free Trade Agreement

**PAN:** National Action Party  
(Partido de Acción Nacional)

**PEMEX:** Mexican Petroleum Company  
(Petroleos Mexicanos)

**PRD:** Party of the Democratic Revolution  
(Partido de la Revolución Democrática)

**PRI:** Party of the Institutionalized Revolution  
(Partido Revolucionario Institucional)

**PROFECO:** Consumer Protection Agency  
(Procuraduría Federal del Consumidor)

**PRONASOL:** National Solidarity Program  
(Programa Nacional de Solidaridad)

**SECOFI:** Secretary of Commerce and Industrial Development  
(Secretaría de Comercio y Fomento Industrial)

**SEDESOL:** Secretary of Social Development  
(Secretaría de Desarrollo Social)

**SEPAFIN:** Secretary of National Patrimony and Industrial Development  
(Secretaría del Patrimonio y Fomento Industrial)

**SHCP:** Secretary of Treasure  
(Secretaría de Hacienda y Crédito Público)

**SP:** Secretary of the Presidency  
(Secretaría de la Presidencia)

**SPP:** Ministry of Programming and Budget  
(Secretaría de Programación y Presupuesto)

**STPS:** Secretary of Labor  
(Secretaría del Trabajo y Previsión Social)

## **CHAPTER I**

### **INTRODUCTION**

During the 1980s, most Latin American nations faced one of the deepest economic crises since the Great Depression. Shrinking foreign exchange reserves, increasing foreign debt, budget deficits, and recurring inflation were all common economic maladies in these countries. The standard steps taken by most governments in the region consisted of market-oriented stabilization and adjustment programs. However, in many of the flourishing new Latin American democracies stabilization programs in the 1980s encountered major political opposition, which led to failure in the control of inflation and in economic reform. In countries like Brazil and Argentina where inflation was out of control the Cruzado (1986) and Austral Plans (1985) failed to bring inflation under control.

By contrast, in Mexico where the control of inflation was becoming a serious problem, though had not reached the levels of Brazil and Argentina, the stabilization and adjustment program initiated in 1987 met with little political resistance. The government of Mexico was able to create a political mechanism that helped control inflation, transform the economy, and mediate political conflict through coordination of the actions of the government, labor, and the business sectors. The so called Economic Solidarity Pact (PSE), launched in December

1987 by the administration of President Miguel de la Madrid (1982–1988), managed to control inflation and set the context for the economic reform process after failed attempts to stabilize the economy of Mexico.

The PSE and subsequent economic pacts sought to control inflation and restructure the economy through the coordination of economic actor interests as well as income, fiscal, and monetary policy and trade liberalization. Tight fiscal and monetary policies together with wage and price controls imposed severe constraints to the domestic market and workers' interests.

This policy package disturbed many political and economic actors; yet, through a process of tripartite concertation, the governments of Miguel de la Madrid (1982–1988), Carlos Salinas de Gortari (1988 – 1994) and Ernesto Zedillo (1994–2000) managed to secure the support of the most important labor and business organizations of the country to transform the economy. This change entailed a significant redistribution of economic and political power among different political and economic groups of Mexican society.

The achievement of this concerted agreement was to move economic actors from a context of inflation, in which non-cooperation is the defining variable, to one of cooperation and to create a path to free market reform.

A set of institutional legacies ingrained in the organization of Mexican politics provided a new regime alliance with the political capacity to build a new consensus concerning economic policy, mediate conflict, and render certainty and legitimacy to the process of economic stabilization and reform.

The aim of this project is two-fold. On the one hand, I hope to analyze the breakdown of cooperation between labor, business and the Mexican government during the 1980s and the development of a new regime alliance. On the other hand, I will explain the development of a tripartite cooperative mechanism that helped solve the problem of inflation by fostering a process of cooperation among government, labor, and business.

To understand the unique ability of the Mexican regime to transform the economy and regulate political conflict, this study analyzes the Mexican economic pacts from 1987 to 1997. It will examine the process of policy-making and implementation of the Pacts. The questions this dissertation will try to explain are: 1) what accounts for the shift in the preferences of economic actors from non-cooperation to cooperation in the context of an inflationary process in Mexico?, 2) what explains labor and business sector support for the economic pacts?, and 3) what elements account for labor and business sectors' preference for corporatist negotiation?

There are several reasons why a case study of the Mexican economic pacts within a "new institutional" framework is important. First, most studies in the literature of Mexican political economy have failed to disaggregate Mexican corporatism. Scholars have only explained corporatist politics from a macro-analytic perspective, and omit the study of the set of inducements and constraints that describes the complex dynamics of the relationship between state and society in Mexico (see Collier and Collier, 1979). Furthermore, macro-studies of

corporatist arrangements appeared to take tripartite negotiations as a given, a mechanic or natural outcome of the political dynamics of the country.

Second, most studies on Mexican corporatism have taken a state-centered approach and assumed, first, that the lines between state and society are clearly defined, and second, that the business sector has no role in shaping tripartite agreements. This view of politics has limited the capacity of scholars to elucidate the existing cross-class coalitions between the state and non-state actors in the making of economic policy.

Third, with a few exceptions in the works of Kaufman, Bazdrech and Heredia 1993 and 1994, Maxfield and Schneider 1997, Roxborough 1991, Schneider 2000, Zapata 1992, there is little analysis in the literature of Mexican political economy concerning business organizations and social pacts as institutional mechanisms for sectoral governance.<sup>1</sup>

This brings me to my last reason for studying the development of social and economic pacts in Mexico. Studies of corporatism and economic reform have neglected the role of institutions, and their interaction with ideas and interests shaping preference formation for concertation.<sup>2</sup>

---

<sup>1</sup> Contrary to what is occurring in recent European political economy literature. See the work of Bluhm, 2000; Heinisch, 2000; Hollingsworth and Boyer, 1997; Iankova and Turner, 2000; Lock and Thelen, 1993; Perez, 1998; Rhodes, 1998; Royo, 2000; Soskice, 1990, 1991; Thelen, 1993, 2000, among many others.

<sup>2</sup> Even studies that attempted to explain the development of the Economic Solidarity Pact in Mexico have taken an economic approach to the explanation of preference development for concertation. See Kaufman, Bazdrech and Heredia, 1993 and 1994; Roxborough, 1991; Whitehead, 1989 and Zapata 1992.

This project seeks to overcome these limitations by looking at the role of institutions and its interaction between interest and ideas in the making of economic policy in Mexico.

By looking at the institutional context, this study will contemplate the micro-foundation of policy choices for concerted agreements in Mexico between 1987 and 1998. Ideas, interests, and institutions created processes that shaped business organizations and union preference towards tripartite economic agreement, and provide a new governing coalition with the mechanism to develop a concerted policy-making mechanism in the form of Economic Pacts from 1987 to 1998. By observing the role of ideas, interests, and institutions this dissertation will also attempt to disaggregate Mexican corporatism and explain the political strategies and preferences of labor and business for the support of free market reform.

This dissertation develops three basic arguments. First, concerns for economic stability and market reform induced a governing coalition to use existing political institutions to rebuild and foster cooperation and minimize political conflict for reform. Interests, ideas, and existing political institutions shaped the policy preferences of union and business organizations toward a process of concertation that helped control the inflationary process and reformed the Mexican economy toward the free market.

Second, the regime's lack of credibility in the national and international business sector, and the need to gain access to new economic resources,

stabilize the economy, and change the economic model of development required the creation of a concerted policy-making system. This system developed the necessary trust in the business and labor sectors to support the process of economic reform and alleviate redistributive conflicts.

And third, not coercion but knowledge, information, expertise, and the executive control over economic policy matters and corporatist arrangements provided the government with the capacity to shape the preferences of economic actors towards concertation.

In sum, this research project analyzes the role that institutions had in rebuilding a process of economic and political cooperation that helped assure a new regime coalition with the necessary support to smoothly move the economy toward free market and integrate Mexico into the global world economy.

### **1.1 Methodology**

To account for the development of concertation this research work is based on an extensive review of secondary literature, documents, records, and the results of a series of confidential, semi-structured interviews conducted by the author.

#### **Interviews:**

I interviewed 49 high-ranking government officials and influential members of the labor and business community in Mexico. The interviews were confidential and were held in Mexico City between September 1995 and December 1998.

The interviews were carried out following a semi-structured questioning



method. The average duration of the interviews was 1-½ hours. Semi-structured interviews were an extremely useful tool to gain in-depth knowledge of the Mexican economic players preferences to participate or not in the process of concertation in the Pacts. It provided the author with a good understanding of the strategies of labor and business sector leaders for engaging in a cooperative process. The complete roster of the institutions to which the individuals interviewed belong to is an appendix F

Where a highly structured interview method may impede a frank and open discussion between the researcher and the personality interviewed, semi-structured interviews are the best choice for achieving the desired substantive depth without sacrificing validity. In order to limit possible bias in the observations, I also interviewed a number of non-participants in the Pacts. The sample was obtained through a non-probabilistic snow-ball sampling technique. The reason for not engaging in probabilistic surveying and using snow-ball sampling was the high level of rejection toward being interviewed that I found among the labor and business communities and government officials.

Although snow-ball sampling helps increase the number of interviews, I found a strong resistance from labor and business leaders and politicians to engage in any kind of interview process. I believe that the reason for this rejection was related to two factors. One is the traditional secrecy under which policy decisions were made during the time of the authoritarian Mexican regime. Political leaders and business people believed they could be risking their

positions or enterprises by providing information on the process of policy-making. Through snow-ball sampling and by assuring confidentiality, I was able to decrease the perception of risk among the actors and procure more acceptance for the interviews.

The other factor that increased the perception of risk was the political environment. These interviews took place after the December 1995 economic crisis. Once Salinas de Gortari left the presidency (December 1, 1994), different political actors within the administration of the new president, Ernesto Zedillo, in the business and labor community blamed Salinas de Gortari's administration for the mismanagement of the economy. Thus, it was politically costly for certain members of the business and labor sectors, and the government to acknowledge their support to Salinas de Gortari's policies. For all these reasons, snow-ball sampling was a useful method to overcome the serious rejection problems I faced without losing the desired substantive in-depth knowledge.

Records:

I analyzed the minutes of 17 meetings held by the Follow-up Commission of the Pact (Reuniones Ordinarias de la Comisión de Seguimiento y Evaluación del Pacto para la Estabilidad y el Crecimiento Económico, Pacto para la Estabilidad la Competitividad y el Empleo, y el Pacto para el Bienestar, la Estabilidad, y el Crecimiento) between April 1991 and December 1994. The number of minutes was extremely large; therefore, I decided to analyze 17 minutes that appeared to have an important amount of information. Three of these 17 were chosen because

these meetings took place on dates near important political events in Mexico: The Zapatista rebellion in January of 1993; the assassination of the PRI candidate Luis Donaldo Colosio in March of 1993, and the economic crisis of December 1994.

## **1.2 Structure of the Research**

In this research project, I plan to provide an explanation for the role played by interest, ideas, and institutions in the formation of preferences for centralized social and economic bargaining (or concertation) in Mexico.

In Chapter 2, I present a critical review of the literature on Mexican corporatism and the economic reform process. Later, I outline the theoretical framework I will use to analyze policy preferences for concertation. The theoretical positions heavily drawn from the literature on the new institutionalism in the field of political economy. In this chapter, I defined the three variables that affect Mexican firms and union construction of policy preferences in a context of inflation and economic liberalization.

Chapter 3 presents a historical account of both the development of Mexican corporatism politics and the creation of a system of social partnership with the development of the Mexican political economy. Here I describe: a) the changes that occurred in the politics and economics of Mexico from the 1950 to date that disrupted the process of cooperation between business, labor, and government that had distinguished Mexican politics for more than 40 years, and b) the process

of economic reform and alliance remaking in the 1980s, as well as the specifics of the 1982 economic crisis and the incapacity of the regime to control inflation.

Chapter 4 presents the role played by government technocrats, knowledge, and ideas in the building of heterodox economic programs and the impact on the Economic Solidarity Pact and following pacts. Chapter 5 describes the development of the Economic Pacts and the role that institutions had in shaping unions' and firms' strategic political and economic recovery. This chapter gives particular attention to the role that institutions had in shifting actors' preferences from a non-cooperative behavior to the building of a system of mutual cooperation.

Chapter 6 studies the way in which institutions conceived around the Pact created (e.g. the Follow-up Commission) mechanisms to solve distributive conflicts and collective action problems, thus creating a context of stability, certainty and trust. Chapter 7 analyses the "lock-in" effects of the process of institutionalization of the Pacts and its effects on the capacity state actors to confront the 1994 economic crisis. In this chapter, I also explain the brief recovery of the Pacts after the economic crisis of 1994, and the political and economic conditions that led to the end of the Economic Pacts in 1997. Finally, in Chapter 8 I revisit my original hypotheses and outline the importance of building institutions for the governance of firm, union, and government relations in a context of economic uncertainty and reform.

## **CHAPTER 2**

### **CONCEPTUAL AND THEORETICAL FRAMEWORKS FOR THE STUDY OF UNION AND BUSINESS PREFERENCES DEVELOPMENT FOR CONCERTATION**

Studies of corporatism and economic reform in Mexico have generally failed to pay proper attention to the role that institutions have in shaping economic policy preference development, and union and business strategies for economic policy. Most studies have taken a rather deterministic approach and have assumed that political choices derive only from the economic interests of the individual. Despite its important contribution, this interest-centered view presents some empirical limitations and does not permit us to fully understand the case of the Economic Pacts in Mexico that helped reform the economy for more than a decade.

In the following chapter, I will discuss the problems presented by traditional arguments that have attempted to explain Mexican corporatism, the organization of the country's political economy, and the process of economic adjustment. To overcome the problems presented by these studies, I will propose an analytic framework that studies the relationship among institutions, interests, and ideas in the analysis of Mexican corporatism politics, in particular in the study of the state, union and business organizations' preference<sup>1</sup> development for tripartite concertation in

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<sup>1</sup> For policy preferences development I refer to the process of building a choice, a decision, regarding a set of policy options that can satisfy actors interests. I am in no way trying to assess

the context of economic reform in Mexico.

## **2.1 Explaining the Organization of the Mexican Political Economy and Economic Adjustments: Traditional Arguments and their Problems**

### **2.1.1 The Arguments**

In the late 1970s, the concept of corporatism or neo-corporatism was introduced in political science for the explanation of a particular pattern of institutional arrangements that regulated state-society relations (See Berger, 1981, Cawson, 1986). However, until the late 1980s only a few analysts (Camacho, 1980; Córdova, 1976; Eckstein, 1977; Reyna, 1977; Spalding, 1981), applied or referred to the concept of corporatism to the study of Mexican politics.

As analysts in the late 1980s read Phillippe C. Schmitter's writings, the concepts of corporatism, and, in particular, state corporatism were introduced into the explanation of Mexican politics. For many, the concept of state corporatism correctly described the type of interest-intermediation system that defined the politics of the country. Scholars argued that the critical features of Mexican corporatism were a) the state's authoritarian control over interest organizations, particularly the labor movement, and b) the successful role of the state as an agent of economic development, which in turn, brought legitimacy to the authoritarian control of society (Bizber 1990; Casar 1989; Meyer 1989;

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what actors basic preferences are (Frieden 1999) .

Reyna 1977).

Within this basic framework, three different views of the role of the state, business, and the labor sector were presented. Regarding the business sector and the state, most studies argued that the authoritarian and populist nature of the Mexican regime impeded the full participation of Mexican business in politics. The political regime that emerged after the 1910 Revolution supported the interests of business but did not incorporate them into the party apparatus as a way to legitimize its revolutionary ideology. However, a tacit agreement was established, one in which the government supported the business sector with fiscal policies in return for the support of the regime by the sector and its non-involvement in politics. The regime used inducements, more than constraints, as a way to obtain business support. Yet, the state's nurturing of the corporate sector allowed business interests to grow stronger, in particular the large industrial and financial sectors. According to different scholars the strengthening of the business sector became a serious challenge to the power of the state itself (Camp, 1989; Dale, 1986; Garrido and Puga, 1990; Hernández, 1990; Luna, 1987 and 1995, 1997; Luna and Tirado, 1992; Millán 1988; Pozas and Luna 1991; Quintana, 1992; Teichman, 1988; Tirado 1998; Valdés, 1997).<sup>2</sup>

Most analysts studying the role of labor in Mexican corporatism politics

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<sup>2</sup> Some business analysts went further and claimed that big industrial and financial interests urge the end of the traditional tripartite negotiation schemes. According to these authors, members of the business sector are eager to move into what these authors called liberal-corporatism, in which only business and government design and discuss economic policy (Luna, 1987; Luna and Tirado, 1992; Tirado, 1998, and Valdés 1997)

stressed the notion of authoritarian control of the state over the working class. For these authors, Mexican corporatism is characterized by a weak labor movement that lacks autonomy, highly dependent on the regime. The regime's control over the labor movement has been achieved through labor leaders who have been loyal to the state party apparatus (the PRI). Labor leaders control the rank and file by means of a system of repression and corruption, allowing leaders to mobilize workers in favor of the regime and its economic policy (Aguilar, 1990 and 1993; Alvarez, 1991; Bizberg, 1990; Carr, 1986; De la Garza and Rhi Sausi, 1985; Durand, 1991; González, 1981; Ortega, 1990 and 1993; Trejo and Woldenberg, 1981; and Whitehead, 1991).<sup>3</sup>

At the end of the 1980s, another set of arguments regarding the relationship among corporatism, economic reform, and globalization was developed. Scholars argued that the mobilization of capital and the need for labor flexibility had become variables constraining traditional corporatist arrangements (Bizberg 1990; De la Garza, 1989; Rubio 1993). According to these analysts, corporatist practices established since the 1930s created a system in which the economy and politics of the country were subordinated to the state's resource mobilization and the consensus toward a populist economy. Import substitution industrialization policies nurture a system of patronage in favor of the interest of organized labor, domestic-

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<sup>3</sup> For the more Marxist oriented type of analysts, Mexican corporatism consisted of a series of pacts between labor and the state, which legitimated a capitalist economic policy. Thus, labor corporatism provided the required economic and social peace for the development and promotion of capitalism. It generated optimum conditions for the rapid expansion of capital (Couffignal, 1990; De la Garza and Rhi Sausi, 1985; González, 1981; Ortega and Solís, 1990, Reyna 1977). Thus, the state is seen as an apparatus that controls workers interests for the



oriented industrialists, and a public-enterprise state elite. The corporatist system ensured economic stability within a closed economy and secured massive political support for the government. Nonetheless, according to different authors the incompatibility between economic modernization and corporatism could be illustrated by the new demands of international markets in which quality, productivity, and efficiency are the basic prerogatives for economic competition. Thus, industries require adaptation as quickly as possible to the changes in the international environment, and flexible work conditions.

The opening of the economy and the restructuring of labor conditions, together with the introduction of flexible specialization in production and the processes of privatization of publicly own enterprises in Mexico, can damage the power and interest of labor leaders and the corporatist structure. Liberalization is a threat to the beneficiaries of a closed economy. These analysts argued that the forms of domination established by the practices of authoritarian corporatism clash with the requirements of a modern, open market economy (See Aguilar Camín, 1989; Bizberg, 1990, Rubio, 1993).

For many of these researchers, the process of economic opening also has important effects on the political arena of the country. As the country moves toward free market and the state pulls out from the economic arena the regime is required to find new sources of legitimacy. Yet, for many analysts, the strengthening of the party system and the electoral process can only clash with

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reproduction of capital.

the traditional authoritarian mechanism of negotiation and concertation associated with Mexican corporatism (Bizber, 1990; Casar, 1989; León, 1991; Sánchez Susarrey 1988). In sum, by the late 1980s and the 1990s there was general agreement among scholars of corporatism that free market causes democratization and the collapse of corporatism (Aguilar Camín, 1989; Bizberg, 1990; Casar, 1989; Danel, 1988; Luna, 1987; Meyer, 1989; Sánchez Susarrey, 1988).<sup>4</sup>

Within the literature on stabilization and adjustment strategies in Mexico, studies have devoted their attention to the analysis of the political responses to the economic crisis. During the 1980s, most explanations viewed the politics of economic adjustment as a mere response to changes in the economic environment (Canak, 1989; Cook, Middlebrook, and Molinar, 1994; Nelson, 1988; Stallings and Kaufman, 1989; Thorp and Whitehead, 1987). Recent scholarly works on Mexican corporatism have certainly attempted to overcome these simplistic arguments. Studies on labor have questioned the overemphasis on the control of the regime over the labor movement as explanatory variables for labor cooperation and loyalty. New studies have placed a stronger emphasis on attempting to demonstrate the role that political alliances, organizational capacities, and labor sector institutional arrangements have as incentives for cooperation (Burgues, 1999; Collier, 1992;

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<sup>4</sup> From a more left-wing perspective, Ortega and Solís, 1990, and De la Garza and Sausi, 1985 hold that in the 1980's Mexican corporatism stopped being functional for the new forms of capital accumulation defined by the modernization of the Mexican economy and its move towards free market. Thus, the traditional corporatist pact between the regime and the labor movement has come to a full stop and a process of labor relations restructuring is taking place, in which workers' rights and interests are subject to the requirement of the new market economy.

Collier and Collier, 1992; De la Garza, 1994; Middlebrook, 1991a, 1991b, 1991c; Murillo, 2000; Roxborough, 1984; Samstad and Collier, 1995).

Business sector studies have experienced a similar situation. Contemporary studies have begun to take a coalitional view of the process of economic policy making in Mexico (Calvo, 1997; Davis, 1993; Heredia, 1994; Kaufman, 1988; Kaufman, Bazdrech and Heredia, 1994; Maxfield, 1989 and 1990; Roxborough, 1992; Schneider, 2000). In the case of studies of economic reform, analysts have begun to pay more attention to the question of institutions and their effect on policy choices, and the relevant international and domestic structures and actors that shape economic policy (Nelson, 1990; Frieden, 1991; Haggard and Kaufman, 1992, 1995; Smith et al., 1994; Haggard and Webb, 1994).

### 2.1.2 Problems with the Arguments

Studies of Mexican corporatism and on adjustment programs, old and new, present four basic problems.<sup>5</sup> The first problem derives from the tendency to assume that Mexican corporatism fits Schmitter's definition of state corporatism.. By employing the notion of state corporatism analysts take a state-center approach and assume that the Mexican state had absolute autonomy and control of all groups in society and over actors' preferences.<sup>6</sup> It was a common posture of those who used

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<sup>5</sup> I believe that the works of Murillo, 2000; Heredia, 1995; Burguess, 1999, and Schneider, 1997 do not present these problems.

<sup>6</sup> Guillermo O'Donnell (1977) also suggested the same type of characterization. He argued that it was possible to distinguish two types of corporatist: 1) *estatizante* ("statizing"), which consisted the subordination of societal actors to the state, and, 2) *privatista* ("privatist"), which entailed the "opening of institutional areas of the state to the representation of organized interests of civil

the concept of state corporatism to argue that the state organized society as a whole. This capacity of the state to organize society was based in a corporatism founded on a patrimonial and centralized authoritarianism, a corporatism system in which non-state actors' capacities to negotiate were highly restricted by the state itself.

Studies on economic reform for their part have also developed a state-centered argument. Academic work on economic adjustment policies stressed the role of state elites and autonomy and institutional capabilities to override the opposition to liberalization (Schamis, 1999:237) (See the cases of Bizber, 1989; Córdova 1976; Camacho, 1980; Casar, 1989; Danel, 1988; De la Garza and Sausi, 1985; Haggard and Kaufman, 1992; Meyer, 1989; Reyna, 1977; Sánchez Susarrey, 1988; Tornell 1993).

Part of the problem of developing a state-centered argument in the explanation of Mexican politics derives from Schmitter's definition of corporatism and of state-corporatism. In his definition, Schmitter put forward a basic description of a set of state-society political relations, however, the concept is more definitional than causal, that is, Schmitter provides a concept that tends to be essentialist and that does not explain relational properties. The non-critical view of Schmitter's concept by many analysts led to problems in the understanding of Mexican politics solely from a state-centered perspective.

The use of a state-centered approach to the study of corporatists politics in

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society" (p.48).

Mexico has two serious theoretical limitations.<sup>7</sup> First, autonomy and capacity are relational concepts that depend on the type of the policy and the kinds of political arrangements that define state-society relations. Thus, the concept of autonomy cannot be taken as given, as many scholars did.

Second, state-centered approaches assumed that it is feasible to clearly establish the borderline between state and society, yet these boundaries are elusive. It is difficult to determine the borders of the state as society seems to permeate the state (Mitchell, 1991, 91). The state is composed of a set of amorphous and complex units. In this sense, it is not possible to establish a fixed definition of the boundaries of the state or society. The microcosms of power relations, establish and shift the lines that divide state and society (Granovetter, 1985; Krasner, 1989; Mitchell, 1991).<sup>8</sup>

Students of Mexican politics who embraced state-centered approach assumed that the state organized, control, led and defined interests, demands, and strategies.

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<sup>7</sup> It is important to say that authoritarianism was, without question, a very important variable to consider in the study of Mexican politics. Yet, on many occasions the authoritarian variable was neither fully explained nor well-grounded. However, the authoritarian variable was used as a variable that explained the anomalies in the model used. In other words, although it is very difficult to recognize the basic preferences (means and ends) of political actors, many analysts believed they could (See Frieden, 1999). Hence, when analysts could not explain a shift in actor's preferences for means and ends according to the previous assumptions made on the actor's basic preferences, the tendency was to use the authoritarian variable to explain such an anomaly. In this way authoritarianism became an *ad hoc* variable that provided an exit to the heuristic problems in the model. This kind of explanation is obviously methodologically inconsistent because the model itself cannot provide a feasible account for variations in time and space. Furthermore, the authoritarian variable cannot be proven independently from the *explicandum* (Popper, 1963; 1995:142).

<sup>8</sup> At the beginning of the 1980s only a few scholars questioned the notion of state autonomy presented in most works on Mexican politics. These scholars questioned the assumptions concerning the autonomy and cohesiveness of the state apparatus in Mexico and its capacity to organize society in general. (Hamilton, 1982; Spalding, 1981). Although this was an important line of reasoning that questioned many of the assumptions made by analysts, most scholars continued to assume state

As a consequence, these analyses neglected the possibility of existing coalitions based on shared preferences, and could not solve the problem of explaining preference shifts and variations for economic policy.

A second and more complex problem in many studies of corporatism and economic reform involves the tendency toward economic determinism. Many analysts of corporatism in Mexico explained political preferences for corporatist arrangements and adjustment policies solely as a result of the material interest of workers, business, or the state elite. The assumption made is that for business, labor and the state policy preferences are derived from their economic interests (See Aguilar, 1990 and 1993; Alvarez, 1991; Bizberg, 1990; Carr, 1986; De la Garza and Rhi Sausi, 1989; Durand, 1991; Garrido and Puga, 1990; Haggard and Kaufman, 1992; Kaufman, Bazdresch and Heredia, 1993 and 1994; Kahler, 1989; Luna, 1987 and 1995; Luna and Tirado, 1992; Maxfield and Anzaldua, 1987; Ortega, 1990 and 1993; Quintana, 1992; Stallings, 1992; Tirado 1998, Valdes 1997; Whitehead, 1989; Zapata, 1992).

As a consequence of this determinist argument, scholars have failed to pay proper attention to the role that institutions play in preference formation for economic policy strategies (Steinmo, Thelen, and Longstreth, 1992. Hence, scholars have assumed that 1) when business or worker organizations do not follow strategies according to their economic interests, it is because the leadership is either corrupt or politically controlled, and 2) that economic reform is inevitable, and a

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autonomy and did not follow this line of reasoning at all.

consequence of deep economic disaster. Thus, governments have no choice but to adjust facing much opposition (Schamis, 1999:240). In sum, for these types of studies choices do not exist for either state or non-state actors.

The result of this economic approach is that students assume that politics operates only as a response to economic change. This is particularly acute in the case of studies on Mexican corporatism developed at the end of the 1980s and in the analysis that dealt with 1980s and 1990s economic adjustments and reform.

On the one hand, scholars of corporatism argued that a free market model open to economic competition and patrimonial, vertical political relations derived from corporatist politics were incompatible (Aguilar Camín, 1989; Bizberg, 1990; Casar, 1989; Dane, 1988; Luna, 1987; Meyer, 1989; Sánchez Susarrey, 1988). On the other hand, studies on adjustment strategies suggest that economic interests basically move political actors' motives, and that state actors' capacities automatically change the politics of the country. Electoral politics were seen as the only constraint to the capacity that state actors have in defining policy choices. This literature centers its analysis on the policymakers and studies the capacity of governments to control demands (Canak, 1989; Cook, Middlebrook, and Molinar, 1994; Nelson, 1988 and 1990; Frieden, 1991; Haggard and Kaufman, 1992, 1995; Smith et al. 1994; Stallings and Kaufman, 1989; Thorp and Whitehead, 1987).

In both types of analysis scholars have neglected the importance of institutions in the definition of economic choices and the organization of the political economy.

For these studies, politics appeared only as a reflection of economics. These approaches to political action have failed to acknowledge the role of politics in shaping economic policy choices (Gourevitch 1986; Zysman 1983).

When institutions do appear they are only mechanisms that solve market failures. Institutions are not understood as variables that shape actor tastes for economic policy choices (March and Olsen, 1989; Martin, 1993 and 2000; Steinmo, Thelen, and Longstreth, 1992).

Finally, with the exception of the studies of Kaufman Purcell (1975) and Davis (1992), most studies on Mexican corporatism and adjustment strategies have failed to penetrate on the mechanisms of institution building for cooperation or to fully understand the institutional forms to solve collective action problems in times of economic change. In sum, corporatist political arrangements in Mexico, whether in times of crisis and reform, have always been studied from a macro-structural approach; thus corporatism was never disaggregated, and the possibility that policy choices do exist was rarely taken into consideration.

## **2.2 Conceptual and Theoretical Framework: Economic Motivations, Institutions, and the Study of Policy Choices**

Recently, the concern of political scientist has moved toward theories that explain how material and social interests together with political institutions determine political outcomes, although disagreement exists concerning over how



can this be best accomplished. This search for causation in the explanation of political action has gravitated between what Hirschman called “the passion and the interests” or Mansbridge (1994) “Power and Persuasion” (See Martin, 2000).

Studies that explain corporatist politics and the politics of economic reform in Mexico have taken the interests’ portion of the formula as the driving force of political action.<sup>9</sup> Interest-driven approaches believed that political behavior can be easily deduced from what seems are the economic interest individuals or the market power of collective actors<sup>10</sup> (Garret and Lange: 1996:49; Martin, 2000:27). As Martin (1995 and 2000) has argued, this theoretical position has been particularly strong in the case of the analysis of corporate political action. For most scholars studying corporate politics, preferences for policy strategies “can essentially be inferred from the material conditions of the firm and industry” (Martin, 1993). In the case of business their policy preferences can be directly inferred from the profit function (Martin, 1993).

Interests, or demand-driven theories, have also dominated labor studies (See Murillo, 2000). Union preferences and strategies vis-a-vis government or business are fundamentally defined by their economic interests. Thus, in a democratic capitalist society unions are assumed to develop a set of strategies that try to claim a part or the entire capital stock (See Przeworski and Wallerstein, 1982).

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<sup>9</sup> Interest-base arguments appear both in studies on Mexican corporatism, argued earlier in the Introduction, as well as in analysis of European corporatism. See: Katzenstein, 1985; Lange, 1987; Pontusson, 1995; Pontusson and Swenson, 1996; Scharf, 1991; Swenson, 1991. Interest-based theories have also taken hold in the study of Latin American economic reform. See Jeffrey Frieden, 1991 or Geddes, 1993.

<sup>10</sup> For an example, see Friden and Rogowski, 1996 or Przeworski and Wallerstein, 1982.

Studies on globalization and policy outcomes have suffered from the same kind of problem; it is generally assumed that policies and institutional arrangements within countries reflect the domestic economic interests of economic (Garret and Lange; 1996:49).

However, although interests have an important impact on actors' choices for economic policy and strategies, preference for concertation is not simply a matter of material interests.<sup>11</sup> In themselves, theories that use material interest as the causal factor for preference formation cannot fully explain how and why actors make choices, why actors change their preferences, and what the origins of institutions are.

For the purpose of this study, interest-based theories present empirical limitations for explaining the preference formation for concertation in Mexico during the process of economic adjustment and reform of the 1980s and 1990s. In particular, demand driven theories have important limitations in explaining, first, policy preference change. Interest base studies assume that economic interests are constant and fail to give attention to policy preference development. Why did unions and businesses suddenly change their strategies of non-cooperation, which fueled inflation, to the development of tripartite accords that, through cooperation, help reduced inflation? If economic conditions and actors interests remain the same, what explains the sudden policy preference change? Why did actors change their course of action? Second, these theoretical approaches also have difficulty in

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<sup>11</sup> For an example of the discussion between interests and institutions see Pontusson, 1995 , or

explaining the timing of the policy preference change. Why did economic actors accept to cooperate when they did? What elements account for the timing in the shift of policy choices? What factors account for the choice process? Third, interest-based approaches are unable to fully account for shared preferences for economic policy. Why did actors with different interests, such as unions and firms in Mexico, come together and participate in a concerted state policy initiative? If interests differ why did actors support the same policy arrangement? Finally, these frameworks have difficulties in explaining institution building because institutions appear to be exogenous and given. Why did the actors of the Mexican political economy develop an institutional framework in the form of the Pacts? Why was this institutional route taken? Why did actors choose a tripartite agreement and did not continued non-cooperative strategy?

The inability of many interest-based approaches to spell out timing, variation, preference change, and institution formation pressured some scholars to developed *ad hoc* explanations. Although the Mexican political regime was of an authoritarian nature for more than 60 years, the most common *ad hoc* variable for explaining outcomes that did not follow the internal logic of the interest-based approaches was an exogenous variable: the authoritarian variable. Scholars believed that the accounts in questions such as timing, preference change, variations, and institution building were the result of the state's capacity to control all political and economic interests in the country. This, as argued earlier, is the result of a state-based

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between power and persuasion, see Mansbridge, 1994.

approach unable to explain shared preferences between state and non-state actors.

Furthermore, this type of approach assumed that basic preferences were easily defined because they were revealed by actors' actions. The question of defining basic preferences is, however, extremely problematic to the point that it becomes tautological. The use of the authoritarian variable is unable also to fully explain the case of the Economic Pacts in Mexico, their timing, variation and institutional development.

This study follows the insights of a path of analysis set by Cathie J. Martin's work on firm preference development for national healthcare reform in the U.S. (1995 and 1999), Victoria Murillo's study on labor strategies under market reform in Latin America (2000), and Skocpol's work on U.S. social policy. These works have criticized economic and cultural determinism in the explanation of policy choices and have stressed the role of institutions in shaping policy preferences. However, and contrary to these latter works, my own analysis tries to build bridges between interests and institutionally-based approaches. This work recognizes that interests together with a wide range of institutional factors and ideas shape an actor preferences.<sup>12</sup> Thus, it offers an analysis that brings together the relationship between interests, institutions, and ideas in the formation of choices for concertation.

This research is theoretically based in what has been called historical institutionalism (Steinmo, Thelen, Longstreth, 1992). The basic argument for using this theoretical approach is that "...preferences are developed through involvement

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<sup>12</sup> This concern is obviously not new within political science, see Bates et al. (1998).

in political activity which is structured by institutional arrangements "(Kranser, 1989:77), and historical institutionalism brings the question of time in politics to the analysis of institutions (Orren and Skowronek, 1994:312). In other words, political action can best be understood if it is studied over time.

For institutionalists, preference development is problematic. The way in which individuals and groups define their self-interest is indeterminate or not predetermined (March and Olsen, 1989:6; Martin, 1993:901; Steinmo, Thelen, Longstreth, 1992:8). Interests, goals, strategies are context dependent. Preferences are not exogenous and, thus, are not taken as given, as most classical economic/game theory analysis does (DiMaggio and Powell, 1991:9; Steinmo, Thelen, Longstreth, 1992:8). Economic driven studies assume that since preferences are clear, unambiguous and consistent, and exogenous (March and Olsen, 1989:6).

Economic/rational choice studies that have taken institutions seriously have done so in a narrow sense, that is, institutions only as a system of incentives that defines sanctions and rewards and, hence, define actors' strategies (Steinmo, Thelen, Longstreth, 1992:7)<sup>13</sup>. Institutions are taken as exogenous factors which are taken as given. There is no explanation of institutional development, and consequently, preference development (Munck 2001:1213.). For historical institutionalists institutions have a broader impact, institutions define the strategies as well as the goals of actors. Interests derived from goals, which are context-

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<sup>13</sup> For an example see James E. Alt and Kenneth A. Shepsle (1990) or Douglass C. North

dependent (Moe, 1987:283). Preferences define the actors' pay-off matrix hence, they determine whether the game will be played (Legro, 1996:119). Thus, institutionalists scholars believe that maximizing interest can be fulfilled in different ways, because goals depend on the institutional context. The interpretation of interests and strategies take place in a world of institutions.

Institutions are the product of political conflict and choice, but at the same time, institutions constrain and shape political strategies and behavior (Steinmo, Thelen, Longstreth, 1992:28). Institutions provide a context for opportunities, incentives, risks and constraints (Skowronek, 1982:167). Again, as Jepperson clearly puts it, "Institutions are not just constraining structures; all institutions simultaneously empower and control. Institutions present a constraint/freedom duality" (1991:146).

Although political scientists and sociologists have offered different definitions of institutions, there is the general agreement that institutions are socially constructed routines (DiMaggio and Powell, 1991; Hall, 1986; Jepperson, 1991; Knight, 1992; March and Olsen, 1989). Most political scientists have agreed that for institutions it can be understood formal and informal rules, procedures and standard operating practices that structure the relationship between individuals and society (Hall, 1986:19). For Jack Knight, social institutions are " 1) a set of rules that structures social interactions in particular ways, (and) 2) for a set of rules to be an institution, knowledge of these rules must be shared by the members of the relevant

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(1990).

community or society” (1992:3).<sup>14</sup>

A consequence of the role of institutions in political life is the concern for timing, sequence and stability. For historical institutionalists, the endurance of practices and structures is key for understanding political processes, because practices can take a life of their own (Powell, 1991:191). Political institutions may persist for different reasons, because changing routines can be costly, time-consuming, due to coordination effects, adaptive expectations, collective action problems (Pierson, 1997; Krasner, 1989:88) and because previous institutional arrangements limit available future choices (Krasner, 1989:74). Thus, path-dependence arguments are at the core of institutionalism. (Pierson,1997). In sum, interests cannot be defined and carried out “outside of the context of historically existing political institutions or apart from prior public policies” (Sckopol, 1992:30).

This study gives relevance to the role of institutions in creating the context in which interests are defined, ideas interact, and strategies develop. In fact, political institutions are the result of political conflict, and thus institutions can also be conceived as an effort of some to constraint the options of others with whom they interact in the polity (Knight: 1992:19). Once in place social institutions shape future preferences and political strategies.

A fundamental interest of this work is the examination of the role that institutions play in the definition of the interests, the choices for strategies and policy preferences of political coalitions and their capacity to modify existing political

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<sup>14</sup> For Knight, organizations are “collective actors who might be subject to institutional

institutions to enlarge their own interests and shift the balance of power (Collier and Collier, 1991; Frieden, 1991; Gourevitch, 1986; Hall, 1986; Katzenstein, 1985; Moore, 1969; O'Donnell, 1973; Swenson, 1991).

This work affords particular attention to three critical institutional variables that a) created the processes that shaped business organizations and union preference toward tripartite economic agreement in Mexico and b) that provide the governing coalition with the mechanism to develop a concerted policy-making mechanism in the form of the Economic Pacts of 1987 to 1998. These three type of variables are 1) State capacities (expertise, ideas, and knowledge); 2) corporatist institutions, and 3) the *Pacto* institutions. State capacities and corporatist institutions are two key independent variables that help explain policy preferences for tripartite negotiation, yet, the *Pacto* institutions is both a dependent and independent variable that help explain the process of long cooperation and reinforcement towards tripartite negotiation. The processes institutions created had an important effect on the goals and capacities of political and economic groups, the relationships between the goals and capacities, and the ways in which previous policies affect future politics.

### **2.2.1 State Capacities**

State capacities are defined as the state's ability to achieve their goals. However, explaining the degree of success in achieving a determinate political goal cannot be solely explained by the mobilization of resources or power. Bureaucratic

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constraints" (1992:3)



effectiveness depends on the opportunities created by the existing political institutions, in particular, the administrative organization of the state and policy legacies (Sckopol and Finegold, 1982:260; Sckopol, 1992:56).

State capacity is important in the case study of this dissertation because it allows us to understand, on the one hand, the ability of the state to develop a concerted agreement to control the inflationary process and the reform of the economy in Mexico, and, on the other hand, because it will make clearer the propensity of business and union towards concertation. The two variables analyzed in this case study, within the variable of state capacities, are bureaucratic coherence and expertise, which are themselves related to knowledge, ideas, and information.

I believe that bureaucratic coherence, i.e. the consensus among top-level government policy-makers toward certain economic ideas and policy goals, is a key factor for the successful shaping of preferences towards state policy proposals. Bureaucratic coherence is also important for the success of policy implementation. The Mexican technocratic elite, which slowly took control of the state apparatus from 1982, had common views concerning the necessary changes in the Mexican economy for it to become competitive in world markets. There was a common goal among policy makers.

Knowledge and expertise are also key factors in developing a coherent, plausible policy strategy. In depth knowledge on the economic variables and their effects on performance, on political and economic actors' demands, knowledge concerning the administrative capacities of the state, increased the capability of

bureaucrats to develop a system of incentives and controls. Administrative capacities provided the government with the instruments to coordinate, monitor, and sanction actors. As Schneider and Maxfield put it, expertise enhanced the ability of bureaucrats to collect and possess information and monitor social actors (1997:16).

Finally, bureaucratic insulation from electoral politics is another important variable. Secured by decades of hegemonic control over the electoral arena, the Mexican executive, the Congress, and the corporatist system, top-level government officials from 1987 to 1997 were insulated from the demands of the population. Bureaucrats could act more freely according to the demands of the governing coalition interests and their ideas on economic well-being. It also allowed bureaucrats to make long-term commitments, thus finding long-term cooperative solutions to common dilemmas.

Non-state actors lack of information and expertise diminish their capacities to confront state policies or at least propose alternative measures to confront government proposals. It made non-state actors highly dependent on the government's capacity to develop strategies for economic stabilization and reform.<sup>15</sup>

### **2.2.2 Corporatist Institutions**

A fundamental variable shaping state and non-state actors' preferences for

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<sup>15</sup> Until 1996 most business chambers in Mexico lacked qualified personal and reliable information of their sector, contrary to what occurred in the U.S, where big business and trade associations had a qualified bureaucracy and meaningful information about the industry. The reason was that since its development, in the mid Nineteenth Century, business associations attempted to influence the political setting and protect the interest of their members. See Galambos, 1966:206..

concertation are corporatist institutions. Corporatist institutions help shape actors' preferences toward cooperative solutions because there are institutions specifically designed to reduce the risk to the bargaining partners of concerted behavior (Lange; 1987:2).

Although many different variables have been put forward by scholars of corporatism, this study will exclusively place attention on the role that encompassing monopolistic institution have in the development of concerted agreements between the state, labor, and capital in economic policy.

The limited number of peak-level associations that manage to control interest representation in a corporatist political system enabled consensus building in economic policy and allowed for a system of social partnership by solving collective action problems, coordination, and monitoring

Mancur Olson (1982) developed an appropriate explanation for the effect of peak-level organizations on cooperative economic behavior. According to Olson, encompassing organizations develop incentives to make sacrifices, and engage in negotiation because "The members of the highly encompassing organizations own so much of the society that they have an important incentive to be actively concerned about how productive (society) it is" (Olson, 1982:48). In other words, the leadership of encompassing business associations or workers' unions is concerned on the consequence of their negotiation, since these associations own a large portion of the share of society's wealth (Crouch; 1990:68).

It is also important to note that the centralization of such peak-level

organizations and their monopoly of representation can help generate a vertical integration of organizations. This vertical integration allows for the development of inter-organizational mechanisms that favor cohesion and compliance, and institutional constraints preventing disintegration (Lehmbruch, 1984:68). Thus, centralization and concentration ensure compliance, coordination, diminish free riding, and thus facilitate the preferences for collective action, as corporatist institutions diminish the costs of cooperation.

Finally, limited competition decreases the number of social demands and allows for the development of better mechanisms of coordination and monitoring (Golden, 1993 and Schmitter, 1981: 287).<sup>16</sup> Monopolistic and encompassing organizations create systems in which demands are controlled, information flows, and social actors' behavior can be assessed, thus limiting defection and lowering the costs of cooperation (Golden, 1993:440).

### **2.2.3 Path Dependence**

Institutions constrain participants' future choices and have an important effect on the expectations and the strategic behavior of social actors. Thus, a key variable for the study of the politics of concertation in Mexico is the role of institutions in future choices or path-dependence, that is, the persistence of rules, policy

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<sup>16</sup> According to Schmitter (neo)corporatism emerged as the product of the incapacity of "self-legitimizing" and "self-equilibrating" pluralist systems to respond to a cascade of demands from the civil society during the 1960s and 1970s. Schmitter believes that corporatist regime developed as a response on the excess of demands ("overload") of civil society that threaten the stability of the regimes ("ungovernability") (1981:287).

structures, or norms, and their effects on future policy choices.

Once in place the Economic Pacts in Mexico created institutions as well, that is governance structures to control social actors' choices that once in place, transformed or expanded the capacities of the social actors themselves. The Pacts became institutionalized because their rules, policy structures, and routines became embedded in the political system. The Pact became embedded, institutionalized in concrete temporal processes (See Thelen, 1998:5).<sup>17</sup>

The importance of institutionalization is that public policies, once put into the political process, reshape social, economic, and political conditions (Pierson, 1993:595). Routines influence political behavior. Public policies become "...the rules of the game that influence the allocation of political and economic resources, modify costs and benefits associated with alternative political strategies, and consequently altering ensuing political development (Piersons; 1993:596).

This pattern of institutional persistence can have different effects at different points in time. At one point, the process of institutionalization can generate increasing returns, which in turn reinforced the established set of rules and norms (Pierson, 1997: 12). Political uncertainty and politicians' time-horizons also have an important effect on the persistence of institutions, in the words of Paul Pierson, "Stickiness is built into the design of political institutions to reduce uncertainty and enhance stability, facilitating forms of cooperation and exchange, which otherwise

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<sup>17</sup> For Krasner, institutionalization is the "tendency of pattern behavior, norms, or formal structures to persist through time" (1989: 77).

would be impossible" (Pierson; 1997:29).

Yet, as the external conditions change, the "lock-in standard operating procedures" can create rigidities and lead to catastrophic outcomes (Krasner, 1989:85, Thelen1998:53).

In sum, the basic arguments of this dissertation are three-fold. First the concerns on economic stability and market reform induced the Mexican governing coalition to use and modify existing political institutions to develop a mechanism that would foster cooperation and minimize political conflict for reform. Interests, ideas, and acting political institutions interacted and helped to develop the preferences of union and business organizations toward concertation, allowing for the cooperative effort that controlled the inflationary process and reformed the Mexican economy toward free markets.

Second, the serious need of the regime to acquire credibility in the national and international business sector, to gain access to new economic resources, to stabilize the economy, and to change the economic model of development pressed the government to create a concerted policy-making system. This system was based on the creation of a mechanism whereby commitments could be monitored, compliance sanctioned, and actors' interests coordinated. This system of checks and balances helped create the necessary trust between the business and labor sectors to support the process of economic reform and alleviate redistributive conflicts.

Third, is knowledge, information, expertise, the executive's control over

economic policy matters, and corporatist arrangements that provided the government with the capacity to shape the preferences of economic actors towards concertation. The state did not have the need to use coercion as the mechanism to obtain cooperation from the most important economic actors in the country. The institutions inherited through the political system gave the Mexican regime an incredible capacity to control actors' desires and opportunities.

In order to gauge bureaucratic coherence and expertise I look at knowledge and information. Understanding the characteristics of Mexican inflation in the 1980s helped economic policymakers define a policy to control inflationary inertia. Flexible prices and wage controls were the result of institutional legacies of information and knowledge regarding the Mexican economy.

To measure how corporatist institutions served to solve collective action problems I explore 1) the extent to which they limited the number of actors in the bargaining game; b) the recognition of corporatist labor and business organizations as legitimate bargaining partners, c) the control of free-riding, and d) the coordination of organization interests.

Finally, to understand how the Pact helped diminish distributional conflicts and assured cooperation I looked at a) how concertation generated institutional mechanisms that monitored, coordinated, sanctioned, and rewarded actors, and b) how the established institutional mechanisms of the Pacts created a path that reinforced concertation and shaped future policy choices.

### CHAPTER 3

#### THE POLITICAL ECONOMY OF MEXICO: FROM FRACTURE TO THE REMAKING OF AN ALLIANCE AND THE REBUILDING OF AN ECONOMY

When Mexican President Miguel de la Madrid (1982–1988) took office in December 1, 1982, he knew he was facing the deepest economic and political crisis in modern Mexican history. In his inauguration speech, de la Madrid expressed his concern and said "...I am conscious that I am assuming the government of the Republic in difficult hours. Mexico is in a severe crisis"<sup>1</sup>

By the end of 1982, the Mexican economy faced an uncertain future. High inflation, negative economic growth, a rising government deficit, a serious foreign debt and a massive drop on oil revenues were some of the symptoms of a distressing economic context. For the first time since the 1930s the traditional capacity of the regime was questioned as to how create consensus, limit political conflict, and bring on economic stability and growth.

In the 1980s, the regime suffered an accelerated process of deterioration. The economic crisis of 1982, the nationalization of private banks and the process of economic modernization, polarized relations between the governing elite, the business sector and the labor movement. The capacity of the

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<sup>1</sup> See Presidencia de la República, 1988:13.



government to respond to the economic crisis was limited to its inability to reestablish the necessary agreements around economic policy.

The immediate response of President de la Madrid to the economic chaos was to restructure and modernize the Mexican economy. This process meant a shift from an inward-looking to an export-led development strategy together with a structural reform of the politics and economy of the country.

Although steps toward the reconstruction of the economy and that of a new regime alliance began the day de la Madrid took office, the stabilization of the economy and its reform became an extremely difficult assignment for the administration of the new president. The process of economic stabilization and restructuring was set into motion only at the end of 1987, when the government successfully generated the Economic Solidarity Pact (PSE), a concerted agreement between government, labor and agricultural workers. Through the PSE the government was able to develop a political mechanism to restore the capacity to promote the necessary consensus and commitments for the stabilization and reform.

The content, timing, scope, and implementation process of Mexican Economic Pacts between 1987 and 1997 can only be understood by means of a detailed account of the interaction among the domestic political forces in a particular economic and political context.

This chapter presumes to analyze the economic and political context in which the Economic Pacts were developed. To understand the development of the economic Pacts in Mexico during the 1980s and 1990s it is critical to understand the corporatist politics and the organization of the country's political economy, and the forging of a new governing alliance in the 1980s.

The aim of this chapter is to two-fold, on the one hand, to understand the process of cooperation and fracture that shaped the political economy of the country from the 1970s until the 1990s, and on the other hand, to comprehend the development of the political and economic grounds for the successful establishment of the Economic Solidarity Pact and subsequent Economic Pacts.

The first part of this chapter will briefly describe the development of the institutional bases of Mexican corporatism from the 1930s until the 1970s. The second part will explain the political economy of the country from the 1970s until 1994. The third part of the chapter will finally pay special attention to the particularities of the economic crisis of 1982 that led to the inflationary crisis and the failed attempts to stabilize the economy in the 1980s.

### **3.1. The Building of Corporatist Politics in Mexico**

The incorporation of labor and, in some cases, the peasant movements into the Latin America political scene was a particular phenomenon that took place during the first decades of the twentieth century. Commonly, Latin American

governments used violence and an organized system of repression against working-class organization and protest. Nevertheless, a fundamental change in labor-state relations took place during the 1920s in most Latin American countries. Control over the labor movement was achieved by the legalization and institutionalization of a number of labor organizations rather than through violence and repression. Political leaders saw in the mobilization of workers a strong base for political support (Collier and Collier, 1991:6-7).

This process of incorporation of the labor sector into the political system was part of a broader transformation of the Latin American governments. The new set of rules gave labor a more important role in the politics, the state transformed its traditional Nineteenth Century *laissez-faire* politics and moved into interventionist policies. The new interventionist state based its political agenda on the new social constitutions of the early Twentieth Century. Constitutions introduced social welfare responsibilities along with labor, agricultural and land reforms, such as working conditions, minimum wage, and social security (Collier and Collier, 1991).

The basic concern of Latin American governments during this period was to achieve of political stability, economic development and social equality, all within a capitalist system. To do so, Latin American governments visualized the need to mobilize and control labor, as well as to harmonize labor's interests with those of capital. Corporatism played a major role in this process. On the one hand,

corporatism controlled the labor movement by institutionalizing and legalizing labor organizations. On the other hand, by means of corporatist arrangements states were able to build consensus on macro-economic policy and its political outcomes (Collier and Collier, 1991).

The process of political incorporation occurred in specific periods of history and throughout different channels. In Mexico, this particular process occurred during the aftermath of the Revolution. The process of incorporation was achieved through a political party created by the executive, the *Partido Nacional Revolucionario* (National Revolutionary Party, later renamed the Revolutionary Institutional Party, PRI). With the creation of a political party, the regime found a suitable mechanism to control the labor movement and an ideal channel to mobilize the necessary political support to legitimize its policies and retain the control of the state apparatus (Collier, 1992).

### **3.1.1 Labor and the Institutional Structures of Corporatism**

The Mexican Revolution of 1910 supposedly ended in 1918 upon the adoption of the new 1917 Constitution.<sup>2</sup> But the violent struggle for power did not end there.

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<sup>2</sup> The Constitution of 1917 replaced the Constitution of 1857 and provided the foundations for a new social and economic order. The Constitution included important popular reforms. It was the crystallization of the long awaited, and aspired to, goals of social justice of the Mexican revolutionaries. The new Constitution embodied two conflicting prerogatives: the role of individual freedoms and the role of a strong state able to modify existing political and economic structures (Marvan, 1997). The Constitution established the primacy of the executive over the legislative and judicial powers and placed social interests over individual freedom (Newell and Rubio, 1984:33). The social reforms were crystallized in article 27 and article 123 and presidential power articles 80 to 89.

The need to put an end to the continuous struggles for power and the need for political stability and economic integration of the country had persuaded the Revolutionary Family<sup>3</sup> of the need to institutionalize the politics of the Mexican Revolution. The outcome of this concern was the creation of the *Partido Nacional Revolucionario* 1929, which unified the most important political factions in the country. The party was formed as a mechanism to stabilize the relationship between the different competing groups in the country (Padgett, 1966), as well as an instrument of the executive branch to centralize power (Collier, 1992:39).

The formation of the party was not the result of a democratic demand from society. Instead, the PNR was built from above, by the regime alliance. This process guaranteed its permanence in power. The party was formed not as a mechanism to access the state apparatus, but as an instrument of political control that served the political and economic objectives of the post-revolutionary governments (Padgett, 1966:47).

The PNR became a successful mechanism settle power disputes between the different political factions. Yet it was not until 1938 that the PNR was able to incorporate the labor movement into its political structure.

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Article 27 provided the basis for the property of land and subsoil and agrarian reforms. Article 123 provided the basis of worker's social and political rights, and articles 80 to 89 provided the foundations of Mexico's presidentialism. The Constitution was built upon the consensus of all the revolutionary factions around the validation of two concepts: a) social interest and liberal values, and b) industrialization, economic growth and social justice. (Newell and Rubio, 1984: 33-34).

<sup>3</sup> The Revolutionary Family is a term used to define the group that controlled the political power of the country after the Revolution of 1910. See Brandenburg 1964.

The process of corporativization took place during the Presidency of Lázaro Cárdenas (1934–1940), when the PNR was transformed into the *Partido de la Revolucion Mexicana* (later the PRI). The integration of the masses into the structure of the PNR was a key component of the legitimacy of the party and the post-revolutionary governments throughout the twentieth century.

In 1938, President Lázaro Cárdenas called for the organization of a new party, the *Partido de la Revolucion Mexicana* (Party of the Mexican Revolution or PRM). The PNR geographic representation was substituted by the PRM sectorial representation, in which the labor sector, peasants, middle classes, and the army were all included in the structure of the new party. A large portion of labor was represented by three major confederations: the Mexican Workers Confederation (CTM), the General Workers Confederation (CGT), and the unions of miners and electricians. The agrarian leagues and the Mexican Peasants Confederation, which three months later became the National Peasant Confederation (CNC), represented the peasant movement. The army was represented by elected representatives from each military zone in the country. The popular sector was composed of different sectors of Mexican society but particularly by the Federation of Unions of State Employees (FSTE)(Hamilton, 1986:242).

Reorganizing the ruling party into a corporatist system first allowed for the centralization of the decision-making process among the main political

organizations of the country; however, the President would always have the last word on important economic and political issues. Organizing by sectors limited the use of the party machinery by local politicians. Secondly, the political activities of the organizations were included into the structure of the ruling party, and thus controlled. Third, the harmonization of the interests of capital and labor was based on the idea of a national unity. Fourth, the reinforcement of the authoritarian controls over rank and file. Eventhough the party provided labor representation it controlled mass mobilization. And fifth, with the incorporation of the masses and the developing of populist politics the PRM and the post-revolutionary governments acquired a strong legitimacy.

The process of corporativisation must be understood as part of a general strategy in which the post-revolutionary state was to be the main agent of political and economic development. The incorporation of the most important groups of Mexican society into the party gave the PRM and the post-revolutionary state a number of political advantages obtained by no other country in Latin America. It controlled mass mobilization and channeled mass participation for its own political support; controlled and centralized the most important economic and political decisions in the country; and achieved stability through consensus and incorporation (Bizber, 1990:695-735, Collier and Collier 1991:246).

During this time, labor played a critical role in the process of legitimization of the new post-revolutionary ruling coalition. Hence, by the 1930s Mexico had managed to establish and institutionalize a one-party-dominant hegemonic regime (Collier, 1992:38).

As Ruth Berins Collier argues, state-labor relations in modern Mexican politics have been the outcome of an alliance between labor and the state during this period of incorporation (Collier, 1992:49).

### **3.1.2 The Business Sector and the Institutional Structures of Corporatism**

Business organizations had existed in Mexico since the late 1800s; however, the growth of these organizations had been rather slow (Shafer, 1973:31). Tensions between industrial, commercial groups and business interests in the province and the capital were obstacles for organization of the sector throughout the 1800s (Shafer, 1973:30).

In the period immediately after the Mexican Revolution (1917) the government of President Venustiano Carranza (1917–1920) supported business organizations. In 1918, the Confederation of Chambers of Industry (CONCAMIN) was born. Chambers of industry from specific sectors and voluntary manufacturing associations constituted the CONCAMIN. The creation of CONCAMIN was an outcome of the first Industrialist Congress that took place in 1917 under the endorsement of President Carranza. The government's



support toward the development of business organizations was the result its concern over the limited resources the state had for the reconstruction of the economy after the bloody Revolution. The organization of the business sector around a few number of groups was key for the building of accords and the development of trust among the members of small business community (Ramírez Rancaño, 1987:227-268).

The development of business organizations was almost a stagnant process, to the point that by 1928 the government asked business to reorganize and collaborate in the effort of industrialization (Shafer, 1973:31). For the post-revolutionary governments, the requirements of a newly born industrialization process demanded an organized, though, controllable business sector.

A window of opportunity for business organizations aroused in 1929, when the government proposed a legislative bill, which later became the country's Labor Law. The proposed bill produced numerous criticisms from the business sector. The business sector argued that the legislative bill illustrated the government's unilateral tendency to support workers interest in detriment of those of business. The bill generated intense opposition from the business community toward the government and the new rules that would regulate the relationship between capital and work (Shafer, 1973:37). This animosity triggered the organization of business at a national level, which openly demonstrated opposition to the labor law project, distaste for the government

intervention in the economy; and the need to build a stronger and a more independent business organizations. Business mobilization led to the development of an employers union, the Employers Confederation of the Mexican Republic (COPARMEX) in September 1929) (Shafer, 38, 39).

Despite the sudden mobilization of business interest in the late 1920s, the organization of this sector continued to be sluggish. The government of Lázaro Cárdenas (1934—1940) made an effort to organized and control by creating the Law of Chambers of Commerce in 1936. This law established a series of rules that shaped the forms of collective action among the business community, as well as the relationship with government and unions in the country. The most important features of the new law were: 1) organizations had a public character and therefore were consulting organs of the State; 2) it became mandatory that firms with a capital of at least five hundred Mexican pesos to register with the government and to join a chamber of commerce or industry according to their field, and 3) each chamber was required to pay at least 15% of its income to their peak organization (Kaufman Purcell, 1975: 28; Puga, 1993:74 and 75;Shafer, 1973: 45).

A critical moment for business organization came in the 1970s, after the 1968 students repression by the government in 1968, and issues of distributive justice, the government of Luis Echeverría Alvaréz (1970—1976) was forced to regain a lost legitimacy. President Echeverría carried out populist policies that attempted to

maximize popular legitimacy. Deficit spending and the flirting with the left-wing groups were policies strongly disliked by the business sector. The economic and political costs of such policies were a drop on capital building and an increase in capital flight, which in turn fostered the rise in public spending furthermore (Levy and Székely, 1987:155). As a result, an intense confrontation with the business sector took place.

In an effort to regain power and influence in the 1976 presidential elections the major business confederations and business political organizations formed an business umbrella organization, the Economic Coordinating Council (CCE) in May 1975. Since its formation, the CCE became a key factor in the process of political negotiation between the state and business interests in the country.

A process of cooperation and conflict basically defined the development of the business interest. From the 1930s to the 1970s, the organization of business interests was as a response to two distinct and contradictory features. In the beginning, business organizations developed due to the government's capacity to organize business interest. However, from the 1940s business consolidated their organizations as a response to the intervention of the state in the economy and in capital-labor relations.

Therefore, the development of corporatist politics in Mexico provided the regime with an instrument to develop mechanisms of cooperation between the state and social actors and the strengthening of a one-party hegemonic regime.

## **3.2 The Political Economy Mexico and the Regime Alliance**

### **3.2.1 Politics and Economic Policy from 1954 to 1970**

From the 1950s until the 1970s, the inclusionary nature of the political regime had managed to sustain an extremely stable economic growth alliance between the state, labor and business. Consensus and cooperation had been the key elements in this relationship.

The inclusiveness of the political regime, together with an economic model of import substitution industrialization (ISI), isolated the system from international market pressures and neutralized class tensions. This was achieved by incorporating labor, peasants, and business interests into the decisions surrounding the economic policy of the different administrations.

During the times of what became known as the Stabilizing Development (1955-1970), economic policy had three basic characteristics. First, the monetary policy sought to stimulate rapid economic growth through a stable exchange rate policy, a balanced deficit and the control of inflation (Córdoba, 1986, 318; Ortiz Mena, 1969; Rubio and Gil Díaz, 1987, 1). Second, fiscal policy supported subsidies and fiscal exemptions for national enterprises (Zabludovsky, 1989; Solís, 1985). And third, industrial policy by means of the ISI model sought to: "1) ...give a high priority to establishing a local capital goods industry, and 2) to foster a greater concentration of income in the upper and upper-middle classes in order to create a

dynamic market for durable consumer goods” (Villarreal, 1990, 298). The GDP had growth rates of 6.5% a year and inflation was calculated at 3.6% a year (Zabludovsky, 1989; Solís, 1985).

The economic growth alliance produced benefits that allowed for the peaceful distribution of an expanding wealth. During the Stabilizing Development labor, foreign and national industrialist along with the financial sector pressured to create conditions that would generate exchange rate stability, employment and industrial growth. Such strategy increased the need for domestic credit, expanded demand, ensured profits and generated price stability (Davis, 1993: 49).

Between 1930–1970, macroeconomic policy promoted the interests of the financial sector by not regulating the financial markets, free exchange convertibility, tight monetary policy and low taxation on profits (Maxfield, 1990, 71-87; Quintana and Garrido, 1989, 110-111).

Import substitution together with financial stability, provided a climate to develop firms oriented toward the internal market. According to the economic mastermind of this period, Antonio Ortiz Mena, capital formation and trust between the government and the business community were the key concerns for the Stabilizing Development governments (Ortiz Mena, 1969).

The effective control of the regime over organized labor, though the consolidation of the Confederation of Mexican Workers (CTM), the Workers

Congress (CT)<sup>4</sup>, and administrative restrictions, allowed government officials to have a relative high degree of autonomy in the economic policy decision-making process (Middlebrook, 1995:210).

Together with economic expansion, the Stabilizing Development brought employment, real wages increases and the expansion of social welfare benefits for organized workers (Pozas Horcasitas, 1993, 70-72)<sup>5</sup>. ISI policies allowed the delivering of social benefits without disrupting the profit margins of the business sector. Furthermore, the active role of the state in the economy and the expansion of the public economy "...made it easier for major labor organizations to translate their political importance into social and economic gains" (Middlebrook, 1995:210 and 220).

Economic growth and the ISI had a positive impact over the diversification of Mexican business and the development of small and medium firms. Greater diversity in terms of firms' size, industry as well as geographic location undermined the power of large business. This new firm diversity had mixed impacts. On one side, it generated new sources of instability in government-business relations,

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<sup>4</sup> As the government in the late 1950s controlled the independent unions, conflicts for the organizational control of the labor movement raised the tensions between different confederations affiliated to the PRI. In order to unify the labor movement but, at the same time, solved labor disputes outside the party, the Workers Congress was formed in February 18, 1966. The CT is basically controlled by the CTM and labor unions affiliated to the PRI. The chief governing institution is the National Assembly, which is composed by the representatives of each of the constituent organizations. Each organization has one vote and decisions are taken by majority vote. (Durand Ponte; 1991:89).

<sup>5</sup> From 1958 to 1965 the Mexican Institute for Social Security (IMSS) increased its number of affiliates from 899, 504 to 2, 191,160 individuals. In 1959, the social benefits were expanded to

however, on the other side, it generated new forms of business political influence (Heredia, 1992: 2-3).

The government's tight monetary policies, fiscal conservatism, import substitution strategies and price stability were supported by multinational corporations, the financial, large industrial and commercial business sectors and the official labor movement. These groups were the heart of the ruling coalition during the Stabilizing Development period. (Davis, 1993: 49; Kaufman, 1988; Mares, 1985: 676-678, Maxfield, 1990; Quintana and Garrido, 1989:111; Rubio and Gil -Díaz, 1987:7).

Corporatist politics caused the necessary stability and legitimacy that aid the regime to govern the country peacefully for an extended period of time without the need to rely on the electoral system to legitimate its power. Legitimacy came from the role of the state as an agent of development and labor mobilization more than elections. Stability depended on the consensus generated within the governing coalition.

Although the policies to protect the national industry and official unions largely benefited labor and industry, ISI and corporatism lead to all kinds of economic distortions. The policies induced resource to move from the export goods sector to the imported goods sector, which affected the international competitiveness of Mexican products. Products were produced with national inputs, which were at the

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the bureaucracy and the social Security Institute for the State Workers (ISSSTE) was founded.

same time produced under protected conditions, lowering the quality and competitive capacity of the goods.

ISI policies also discriminated on labor. ISI policies lowered the relative value of capital due to the fiscal exemptions, low interest rates and increased the cost of labor as a result of the social security system and labor benefits, which were also an economic outcome in the process of corporatist negotiation. These policies lead to promote the investment in machinery rather than on labor. The dislocation of public investment in the agricultural sector was another important consequence of the industrialization bias. Strict monetary policies accelerated an extremely precarious income and wealth structure (Heredia, 1992:3). As a consequence of these policies the problems of employment, distribution of wealth, and public finances deteriorated (Córdoba, 1986, Zabludovsky, 1989; Solís, 1985).

Since the beginning of his administration, President Gustavo Díaz Ordaz (1964-1970) confronted the pressures from small and medium industrialists, mainly from Mexico City, for a more flexible monetary policy. However, Díaz Ordaz was able to maintain a strict monetary policy with the support of the banking sector, internationally linked firms, and the labor sector (Davis, 1993:50).<sup>6</sup>

Nevertheless, the rigidities of the model itself demanded an economic shift. Small and medium industrialists disagreed with the tight monetary policy of the

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See Pozas Horcasitas, 1993:70-72.

<sup>6</sup> Labor sector support rose from the relative economic success of the national economy and the profit-shearing legislation of 1964. See Davis, 1993:50.



Stabilizing Development and the control of the financial/industrial conglomerates on credit allocation (Maxfield, 1990, p.83). By 1969 the confrontation between national versus international capital, and the financial sector was open (Davis, 1993:50).

### **3.2.2 The Break Down of Partnership: 1970 to 1982**

President Luis Echeverría answered to the pressures of political participation, redistribution of wealth and economic growth by launching a new economic model. The model was known as “Shared Development”. The main objective of this program was to regain the lost legitimacy through economic growth and income distribution by means of the expansion of the public economy and by the continuation of import substitution policies (Newell and Rubio, 1984). Such expansion of the government relied on deficit financing (Levy and Székely, 1987). Government spending during this administration did not only attempt to nourish economic growth and redistribute wealth through Keynesian demand, it also attempted to remove “bottlenecks” in the supply side (Fitzgerald, 1979:40).

The new development strategy was financially based on the resources obtained through direct foreign investment, foreign private banks loans and by a mechanism known as *encaje legal*, which tapped domestic savings directly through the manipulation of the reserves requirements for private bank deposits (Mares, 1985:681)

President Echeverría managed to forge a critical alliance with the promotion of growth through the expansion of the state in the economy, the use of inflation as a means of redistributing wealth and high levels of tariffs and regulations. At the heart of the new populist coalition were small and medium industrialists gathered around the CANACINTRA (National Chamber of the Manufacturing Industry) the official labor movement<sup>7</sup>, the bureaucracy and the paraestatal elite (managers of state-owned enterprises).

In this period trade policy witnessed an increased in protectionism, and an anti-export bias. ISI policies were expanded, increasing the tendency against manufactured exports, generating an overvalued the peso and limiting the credit for the export sectors.

During the administration of Echeverría 80% of all imports were subjected to licensing and the shared of controlled imports in import values 74% (Balassa, 1983: 800-801). The anti-export bias had a serious impact in the economy, between 1970-1972 Mexico's share of the total world exports fell from 11.4% to 4.9% (Balassa, 1983:801).<sup>8</sup> The new economic model lead to a confrontation with the financial sector of the bureaucracy, the financial business elite and exporting industrial

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<sup>7</sup> Between 1970-1973 Echeverría encouraged the political opening of the labor movement as an attempted to reform and democratize it. However, due to inflationary pressures after 1973, Echeverría was forced to secure the cooperation of official unions in order to restrain rank-and-file economic demands. See Basurto, 1981 and Middlebrook, 1995:224.

<sup>8</sup> Echeverría's notions on the New Economic International Order made him developed a naive strategy that would made international actors pay for Mexican exports.

sectors with negative results for the government due to the power, and resources of the financial and large industrial sectors in the country.

The disputes between Echeverría and the financial and large export industrial sectors were the result of Echeverría's effort to limit the power of these groups. Since the beginning of the century Mexican, capital had been control by a small number of large financial-industrial-commercial conglomerates (Hoshino, 1989; Maxfield, 1990:48). This generated a high degree of interlock between the boards of banks and major holding companies (Hoshino, 1989, Valdés, 1997). The were three important consequences of such linkages: 1) the financial/industrial conglomerates had the capacity to financed expansion internally, with their own resources. This limited the state capacities to influence development through credit allocation. It also segmented the financial markets by limiting the possibility of cheap credit access to small and medium firms (Maxfield, 1988: 327-328), 2) it limited the capacity of the state to use policy of selective credit controls to regulate the large industrial and financial sectors resource allocations decisions. Further, "efforts to regulate capital mobility by controlling business sector credit allocation failed because of the opportunities for evasion provided by the *grupo* structure" (Maxfield, 1990: 71), and 3) large industrialists and financiers were a strong pressure group as they commonly share policy preferences (Maxfield, 1994:50).

During the 1970s the government tried to reinforce a weak financial system, which, as a result of the internationalization of capital markets, showed a decline on

financial intermediation (Maxfield, 1988:336). The government encouraged three basic strategies to strength the private banking sector. One, the promotion of a more universal banking system, that is, one that would provide clients of the financial sector from all kinds of services (short and long term loans, mortgages, etc.), thus promoting the centralization of the financial activity. Two, the creation of deposits in dollars in Mexican banks, the so-called "mex-dollars". And three, the legal recognition of the holding as a mechanisms to fostering industrial development and, therefore, as entities with fiscal incentives rights (Maxfield, 1988:337).

The effect of such policies was the increased of the structural power of business by centralizing and concentrating the financial system, also the continuation of the process of de-intermediation, which amounted to the segmentation of the markets, and the speculative activities with loans in dollars transferred into pesos (Maxfield, 1988:340).

However, during the decade of the 1970s, the integration of the country into the world of international financial markets provided the government with a new access to low-rate foreign credit, decreasing, thus, its vulnerability versus the financial capital. Yet, this phenomenon also increased capital mobility that gave the financial sector another mechanism for pressure<sup>9</sup> (Heredia, 1992:3). According to

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<sup>9</sup> Although capital mobility became a new mechanism for pressure by the business sector, the 3,000 kilometers of border between Mexico and the US has always been an obstacle for controlling capital flux and exchange controls.

Heredia, the new sources of power for both business and the state eroded reciprocal restraints, hence, damaging future cooperative behavior (1992).

The first clear confrontation between the government of Echeverría and the financial and large industrial business sectors came when the government attempted a fiscal reform in 1972. All during the Stabilizing Development the business sector had found in Mexico a fiscal heaven. Members of the economic cabinet and the business elite had overpowered attempts for fiscal reform (Maxfield, 1990:87). However, Echeverría faced the business sector by launching a series of bill proposals on luxury and corporate gains in 1971 and 1972.

The business community, through the COPARMEX, argued that Echeverría had broken the existing formal and informal rules by not consulting the business sector about the bill proposal (Luna, 1992, 42-43, Millán, 1988:20).<sup>10</sup> As a result of an increased confrontation between members of the cabinet, in particular between Horacio Flores de la Peña Secretary of the National Patrimony and Industrial Development Secretary (SEPAFIN) and Hugo B. Margain, Secretary of the Treasury (SHCP), and the Mexican business elite, represented by the Mexican Business Council (CMHN) which, as a result, led to weak fiscal reforms with a slight burden taxes on capital (Basañez, 1981:159; Luna, 1992:42-43, Maxfield, 1990:92-93; Millán, 1988:20-26).

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<sup>10</sup> Traditionally the government had always consulted with the business sector on policies that could reduce the level of profits of the business sector. One example of such consultation was the profit sharing decision making during the López Mateos administration (1957-1964). See Kaufman Purcell, 1975.

Conflicts did not end there. Echeverría's concerns on the unequal pattern of income distribution encouraged him decreed emergency wage increases and reformed the federal labor code (September 1974), allowing for the annual negotiation of minimum and collective contract wages (Middlebrook, 1995:224). He also fostered the creation of pro-labor institutions such as the National Fund for Workers Consumption (FONACOT) and the National Institute for the Development of Workers Housing (INFONAVIT). In addition, the Federal Law for the Consumers Protection was promulgated, creating the Consumer Protection Agency.

According to the business sector the newly created institutions that helped maintain price controls and foster workers' interests increased the power of unions and the cost of labor (Arriola, 1988:107). For members of the business community, Echeverría generated an anti-business climate that eventually contributed to the kidnapping and assassination of prominent members of the Mexican business elite (Eugenio Garza Sada and Fernando Aranguren) in 1973 by extreme left wing groups, and peasants invasions of agricultural lands used for exports and owned by the northwest capitalist elite of the states of Sinaloa and Sonora (Basañez, 1988: 171; Mares, 1985; Millán 1988:40-80)

The response from the financial sector and large industrialist toward Echeverría's policies was de-investment and capital flight. In May of 1975, the Business Coordinating Council (CCE) was created as the peak business organization of the country and as a strategy to unify the interests of capital and

confront the *étatis* policies of Echeverría (Luna and Tirado, 1992). However, at the end of his presidency, and in the eye of trade deficit crisis storm with capital flight,<sup>11</sup> Echeverría made his last attempt to hit on large capital by expropriating agricultural lands used for export production in the Valle del Yaqui in Sonora in 1976 (Millán, 1988:85).

When José López Portillo came into office in December of 1976, he responded to the balance-of-payments crisis by developing, with the support of the IMF, an stabilization program that successfully brought the public deficit from a 9.9% in 1976 to a 5.4% in 1978 (Córdoba, 1986:320; Lustig, 1992:22).

For the time being López Portillo put a stop on the economic policy of equity by deficit spending. He made an effort to restore business confidence and political legitimacy through the creation of an inclusive alliance between labor, business and government and by opening up the political arena. López Portillo launched the "Alliance for Production", which tried to rebuild the deeply hurt relations between government and the business sector by assuring the business sector its importance in the economic model. Through the "Alliance for Production" López Portillo made an effort to reconstitute the inclusive coalition of labor, business and the state.<sup>12</sup> At the same time, the new administration carried in a major political reform through a new electoral law in 1977 (Ley de Organizaciones Políticas y Procesos Electorales,

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<sup>11</sup> Capital flight in 1975 was estimated in 4 billion dollars. See Levy and Székely, 1987:155.

<sup>12</sup> See Luna, 1992:63-66.

Law for Electoral Processes and Political Organizations, LOPPE) that opened party competition.<sup>13</sup>

Between 1977 and 1979, the new administration adopted orthodox strategies to eliminate the public deficit and promote exports by negotiating market access to other countries (Mares, 1985:684). López Portillo soon witnessed the results of the strategy. By February 1977 members of the financial and large industrial sector started to openly support the government and investments were expanding (Millán, 1988: 100-107).

With the discovery of massive oil reserves in 1978, the executive decided to use such wealth as the mechanism for fostering Mexico's economic development. An important shift from fiscal responsibility to, once again, an era of public spending took place. However, there was no opposition toward this shift of policy. The lack of disagreement was probably a result of the administration's slow move toward protectionism and public spending, and a question of positive expectations (Mares, 1985: 684-686). Quoting Mexican economists Nora Lustig: "Oil was expected to relieve the economy from both foreign exchange and fiscal constraints. At the prospect of higher revenues, the public and business sectors went on an investment spree in 1978, which was accelerated by an oil price rise and new oil discoveries in 1979" (Lustig, 1992: 20). A kind of cohabitation equilibrium between the different

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<sup>13</sup> The new electoral law broadened the channels of participation by giving legal registration, at other time's illegal, to left wing parties. It introduced a system of proportional representation, gave political organizations the opportunity to register as a party if a minimum of 1.5% of total votes in a federal



groups in society took place because the fiscal revenue was so high that the arrangement was profitable for every group (Tomell, 1993)

In 1979, the Mexican government began negotiating a protocol for joining the General Accord for Trade Tariffs (GATT). The possibility of becoming a member of the GATT generated an important debate among different sectors of society. Members of the financial and large industrialist sectors clearly supported the idea, but the small and medium industrialists, together with the independent and official labor sector radically opposed this possibility.<sup>14</sup> Most of the members of the cabinet seemed cautious about making any explicit comments on the issue.<sup>15</sup>

In March 1980, President López Portillo decided not to join the GATT. The decision was probably made as a result of: 1) the increasing strength of the “nationalist populist alliance” headed by influential members of the cabinet (particularly José Andres de Oteyza and economist Carlos Tello), the official labor sector and small and medium industrialist gathered around the National Chamber of Manufacturing Industries ( CANACINTRA), and 2) the government’s aimed for a less

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election were obtained and created a commission formed by government and parties representatives in charged of organizing elections (Molinar, 1991:96-97).

<sup>14</sup> See the opinions for joining the GATT of Ernesto Rubio del Cueto, Excelsior, September 14, 1979, El Universal, November 8, 1979; Bernardo Garza Sada, El Sol de México, November 8, 1979; Agustín F. Legorreta, El Sol de México, November 8, 1979; Francisco Calderón, El Nacional, November 8, 1979. Bernardo Quintana, El Sol de México, November 8, 1979. See the opinions against GATT, Juan Manuel Martínez Gómez, Excelsior, March 22, 1979 and December 17, 1979; Saby Sampson, El Herald April 20, 1979, Excelsior August 16, 1979; Juan José Moreno Sada, El Herald, November 5, 1979. For the opinion of the labor sector see CTM, El Día, June 11, 1979, SME, El Día, November 15, 1979; Francisco Hernández Juárez, El Día, June 1, 1979.

<sup>15</sup> On the diverse opinions of members of the government and academia about Mexico’s entrance to the GATT, See Excelsior and Novedades, several issues on November 1979.

troublesome option, that is, not joining the GATT, at a time when the economy was expanding at an incredible speed as a result of oil revenues and international loans.

In 1981, things got out of hand when the international oil prices dropped and chaos flooded the international markets. Major concerns from sectors of the business community on the government's economic policy arose. The financial sector and large industrialists, gathered around CCE and COPARMEX, expressing their fears on inflation, the overvaluation of the peso and public deficit (Luna, 1992: 66; Maxfield, 1990: 128-131). Capital flight became increasingly acute and the Central Bank transferred dollars to the business sector which in turn overvalued the Mexican peso. Serious confrontations between members of the cabinet took place, in particular between the Banco de México and the SHCP bureaucrats, which argued for a devaluation, and SEPAFIN, under Oteyza, who argued for exchange rate controls and government expansionary policies (Maxfield, 1992: 130-132). Clearly, members of the "Nationalist Populist alliance" sought to limit the mobility of capital assets in the country.

During the last year of the López Portillo's administration the economy of the country went into total paralysis and there was an open confrontation between the financial and large industrial sectors, the technocratic faction in SHCP, and Banco de México, against the "Nationalist Populist Alliance"<sup>16</sup>.

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<sup>16</sup> This argument was first put forward by Cordera and Tello, 1981.

The climatic point of this situation took place in September of 1982, when President López Portillo, by presidential decree, expropriated (or nationalized, as it is called in Mexico) the private banks. The measure was much the result of the state's frustration on its lack of capacity to guide national industrial investment and control extreme capital flight, but also as mechanism to brake the power of the financial-industrial conglomerates and improve the state's financial position (Maxfield, 1989: 216-236; and 1992:142). Hence, the traditional cooperative relationship since the 1930s between government and business suddenly froze.

The administrations of Luis Echeverría and Jose López Portillo had relied on an economic strategy that heavily depended on the "use of expansive fiscal and credit policies and overvalued currency to accelerate growth and redistribute income" (Dornbusch and Edwards, 1991:7). As well as in a useless confrontation with the financial-industrial conglomerates, which eventually became self-destructive. By 1982 the country was living an economic catastrophe.

According to Dornbusch and Edwards, the outcome of populist policies are pernicious: "After a short period of economic growth and recovery, bottlenecks developed provoking unsustainable macroeconomic pressures that, at the end, result in the plummeting of real wages and severe balance of payment difficulties. The final outcome of these experiments has generally been

galloping inflation, crisis, and the collapse of the economic system " (Dornbusch and Edwards, 1991: 7).

### **3.3. The Making of an Alliance and the Reform of the Economy: 1982-1994**

The economic and political crisis that rose at the end of the López Portillo's *sexenio*<sup>17</sup> had serious implications for the regime. The biggest challenge for the new administration of Miguel de la Madrid (1982—1988) was the rebuilding an economy in a limited resources context. The inability to continue paying the external debt, along with the expropriation of the private banks, created a climate of animosity against the Mexican government from both the international and domestic capital. This had serious implications for the sustainability of the regime itself as the government had to start had to take resources from society rather than distribute them (Frieden, 1991:8).

The mismanagement of the economy, as well as the tensions generated around the relation between government and capital at the end of the López Portillo's administration, produced a difficult scenario with little room for de la Madrid to maneuver. However, the new context also proved to be a window of opportunity for sectors of the bureaucracy and the business sector.

In order to re-establish economic stability and growth, the administration of de la Madrid moved toward a deep restructuring of Mexican economics and

politics. Domestic, as well as international political forces played a relevant role constraining the choices for the state and non-state actors.

Although the international variable goes beyond the scope of this study, it is important to briefly acknowledge its significance. Access to key resources to keep the economy running was an important constraint for the spectrum of policy choices for the Mexican government. As a result of the lack of fresh capital coming from the domestic business sector and international commercial banks, the Mexican government was forced to ask for the financial support of the International Monetary Fund (IMF) and the US government. In December of 1982, a few days after its inauguration, the government of Miguel de la Madrid ratified the accords negotiated with the IMF on that year by the previous administration.<sup>18</sup>

The IMF deal broke approximately \$3.7 billion dollars through the extended fund facility (in separate installments for the period of January 1983 to December 1985) in order to support the country's finances. In return, the Mexican government compromised itself to follow strict monetary, fiscal and structural measures of austerity and liberalization that obeyed IMF guidelines (Córdoba, 1986: 327; Lustig 1992:29). In addition to the IMF support, the US government also granted important loans via the Federal Reserve, the Treasury

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<sup>17</sup> *Sexenio* is used by Mexicans to refer the executives six year term in Mexico's presidential system

<sup>18</sup> Presidencia de la República.,,1988:16.

Department, the Commodity Credit Corporation, and the International Payments Bank (Solís, 1996:54).

Nevertheless, President de la Madrid administration knew that the help coming from the IMF and the US government was a temporary relief. A deeper and broader adjustment had to be implemented. For de la Madrid's economic team the key factor in order to restore economic growth and free the country out of the continued balance of payments crises, was the transformation of the traditional economic model (de la Madrid, 1987). This meant shifting from the inward-looking development strategy, which had shaped Mexican economic policy since the 1930s, to a full process of market liberalization. The new strategy incorporated the business sector as a key actor in the economic development of the country. In order to promote such a drastic move, the traditional regime alliance had to suffer a significant transformation, thus the construction of a new set of relations between government, business and the labor sector<sup>19</sup>.

Confronted with scarce resources, international payment obligations and a lack of business confidence, de la Madrid was sworn in as President in December 1,

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<sup>19</sup> It seems that at the beginning of his presidential term de la Madrid was not convinced by the wonders of free markets reform nor the notion of narrow participation of the state in the economy. On December 4th 1982 he sent a series of legislative proposals to reform articles 25,26,27,28 and 73 of the Mexican Constitution. The idea was to define the principles that regulate the role of the state in the economy. It proposed a "mixed" economic system in which the private, the social sectors, as well as the state, participate in the economy, and the establishment of a system of state democratic economic planning. However, it appears that de la Madrid gradually abandoned some of these ideas, probably as a result of pressures from the

1982. As stated in his national development plan, de la Madrid was committed to encouraged the reduction of the public deficit and the modernization and liberalization of the economy (Plan Nacional de Desarrollo, 1983-1988).

The shift from a once inward-looking to an export-led development strategy suggested a new role of the state and the business sector in the economy. In this new model the state had a more limited role in the economy. It would only intervene in the economy in areas considered a priority for the nation development. The business sector was the new fundamental actor.

The strengthening of the regime depended in overcoming the deep economic crisis and finding a way to successfully engage into a new export-led strategy. The new plan had to face 1) the limits established by the debt crisis and the drop in oil revenues on the state's financial capacity to continue fostering development, and 2) the new leverage that the holders of large liquid assets had on the state's political legitimacy, which depended on investment and the generation of employment (Lindblom, 1977; Przeworski and Wallerstein, 1988; Thacker, 1997:10).

The crisis generated a "critical juncture", where previous institutional patterns of the Mexican political economy were being dislodged and whole new context was framed different institutional relations (Collier and Collier, 1991: 29-40). The economic crisis forced de la Madrid to recast the basis for political support, hence he faced the challenge of building of a new set of political alliances. There was no

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international economic context, and the political alliances behind his project. See *Presidencia de*

other choice for President de la Madrid, the failure of the inward-looking model together with closed international credit lines and a continuous drop on oil prices could no sustain economic growth and political stability could be seriously hurt. The economic situation and the needed change from an outdated model of development opened a window of opportunities for the *technocrats*, big business and the financial sector.

The building of a financial-big business-technocrat coalition that governed Mexico from 1982 up until the year 2000, was born in 1982.<sup>20</sup> At the beginning of de la Madrid administration the development of a new relationship with the business sector was erratic and slow. It can be argued that the vacillating strategy responded to the de la Madrid's difficulties to move into a more liberal pro-business model due of the strength of the labor movement, the political left and the business sector under CANACINTRA. In a country where banks had just been nationalized with the support of the labor movement and small and medium businesses to be cautious was a rational thing to do. However, it can also be maintain that at the beginning of his presidential term de la Madrid was not absolutely convinced of letting business sector be the motor of the economy. De la Madrid favored the notion of a mixed economic system where the state, the business, and the "social" sector all participate in the economy. At the

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la República, 1988: 25-26 and Valdés, 1997:210-211.

<sup>20</sup> When this dissertation was finished (November 2000) the new non-PRI president Vicente Fox had just been recently elected, though it was still difficult to figure out the new governing coalition.



beginning of his mandate, and in order to support the idea of a “mixed” economic system, de la Madrid reformed the constitution articles 25,26,27,28 and 73 (de la Madrid, 1985: 25-26).

The discretionary power of the Mexican presidency and its control on the distribution of benefits was crucial in the making of a new alliance (Heredia, 1994: 21). The first set of government strategies to ease the concerns of the business sector, and show the government’s willingness to support business, were: 1) the government generous compensation of former bank owners (although the process was delayed more than a year and the first payment was made in 1984), 2) the sale of 34% of banks stocks to private investors as well as all-non-banking stock, 3) the restriction on banks from selling Treasury Bonds (CETES) and the legal separation of the credit institutions (banks) from non-banking financial intermediaries (brokerage houses) (Elizondo, 1993:9; Hernández, 1990; 746), and 4) the establishment of a government controlled fund, (*Fideicomiso para la Cobertura de Riesgos Cambiarios*, FICORCA).

The FICORCA fund was established in 1983 to cover firms highly indebted in dollars. This process was done through the use of a controlled ex-change rate mechanism (de la Madrid, 1985:43; Garrido and Quintana , 1988: 50).

These policies had an important impact on the business community. First, through FICORCA, the government placed former indebted large industrial firms in a privilege position, and, secondly the financial reforms increased the capacity for

liquid assets owners to move their capital from banks to other financial institutions thus fostering the spectacular growth of brokerage houses (Elizondo, 1993:9; Garrido and Quintana, 1988:50).<sup>21</sup>

Along with the tremendous growth of the private financial markets came the expansion of a new financial elite. The new group of private entrepreneurs was slowly consolidating their power (Heredia, 1992:17).<sup>22</sup>

The increased disaffection of the small and medium business sector and middle class sectors toward the regime and its policies had an important spill over the electoral arena. By 1983 the National Action Party (PAN) took advantage of the dissatisfaction and earning ground on its electoral position over the PRI party. Much as a result of the electoral and financial support made by the small and medium size entrepreneurs from the northern states of the country (Mizrahi, 1994). By July of 1983 the PAN had won several municipal elections in the state of Chihuahua and the capital of the state of Durango (de la Madrid, 1985).<sup>23</sup>

The open participation of the business sector in electoral politics was an important take off from previous political practices. However, only the northern small and medium entrepreneurs were able to challenge the government because they

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<sup>21</sup> In 1980 commercial banks captured 95% of deposits by 1990 only captured 62%, see Elizondo, 1993:9. "From 1983 to 1988(...) the capital assets of brokerage houses grew almost 600 times" (Heredia, 1992:17).

<sup>22</sup> The names of Jorge Caso, José Madariaga, Carlos Slim, Jorge Legorreta, Roberto Hernández, Alfredo Harp, among others, became well known within the Mexican elite circles

<sup>23</sup> This process has not stopped, by 1998 36% of the population was being govern by PAN. It controlled 6 state government, 287 mayors and had 120 federal deputies, 31 state senators (<http://www.pan.org.mx>, March 11, 1998, 10:00am).

were relatively more autonomous from the government, than entrepreneurs in the center and south (Mizrahi, 1994:7).

Though, the ties between government and big business were getting close and tight. The favoured business environment and the government policies on privatization, deregulation and free trade, contributed to such process. Between 1983 and 1985 418 state own companies were sold (**See Table 3.1**).

**Table 3.1 The Process of Privatization****Number of State Own Enterprises\* by Year**

1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
1155	1074	1049	941	737	617	412	379	280	241	217	213

Source. Rogozinski, Jaques, (1993), *La privatización de empresas paraestatales*, FCE, México D.F: p.45. \* Includes enterprises with state participation, decentralized agencies and fiduciary institutions

According to the government the main objectives of the sale were the strengthening of public finances; channel resources into strategic areas; the elimination of subsidies, and the promotion of efficiency and productivity (Rogozinski, 1993:41)

After a gradualist phase of the liberalization process between 1983 to 1985 a major step toward economic liberalization took place when the country formally joined the GATT in July 1986. The systems of official prices, import licenses quotas, and all sort of value controls were dismantled almost entirely. The average tariff was set at a maximum of 20 percent fixed (Córdoba, 1994:243-244) (See Tables 3.2 and 3.3)

**Table 3.2 Dynamics of Trade Liberalization:  
Controlled and Liberalized Products (Total Number)**

Year	Total	Controlled	Liberalized
1980	7776	1866	5910
1981	7877	2083	5794
1982	8017	8017	0
1983	8032	8032	0
1984	8072	5228	2844
1985	8090	839	7251
1986	8205	638	7567
1987	8445	330	8115
1988	8472	285	8187
1989	11838	309	11529
1990	11822	210	11612
1991	11812	198	11614
1992	11813	192	11621
1993	11824	192	11632
1994	11065	149	10916
1995	11064	153	10911

Controlled: Number of Products subject to import permits

Source: Salinas de Gortari, Carlos, (1994), Sexto Informe de Gobierno, Anexo Estadístico, p. 148 and Zedillo Ponce de León, Ernesto, (1996), Segundo Informe de Gobierno, Anexo Estadístico, p. 100.

**Table 3.3 Dynamics of Trade Liberalization  
Average Tariff (Percentage)**

Year	Average Tariff
1985	22.6
1986	22.6
1987	10
1988	9.7
1989	13.1
1990	13.1
1991	13.1
1992	13.1
1993	13
1994	12.5
1995	13.1

Source: Salinas de Gortari, Carlos, (1994), Sexto Informe de Gobierno, Anexo Estadístico, p. 148 and Zedillo Ponce de León, Ernesto, (1996), Segundo Informe de Gobierno, Anexo Estadístico, p. 100.

Speeding-up liberalization helped consolidate a political alliance with the large industrial export sector as the process of deregulation of the private financial markets and trade liberalization promoted the interests of "...the larger, internationally oriented mobile assets holders " (Thacker, 1997:23).

The political costs of economic change were high. Important traditional sectors from the Mexican political elite, born and raised during the times of the ISI development model, deplored trade liberalization, fiscal austerity, tight monetary policy and the payment of the external debt obligations. Soon political differences and divisions surged. Inside the PRI the "Democratic Current" ("*Corriente Democrática*") headed by important personalities of Mexican politics appeared in 1985 (Bruhn, 1997: 325-333; Rubio, 1992:76-88).

Important political figures such as Porfirio Muñoz Ledo (a former Minister and Head of the PRI) and Cuahutémoc Cárdenas (son of Mexico's most important *caudillo*, former President General Lázaro Cárdenas) led "*Corriente Democrática*" and criticized the government's economic policy and vertical controls within the PRI. Probably "*Corriente Democrática*"'s objective was not the defense of democracy and democratic procedures per se. The sudden concern for democracy had to more with the development of mechanism to control the influence of technocrats on economic policy its influence on the PRI's elective process of the party presidential candidate for the 1988 elections.

The increasing disaffection in the PRI against "*Corriente Democrática*" closed all options, however Muñoz Ledo and Cuahutémoc Cárdenas saw in the increasing popular disenchantment toward de la Madrid's economic policy an opportunity to become significant political actors. In 1988 "*Corriente Democrática*" left the PRI and within a few months created in 1988 the National Democratic Front. The FDN managed to capitalize and became a challenging competitor of PRI's presidential candidate Carlos Salinas de Gortari (Bruhn, 1997).

The policies that sought to limit the effects of the economic crisis by controlling deficit spending and a process of free market reform, placed enormous pressures on the official and independent labor movement in Mexico. The policy choices made by the government in 1982 were clearly not new to labor. During the years of the II World War, in 1954 and in 1976, labor had experienced anti-inflation stabilization programs (Collier, 1992:81). Historically, the capacity of the regime to manage the political pressures triggered from this anti-inflation program had evolved from a tacit understanding in which labor would cooperate in return for non-wage concessions and by a future recuperation of the losses (Collier, 1992:81). In other words, labor would trade off the short run (wages) for a brighter future (employment).

During the first year of the de la Madrid's administration, the regime managed to secure the support of labor by giving up to labor pressures on wage increases, after the 1982 February *peso* devaluation, and by establishing biannual revisions on the minimum wage (Collier, 1992:82; Durand, 1991:98). Yet, contrary to what had

happened in the late 1970s, when the official labor movement seemed confident in its capacity to influence economic policy, in 1982 labor leaders realized that this was becoming a shrinking possibility (Cook, 1995). The policies of economic stabilization and industrial modernization demanded austerity measures, the elimination of union prerogatives, the modification of collective contracts, the reallocation of industries and the introduction of new production technologies (Alvarez, 1991). The reform of the economy meant a major blow to union interests and a fundamental set back in the state-labor historical alliance.

The hard line taken against workers' benefits increased the levels of confrontation between the government and not only the "official" or "corporatized" labor movement nor the "non-official" labor movement. Since the 1930s a portion of the labor movement had never been incorporated into the regime's corporatist apparatus. For the independent labor movement de la Madrid's years were times of difficult survival because the administration clearly limited its capacity of action.

The incapacity of the independent labor movement to successfully confront the policies of austerity, restructuring, and privatization were the result of several factors. First, the regime's ability to limit labor insurgency was based in the legal framework available since 1931 to regulate labor conflict (Middlebrook, 1991:4) <sup>24</sup>.

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<sup>24</sup> During the first two years of de la Madrid administration, the economic policies promoted a mass movement unified by labor coordinating committees and popular organizations. Organizations such as the National Coordinator of Education Workers (CNTE), the National Front for the Defense of Wages and Against Austerity and Price Increases (FND-SCAC), the National Committee for the Defense of the Popular Economy (CNDEP), the National Popular Assembly of Workers and Peasants (ANOCPE) appeared. See Alvarez, 1991.



For example, during 1986, a year of considerable labor mobilization<sup>25</sup>, the government was able to control strikes in companies such as Fundidora Monterrey, Renault de México, IACSA, Aceros Ecatepect, Dina, Mexicana de Autobuses, Compañía Hulera Euskadi, Mexicana de Aviación, Teléfonos de México and the Compañía de Luz y Fuerza del Centro (Alvarez, 1991:45: Bensunsan, 1989:52).

Other variables such as industrial restructuring, massive layoffs, the relocation of plants, the traditional fragmentation and differentiation of the Mexican working class, and the poorly developed representational structures, also weakened the independent labor movement's ability to confront and stand a battle against the government's economic policy (Middlebrook, 1991: 9-10).

As a result of these factors, by 1987 the administration of de la Madrid had practically controlled all types of labor insurgency which, in turn, provided an unusual fertile ground for the development for the concerted agreement between the government, labor and the business sector in December 1987. Only a few independent unions from companies such as Ford Motor Company, Volkswagen, and Aeroméxico had been able to confront government and maintained some of their demands (See Bensunsan, 1989).

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<sup>25</sup> The Federal Labor Code grants the government different provisions that constraint labor organization and strike activity. One condition barred from striking unions of public owned companies in areas considered strategic for the nation. Another important norms allowed the governments to administrative review the proposed strike and prohibit strike coalitions. The rules had a major effect on the power of the labor movement by rejecting the strike petitions (characterizing them as without merit and, thus, "nonexistent") and, hence, considering them as illegal. Companies were then able to hired new workers. See Álvarez 1991:27-55),and Bensusan, 1989: 35-59.

The “official” labor movement under the leadership of Fidel Velázquez view the de la Madrid administration with anxiety and developed an strategy to confront, or at least minimize, the demands of firm efficiency, flexibility, and market discipline in a context of low wages. The “official” labor movement was caught on between the rank and file demands and its position as a partner of the state

As a traditional partner of the state, the corporatist labor organizations played a complex strategy. To be an effective labor organization and political ally, the CTM and official unions had to, on the one hand, confront the politics of austerity and reform by demanding better economic conditions for labor but, on the other hand, they had limited workers radicalization (Collier, 1992, Whitehead, 1991:75).

During both the administrations of Miguel de la Madrid and Carlos Salinas de Gortari (1988-1994), the CTM and official unions pressed for an increase in the economic conditions of workers and tried to restore their bargaining position in order to, at least, control the speed and depth the economic restructuring process (Collier, 1992:109). The restructuring process involved a shift of the industrial production toward export-oriented manufacturing and the introduction of new production processes, in particular, flexible specialization. These were all key factors for the success in the regime’s economic and political project.

The labor movement was extremely dissatisfied with the regime’s economic policy and with the increasing control that technocrats inside the PRI had over the party and the state apparatus. Labor leaders also disliked the attitude of

technocrats toward aged labor leaders. It was obvious that the technocratic elite considered labor leaders as anti-modern, abusive, and corrupted. The capacity of the labor leadership to control its rank and file had been gradually weakening as a result of the abusive and corrupted nature of many labor leaders.

In 1988 Carlos Salinas de Gortari became president of the country in one of the most contended presidential election in Mexican history. Allegations of fraud were widespread. The PRI received the lowest recorded vote percentage in its history. Carlos Salinas de Gortari received 9 millions votes (50% of the total votes), the candidate of a coalition of left wing parties (National Democratic Front) Cuauhtémoc Cárdenas Solórzano followed with 5 million votes (30% of the total) and Manuel Cloutier, the PAN candidate, received 3 million votes (16% of the total). Voter turn out was one of the lowest in Mexican history, 51%. (México Social, 1993:436-339). The 1988 elections ended the PRI's hegemony and the single party system in Mexico.

Together with rank and file control, an essential function of the PRI corporatist sectors had been the organization of the electoral support, however the 1988 elections revealed the declining ability of unions link to the PRI to mobilize their members (de la Garza, 1994:211). From 1979 to 1985 labor representatives had been able to control 32% of the single-member-district seats (300) in the Chamber of Deputies. Yet, in the July 1988 Congressional elections, the labor sector did suffer a major setback. Out of the 101 labor candidates supported by the Workers'

Congress, expected to be elected, only 71 did so, and out of the 30 losing candidates, 17 belong the CTM (Ortega, 1993:22).

Salinas de Gortari acted with extremely virulence against the labor leadership that had stopped being functional to the economic modernization process. This was the case of Joaquín Hernández Galicia, known as “La Quina”, who was incarcerated in charges of arms possession and sedition. “La Quina”, a leader of the Petroleum Workers Union (STPRM) had intensely confronted Salinas de Gortari’s since he was a member of de la Madrid’s cabinet.

There were other well known incidents, such as case of the teachers union (SNTE) leader, Carlos Jongitud Barrios and the musicians union (STUM) leader, Venus Rey, who were deprived of their position because of their antidemocratic practices and corrupted nature.

The success of the Salinas de Gortari administration depended on the process of industrial restructuring, which demanded union cooperation for the process of economic modernization. The process required more democratic, more productive, and less confrontational unions.<sup>26</sup> Corruption in the labor sector only exacerbated union workers radicalization and made it more difficult to control rank and file.

Tensions between the executive and the CTM emerged throughout the *sexenio*. The CTM kept a conservative agenda that sought to protect its corporatist structure, the role of the state in the economy, and old union practices. However,

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<sup>26</sup> See Carlos Salinas de Gortari speech to the official labor movement leadership on May 1, 1990.

through a strategy of “divide and conquer” Salinas de Gortari was able to defy the power of the CTM leadership.

From 1989 to 1991 the executive strengthened the power of other confederations such as the Regional Confederation of Mexican Workers (CROM), Revolutionary Confederation of Workers and Peasants (CROC) and the Revolutionary Workers Confederation (COR) (Collier, 1992:82; Ortega, 1990:138-141).<sup>27</sup> In addition, in 1991 the PRI’s National Executive Committee attempted to restrict the role of the corporatist sectors within the party by proposing a new territorial structures in order to be more effective and responsive to the increasing urban electorate (Cook, Middlebrook and Molinar, 1994:24). Yet, the CTM was able to control these initiatives and a combination of sector and territorial structure was formed within the organization of the party (De la Garza, 1994, 211)

While Salinas de Gortari pressured the CTM, he encouraged a new model of unionism that portrayed itself as a key modernizing factor in the firm. It was believed that the new unionism had to participate in the design of new and more flexible forms of organization, adapt to new technologies, and ensure high standards of productivity and quality (Cook, 19950).

The new trend was represented by the creation, in 1992, of the Federation of Goods and Services Unions (FESEBES), an umbrella organization that comprise

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<sup>27</sup> For example, in August of 1989, 54 unions left the CTM to joined the CROM, the CTM lost its control over the *maquiladora* unions in the state of Tamaulipas, in the sate of Baja California 27 unions left the CTM to joined the COR. See Ortega, 1990:137-157.

unions representing strategic sectors such as telecommunications, electrical power generation, airline, trains, and the movie industry (Cook, 1995:83; de la Garza, 1994:213)<sup>28</sup>.

The policies of Salinas de Gortari toward labor were composed of different strategies. At times he favored *ad hoc* agreements with unions supporting his policies. In other occasions, he acted inflexibly toward the unions or confederations that opposed him. Yet, Salinas de Gortari was always careful to maintain equilibrium based on a system of inducements and constraints in order not to dismantle the organized labor movement. The benefits of having the labor sector under control and a system to coordinate its actors were critical to the success of the economic reform.

In the words of Salinas de Gortari chief of Staff, José Córdoba Montoya: "(B)uilding sectoral alliances is important to gain support for specific structural reforms: key reforms cannot be designed or implemented without the full involvement of the people who will benefit from them or against the will of those who will suffer from them. The reforms may impose severe adjustment costs on different social groups, but they cannot, without being doomed to fail, leave them without options. For that reason, the proponents of reform have to conduct a dialogue with

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<sup>28</sup> Probably the best example of this new trend of unionism was the Mexican telephone company union (Sindicato de Telefonistas de la República Mexicana) and its leader Francisco Hernandez Juárez. See Francisco Hernández Juárez and María Xelhuantzi López, (1993).

all affected groups—not only with the winners to gain their backing, but also with the losers to pacify a potentially violent opposition" (1994: 281)

The alliance between the government and the multinational financial-industrial elite became the pillar for the support of the Salinas de Gortari administration. The feasibility of the new economic model depended not only on the re-establishment of a set of good relations between the government and the business sector, as it had happened during the de la Madrid administration, but on the massive mobilization of business sector resources into the economy. The permanence of the new regime alliance itself depended on the success of such an enterprise. **(See Tables 1,2 and 3 in Appendix A)**

The politics under the Salinas de Gortari's *sexenio* had four fundamental objectives: a) a massive reallocation of business sector resources into the economy in order to generate a model of privately-led economic growth, b) the end of external and internal barriers to capital movement, which benefited mobile asset holders, c) the improvement of the regime's political sustainability through a system of political patronage and patron-client relations, and d) the creation of a context of certainty and stability based on a new set of rules and institutions that would make the pre-existing arrangements hard to reverse (Pierson, 1997; Soskice, Bates and Epstein, 1992) **(See Tables 1,2 and 3 in Appendix A)**.

The process of bank privatization was a critical piece in this puzzle. In May of 1990 the debate on the privatization of Mexican banks started with executive

initiatives to reform Articles 28 and 123 of the Constitution. Two years later, by June of 1992, the process had been completed.

The banks were not sold to their previous owners. As it was argued by Elizondo, selling the banks back to the previous owners would have implied that in the 1982 nationalization of the bank property rights had been violated, which is something the regime would not have accepted (1993:7).

The selling of the banks was an extremely complex event and the government took important steps to assure that the process, in a country with rampant corruption and absent of democratic controls, was fair and transparent. A committee, *Comité de Desincorporación Bancaria*, was established to set the process of pricing the banks, determining the conditions, and setting up the auction process (Elizondo, 1993:11)

The banks were sold at extremely high prices, some of them at 3.5 times their value in books. The logic behind this process was the maximization of the revenues from the sale (Córdoba, 1994:246; Elizondo, 1993:7; Kessler, 1998:46). There were 44 groups bidding for the 18 banks, financial holding companies and brokerage firms bought 14 of them (Kessler, 1998:46). **(See Tables 1, 2 and 3 in Appendix A).**

The reinforcement of the alliance between the government and the multinational financial-industrial sector was not limited to the bank privatization. In addition, the Salinas de Gortari administration showed its commitment to the



partnership by, first, creating a regulatory framework that allowed for brokerages and banks to operate together and eliminated restrictions in the allocation of capital were abolished, such as the “*encaje legal*”<sup>29</sup> (Elizondo, 1993:14; Kessler, 1998:47). Second, contrary to what it did to other sectors of the economy, the government protected the banking institutions from international competition. Chapter 14 of North American Free Trade Agreement (NAFTA) stipulated strict ceilings of foreign participation in Mexican banks, and a phase-in period of five years for Canadian and US banks to enter the Mexican financial system (Elizondo, 1993, 17; Kessler, 1998: 48-50). The non-competitive environment allowed for high interest rates and spreads, as well as unrestrained consumer loans, hence, making banks an extremely profitable business<sup>30</sup> (Kessler, 1998: 53-54).

Finally, Salinas de Gortari showed his commitment by supporting the financial sector interest by implementing a fix exchange rate policy. The strong peso from 1990 to 1994 allowed the business sector access to global financing (Kessler, 1998:61).

The windfalls from the privatization of banks and non-financial state owned enterprises were estimated in more than \$20 billion dollars (Córdoba, 1994:247). The resources obtained from these sell-offs went into a contingency fund, *Fondo de*

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<sup>29</sup> The taping of domestic savings directly through the manipulation of the reserves requirements for private bank deposits.

<sup>30</sup> The lack of experience in risk analysis and the need to quickly recuperate the high prices paid for the banks, skyrocketed consumer lending. However, with the December of 1994 pesos crisis, the number of level of non-performing loans soared threatening the stability of Mexican financial system. The government used a fund named FOBAPROA to bail out the Mexican banks.

*Contingencia*, and were used to strengthen public finances, in particular to alleviate the internal debt and support the National Solidarity Program (PRONASOL) (Córdoba, 1994: 246-268, Kessler, 1998:52)

PRONASOL was the pillar of Salinas de Gortari's social policy. It was design to "help low-income groups overcome poverty through the improvement of their living standards and working conditions" (Córdoba, 1994:269). The mechanism through which the resources were allocated was determined by direct citizen participation in the local communities (Córdoba, 1994:268).

According to Denisse Dresser PRONASOL's objectives were "1) to adapt the state's traditional social role to the new economic constraints and redefine the limits of its intervention in the context of a neoliberal reform strategy, 2) to diffuse potential social discontent through selective subsidies, accommodate social mobilization through "co-participation" and undermine the strength of left-wing opposition forces by establishing ties with and commitment to popular movements; and 3) to restructure local and regional PRI elite's under an increased centralized control" (1991:12)<sup>31</sup>

The increasing power of the export-oriented firms, together with the government's concerns on the possibility that regional economic blocks would diverge international investment to East Europe and Southeast Asian, probably

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<sup>31</sup> Studies have shown that the logic behind the allocation of resources from PRONASOL can be explained using political (electoral concerns) and organizational (organization capacities of the communities) explanations. See Molinar Horcasitas and Weldon, 1994.

encouraged the creation of the North American Free Trade Agreement. The agreement was something unthinkable for many Mexicans and it became a reality in January 1993.

The NAFTA negotiations further formalized the government's alliance with big business. It consolidated the position of the multinational financial-industrial group by further inserting the economy into global capitalism (Thacker, 1997:25). During the negotiations of NAFTA the business sector, through the Coordinating Council of Foreign Trade Business Organization (COECE) created by Business Coordinating Council (CCE). This organization was formally incorporated into the trade policy apparatus (Thacker, 1997:26)

With NAFTA and an arrayed of constitutional reforms<sup>32</sup>, the governing coalition created the institutional context that would incentive private investment. It also created the framework that would generate stability to the reforms and make the new political and economic arrangement immune to changes (Pierson, 1997)

However, the "*Zapatista* Guerilla" up-rising in the southern state of Chiapas in January of 1993, the assassinations of the PRI candidate for the presidency, Luis Donaldo Colosio, and the Secretary of the PRI, José Francisco Ruiz Massieu, the same year, exerted enormous pressures on the Mexican peso. The governments choice was to tackle the foreign investors' concerns on the increasing political

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<sup>32</sup> In particular the reform of article 27 of the Mexican Constitution. "This measure permits the private sale and rental of land for the first time in the agrarian reform sector (...) Prior to the 1991 Constitutional reform, agrarian reform beneficiaries (ejidatarios) could not legally sell or rent their land-used rights" Fox 1998:138.

instability through Tesobonos (short-term government bonds in dollars). However, the pressures derived from the Tesobonos payments themselves, the overvaluation of the Mexican peso, and the large trade deficit, exacerbated the fears of the business sector and generated a major run against the peso in December of 1994 (Solís, 1996: 86-104).

The immediate result of the peso crisis was a deep economic recession, the erosion of trust toward the “neoliberal” project, the shaking of the financial system and, most importantly, the opening of a whole new avenue of opposition toward the regime alliance.

### **3.4 The Challenge: The Specifics of 1982 Economic Crisis and the Failure to Control Inflation**

A combination of structural problems rooted in the Mexican economy, economic misjudgments by government officials, as well as an adverse international context, drifted the country's economy into a downward spin-off by the beginning of the 1980s. The prosperity that the country experienced during 1979, 1980 and 1981, as a result of the oil bonanza, suddenly came into a full stop (**See Table 3.4**)

**Table 3.4 The Country's Economy 1979-1982**

<b>Years</b>	<b>GDP (annual Growth)</b>	<b>Inflation (Consumer Prices) a</b>	<b>Total External Debt *</b>	<b>Capital Flight*</b>	<b>Fiscal Deficit to GDP*</b>
<b>1979</b>	9.2%	18.2	40.3	0.02	7.6
<b>1980</b>	8.3%	26.3	50.7	-0.3	7.5
<b>1981</b>	7.9%	27.9	74.9	11.6	14.1
<b>1982</b>	-0.6%	98.8	92.4	n.a.	16.9

\* :billions of US dollars

a :(1978=100)

n.a.: not available

Source: Lustig, Nora, (1992), Mexico. The Remaking of an Economy, Washington D.C.: The Brookings Institutions, 22-23, 32-33.

Before the 1982 crisis, Mexico experienced annual averages of GDP growth of more than 8%, furthermore, with the discovery of massive oil reserves in 1978 the country became a mayor producer and exporter of oil (Córdoba, 1986:321).

However, the blessings of oil were short lived. By the beginning of 1982 the country started to experience a deep economic slowdown. The mismanagement of the prosperity brought by the oil boom, together with unfavorable world economic conditions, left the country's finances in a precarious condition. In essence, the economic crisis of the 1980s had been the result of a mismanaged resource-based export boom

During the expansion of the economy from 1979 to 1981, public deficit spending was financed thanks to the grace of oil revenues, and a friendly international environment of low interest rates and available credit lines flowed by petrodollars (Córdoba, 1986: 317-328; Lustig, 1992: 21-27).

In the late 1970s the wealth derived from the constant increase in oil prices brought enormous pools of cash to the international banking system. On the one hand, the need for capital made underdeveloped countries the natural recipients of commercial banks credit. On the other hand, the profitability of such loans and the possibility of expanding their assets made banks lowered their credit standards. Banks became "credit pushers", instead of efficiently allocating new credits. The situation obviously came to an end when the oil prices collapsed in mid-1981 (Rubio and Gil Díaz, 1987:21).

In the country, high public sector indebtedness dislocated business sector opportunities for internal borrowing. Nevertheless, the overvalued Mexican coin (the peso), low interest rates, and impressive lines of credit from commercial banks, made international capital markets easily accessible for the Mexican business sector. Three factors made it very easy, and very profitable, for the Mexican business sector to borrow from abroad: 1) an overvalued Mexican coin (the result of positive expectations due to the oil bonanza), 2) low interest rates, and 3) the competition of commercial banks to grant loans (Córdoba, 1986:323). In the absence of a strategy to consolidate fiscal revenues, and as the international

interest rates increased and the world oil prices felled in 1979-1980, the oil miracle came to an end (Córdoba, 1986:323).<sup>33</sup>

During his last year as president, José López Portillo (1976-1982) and the members of his cabinet tried to alleviate the situation by deploying a “damage-containment strategy” that, paradoxically, further damaged the economy. The adjustment strategy policies were extremely inconsistent due to the serious confrontations between the members of the cabinet.<sup>34</sup>

At the beginning of 1982, the balance of payments and international reserves were seriously affected by the sliding oil prices and important short-term debt payments<sup>35</sup>. In February of that year, the government was unable to maintain the value of the peso and implemented a free-floating exchange rate policy. As a result, the peso lost 67% of its value (Córdoba, 1986: 327).

To fight against the effects of devaluation, the government committed itself to drastic cutbacks in public spending, froze prices in essential goods, such as meat, grains and textiles, froze foreign currency accounts in Mexican Banks, and implemented exchange controls.<sup>36</sup> Yet, in March the government gave up to pressures from unions and recommended “emergency minimum wage increases” of

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<sup>33</sup> Most commercial banks loans interest rates to less developed countries since the 1960s onward are pegged to the London inter-bank offer rate (LIBOR). However LIBOR for Euro-dollar loans follow US interest rates. Frieden, (1991:54).

<sup>34</sup> Those who favored exchanges controls and price freezes and those who opposed them basically centered the disputes. See García Alba (1993:120) and Lustig (1992:25-27).

<sup>35</sup> Half of the external debt of 20 billion dollars was short-term debt, which expired in less than a year. On the other hand, the value of the oil exports represented 72% of total exports. See Córdoba, (1986:327).

<sup>36</sup> See Latin America Weekly Report, WR-82-33, 20 August 1982. Lustig, (1992:25).

30%. The wage increases, together with the February devaluation, fueled inflation and increased the vicious cycle of inflation-devaluation (Córdoba,1986:327; Lustig,1992:..25).

On August 5th, the government decided to implement a dual exchange rate system. The preferential exchange rate was determined in 50 pesos per dollar and was used by the government and business sector for external debt payments and imports. The free exchange rate was determined in 70 pesos per dollar. Public sector exports and international loans supported the preferential exchange rate (Garcia de Alba, 1993:120).

However, this policy increased the distrust toward the capacity of the government to manage the economic crisis. The public started to believe the possibility that the government could freeze their dollars deposits in Mexican banks, hence capital flight speeded-up. The fears soon became a reality, the government converted foreign currency accounts into Mexican pesos at a rate of 70 pesos per dollar.<sup>37</sup> The dual exchange rate and the intervention of the government into individual banks accounts favor mistrust against the government and, again, fueled capital flight (Córdoba, 1986:327).

In August 22, 1982, the Mexican government had run out of options and asked the international financial community for a 90 days moratorium on the external debt payments. Important negotiations between the Mexican



government, international commercial banks, the IMF and the US government took place. By the end of November 1982 the government of Mexico managed to restructure the external debt payments with commercial banks for the period August 1982-December 1984. Moreover, new loans were assembled by the IMF and the US to help the government favor its external payments obligations and strengthen its internal reserves (Córdoba, 1986:327). However, up until the 1990s new fresh loans from commercial banks were extremely difficult to obtain (Lustig, 1992:25).

The country's economy was in a downward spin-off. Devaluation and inflation were having an important toll on the national financial markets, public finances and industrial production.

In an effort to control the resources of the private financial sector, put a stop to bankers' speculation against the peso and capital flight, in September 1<sup>o</sup> the government expropriated the private banks and applied full exchange controls.

Despite the attempts to control the economy, the erratic economic policy of the López Portillo's government backfired. The decisions fueled inflation, capital flight and created a climate of uncertainty among the owners of capital. López Portillo left the presidential office in disgrace, leaving the country in a deficit-debt cycle crisis.

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<sup>37</sup> This was a major scandal among middle and upper urban classes known as the "mex-dólares"

### 3.4.1 Fighting Inflation During de la Madrid's Period

For the administration of de la Madrid the survival of the regime depended on a major structural reform of the economy and the establishment of a new government-business sector alliance.

A new breed of government policy makers, technocrats, conformed the new economic cabinet agreed that the economic crisis had been the result of an inward-looking development model and a system of negative incentives for private and foreign investment (Centeno, 1994; Dominguez, 19979). According to the new economists in policy making positions, inflation and the external imbalance was the result of demand pressures caused by the public deficit and the appreciation of the exchange rate. In sum, the crisis had been the result of financial disequilibriums and an erratic exchange rate policy.<sup>38</sup>

The first attempt to stabilize the economy came in 1983, right after De la Madrid took office. The Program of Immediate Economic Reorganization (*Programa Inmediato de Reordenación Económica*, PIRE) sought to stabilize the economy. The PIRE tried to manage inflation and the current account deficit, the two biggest problems in the economy. The idea was to lay the foundations for healthy public

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question.

<sup>38</sup> See Lustig, Nora, (1989). According to José Córdoba, this diagnosed was the result of the conviction by government officials, which used to be in technical but not political positions in the 1970s, of the negative consequences of a fiscal policy subordinated to political issues (Córdoba, 1991). Also see Rubio and Gil-Díaz, 1987

finances and set the stage for a medium term recovery (Aspe, 1994:14; Kaufman, 1988).

The IMF supported the PIRE and the Mexican government received financial support from the Extended Fund Facility. The PIRE sought to restore stability in two stages: first, it would create the conditions for the reopening to the country the international credit markets, and second, it would restructure the economy by lowering trade barriers, diversifying exports and reducing the size of public sector by privatizing public enterprises. The government expected that growth would resume in 1985 (Kaufman, 1989:115).

Although the austerity program was able to bring inflation down and correct, in a degree, the public sector finances, it did it in an extremely slow fashion and with enormous costs. The PIRE precipitated the decline of imports and a deep economic recession: GDP growth for 1983 was -5.52%, employment growth dropped -0.3% and the minimum wage dropped -28.7% in real terms from 1982 (Aspe, 1993:19).

A number of different problems put PIRE out of track and its efforts to reduce inflation and the balance-of-payments deficit. By mid-1984 and mid-1985, fiscal discipline and monetary controls were relaxed (Aspe, 1993: 16). Some analysts argued that the reason for the change in policy came as a result of government's concerns on the increasing presence of the opposition party PAN in the northern states of Chihuahua, Durango, Coahuila and Nuevo León. As well as the need to support PRI candidates (Kaufman, 1989:115). The government fears on the

electoral costs of the austerity led to the relaxation of the discipline, and the increase in public spending.

As a result of what the international organism considered "Mexico's disregard for the agreement", in September 1985 the IMF decided to suspend the payments of the Extended Found Facility. This decision came right the day when Mexico City experience a major earthquake that killed approximately 9,000 people.

Between mid-1985 and mid-1986, oil prices collapsed. The result was the dropped in oil export revenue by 11% in 1985 (Lustig, 1992:36). As an immediate result, the external account deficit widened, which, together with the external debt obligations, placed major pressures on public revenues. Debt requirements were very high, at about 7% of the GDP between 1983 and 1985 and real inflation in 1983 was 52% above IMF estimates. In 1984 inflation was 29% above IMF estimates and in 1985 45% above estimates. Again, the government tried to ease the situation by relaxing fiscal discipline.

However, the government was unable to place the country into a virtuous cycle of low inflation and growth. By mid 1985 Mexico suffered another serious balance-of-payments crisis (Lustig, 1992:36-37). In 1985 inflation drastically increased and economic growth slowed down. As a result of the failure of PIRE, the government's economic policy suffered a major shift. The government confronted the new crisis with drastic measures: 1) the reduction of total government expenditures, not only fiscal deficit, 2) import liberalization, 3) the entrance to the General Agreement of

Trade and Tariffs, 4) a public enterprises privatization program, 5) a daily nominal depreciation of the peso, and 6) the tightening off credit (Lustig, 1992:43-45; Rubio, 1992:76-88).

This shift in economic policy was seriously committed to trade liberalization, yet, it reflected a gradualist approach. The policy of sharply devaluating the peso created a cushion for domestic firms (Kaufman, Bazdresch and Heredia, 1993).

By mid 1986, through the program known as the Program for Encouragement and Growth (*Programa de Aliento y Crecimiento*, PAC) the government tried to confront the high dependence on oil and the lack of external financial support.

The new the strategy sought to protect the balance of payments, reduce Mexico's reliance on oil exports, control inflation by limiting credit and controlling wages, and show international and national economic agents the real government commitment toward the liberalization of the economy (Aspe, 1993:16-18; Lustig, 1992:43-45).

The government of de la Madrid cling to the plan. Soon a new rescheduling of the international debt took place under the terms of Baker Plan (a scheme announced by then U.S. Treasury Secretary James Baker). New loans from the US government and the IMF were granted to Mexico by the end of 1986 and the first quarter of 1987.

The loans help the Mexican government to redefined its priorities, moving its objectives from a, once critical, problem of the balance-of-payments to the question

of the stabilization of the economy. By August of 1987 the Mexican reserves were 16 billion dollars.<sup>39</sup> Moreover, for the first time in more than 18 months the Mexican stock Market started to have positive increases. Just in the first 7 days of October 1987 the Mexican Stock market had a positive 10% increase in its index.<sup>40</sup>

Though, there were concerns over the levels of speculation in the financial markets, and the raising inflation.<sup>41</sup> In October 4, 1987, Carlos Salinas de Gortari became the PRI presidential candidate.

Things were too good to be true and the good fortune did not last long. The October 1987 crash of the New York Exchange had major consequences for the country. The so called "Black Monday", had its toll, the Mexican stock exchange index (IPC) dropped 16.5% in just one day, and 26% in five days.<sup>42</sup> The uncertainty created by the crash generated a speculative attack against the peso which in turn produced a major devaluation on November 18, 1987 (Aspe, 1993: 18-19; Lustig, 1992:46).

The crash of the Mexican stock, the run against the Mexican peso, and the following devaluation triggered an inflationary process that threatened to be uncontrollable (Aspe, 1993:19).

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<sup>39</sup> "Garantizadas las reservas del Banxico para el próximo gobierno" in El Universal, (August 12, 1987) page 1 of financial section.

<sup>40</sup> Zuñiga, Juan Antonio M., (1987), "Demandan gravar las ganancias de la Bolsa", UnomásUno, (October 7), 13.

<sup>41</sup> UnomásUno, October 1987.

<sup>42</sup> Zuñiga, J. Antonio and Luis Acevedo Pesquera, (1987) "Despople de las bolsas más grandes del mundo", UnomásUno, (October 20), 1.

Price increases and the deterioration of the economy brought about increasing tensions between capital and labor. In December of that year, the Workers Congress (CT) threatened with a general strike for December 18. In December of 1987 there were 11,361 strike threats at the local level.<sup>43</sup>

Although the umbrella labor body (the Workers Congress) and the labor confederations linked to the PRI had always been an allied of the regime, the demand of a 46% emergency increase in wages for workers in the central zone and a 133% increase for workers in the border areas, showed the annoyance of the "official" labor sector toward the economic policy of the government.<sup>44</sup>

The government of de la Madrid had to act quickly and defined a new strategy to stabilize the economy. In this process of policy-making the new generation of technocrats became increasingly influential. By the time of the establishment of the Economic Solidarity Pact in December 1987, the technocratic group around the PRI's presidential candidate, Carlos Salinas de Gortari, had managed to control economic policy and was at the doorsteps of controlling the state apparatus.<sup>45</sup>

In the next chapter I will explain the role of the government technocrats in the making of a new regime alliance and the impact of their skills and new ideas in the

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<sup>43</sup> INEGI, Estadística Sobre Relaciones Laborales de Jurisdicción Local, Cuaderno 2, 1985-1989.

<sup>44</sup> See Latin American Weekly Report, 17 December 1987, p.10.

<sup>45</sup> As an example, we can cite the case of Carlos Salinas de Gortari, who from being the Secretary of Programming and Budget, under President de la Madrid, became the PRI's candidate for the presidency in the 1988 elections. Salinas de Gortari's position as a Secretary was in turn

development of an strategy that stabilize and reform the Mexican economy through a tripartite mechanism of concertation.

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occupied by Pedro Aspe Armella, who later, during Salinas de Gortari's administration became the Secretary of the Treasury (Secretario de Hacienda y Crédito Público).



## CHAPTER 4

### STATE CAPACITIES: IDEAS, EXPERTISE, AND POLICY LEGACIES IN THE MAKING OF POLICY STRATEGIES

On December 15, 1987, Mexican President Miguel de la Madrid Hurtado (1982–1988) headed the ceremony that inaugurated the first of a series of Economic Pacts that shaped Mexican economic policy for more than a decade. On that chilly December night de la Madrid Hurtado gathered in the *Salón Carranza* of the official residence of *Los Pinos*, with the representatives of business, labor, and peasants sectors and opened a new area of economic policy making in Mexico. In his speech, de la Madrid read: “We have gathered this day to sign a Pact of Economic Solidarity between the government of the Republic and the representatives of the peasant, labor and business sectors. This Pact is the response of Mexican society, in its totality, to the economic deterioration that the country has suffered since the middle of the month of October”.<sup>1</sup>

In his address, President de la Madrid sought to ease the concerns of Mexican society<sup>2</sup> on the implementation of shock stabilization and adjustment programs, much in vogue in the Southern Hemisphere of the continent. President

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<sup>1</sup> See Signature of the Pacto de Solidaridad Económica, Salón Carranza, Los Pinos. December 15, 1987. Presidencia de la República. Dirección General de Comunicación Social. P.1

de la Madrid remarked that "It would be useless to compare this Pact and this program to other plans imposed in other countries; it is not a shock plan in that there is no total freeze of the prices of the Mexican economy"<sup>3</sup>.

This chapter attempts to answer three questions: First, how did the idea of a heterodox policy program to control inflation and reform the economy gain ascendancy among government policy makers? I argue that the 1982 economic crisis and the failure of the closed economic model with deficit spending opened a window of opportunity to government technocrats. Top government economists, under the leadership of Carlos Salinas de Gortari (who later became president), were included into the cabinet of President Miguel de la Madrid and managed to slowly increase their influence on economic policy decisions and eventually redefine the regime's alliance.

Second, what was the impact of economic ideas among Mexican economic policy-makers? I hold that U.S.-trained economic policy makers acquire critical ideas and knowledge on inflationary processes and economic behavior that helped them outline a coherent economic policy package.

Third, what was the impact of policy legacies and expertise in the design and implementation of the Economic Pacts? I argue that the executive's tight control on economic decision making and previous government experiences in price and wage

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<sup>2</sup> See Proceso, December 21, 1987, No.581: 14-15

<sup>3</sup> See Proceso, December 21, 1987, No.581: 14-15

controls, provided the government with the capacity to design a feasible economic stabilization and reform program.

In order to answer these questions, this chapter will describe, first, the role of technocrats in the making of the new regime coalition that shaped Mexican political choices in the 1980s and 1990s. The second part of the chapter will analyze the impact of economic ideas on Mexican technocrats, and their effect in the development of an economic stabilization and reform program. It will analyze the impact of ideas in the economic, political and administrative viability of this particular economic policy choice (Hall, 1989.).

The final section of this chapter will analyze the role of policy legacies in building state capacities that helped shaped a concerted agreement to stabilize and reform the economy.

## **4.1 Technocrats and the Making of a New Regime Alliance**

### **4.1.2 Career Paths in the Mexican Bureaucracy and the Ascent of Technocrats.**

The rise of *technocrats (or technopols)*<sup>4</sup> as the political elite that controlled

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<sup>4</sup> Following Centeno and Maxfield's typology (1992), Mexican elite career path can be illustrated as follows. *Políticos* are those that are linked to mass mobilization or representation of one the PRI's organized sectors (labor, peasants or middle classes). *Políticos* served as "...ward bosses' of the system, managing the distribution of patronage, arranging attendance at political rallies and securing electoral support for PRI candidates" (p.61). *Burócratas políticos* (political bureaucrats) are associated with administrative and bureaucratic control of the PRI through its national executive. Contrary to *políticos*, *burócratas políticos* do not represent any constituency but they control the party apparatus (PRI) (p.61). In various occasions *burócratas políticos*, have become part of the cabinet, specially in ministries in charge of the "political control", such as the ministry of labor or the interior (p.63). *Técnicos*, specialists that work in government agencies, in

government policy making since 1982 has a strong relationship with institutional change in Mexico. The development of the financial, political and bureaucratic institutions of the Mexican post-revolutionary state since the late 1920s generated a variance of the career paths among the governing elite.

During the period 1957-1971, better known as the Stabilizing Development era, Mexico experienced economic growth and financial stability. Economic policy sought to stimulate rapid economic growth and industrialization under an import substitution model and a fix exchange rate policy (Córdoba, 1986:318; Rubio and Gil Díaz, 1987:1). Economic policy during the Stabilizing Development was controlled by the *técnicos* at the Finance Ministry (SHCP) under the head of Antonio Ortiz Mena and the Mexican Central Bank (Banco de México) headed by Rodrigo Gómez.<sup>5</sup> For Ortiz Mena a balance deficit and the control of the inflation were the most important economic concerns (See Ortiz Mena, 1969).

During this period, *técnicos* served as key advisors to the politicians

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particular engineers and economists working at the agriculture ministry, the finance ministry or government agencies (i.e. Secretaría de Recurso Hidráulicos, Secretaría de Agricultura, Secretaría de Hacienda y Crédito Público, Banco de México). Although no civil service exists in Mexico outside the Foreign Relations Ministry, *técnicos* "enjoy job security and long tenure" within these ministries and agencies and had minimal participation in politics (p.63). By the late 1970s a new career path developed the technopols. The elite of technopols is constituted by individuals with a broader training (in economics and management) than their more specialized colleagues the *técnicos*. The technopols clearly have political ambitions, thus they show a great institutional mobility as well as political networks outside an specific government agency (p.63). Technopols participate in economic as well as political planning, however their political work is not associated with a particular constituency but with *camarillas* (political group). Technopols have an important link with certain *políticos*, as technopols recruit them as their political experts' (p.63).

<sup>5</sup> Antonio Ortiz Mena was Finance Ministry from 1958 to 1970 and Rodrigo Gómez was the head of the Bando de México in the period 1952-1970. See Enciclopedia de México, 1993.

controlling the state apparatus. However, the borders between the tasks of *políticos* and *técnicos* were clearly defined and rarely crossed.<sup>6</sup>

Since the late 1920s, during the financial reconstruction after the Mexican revolution, the Finance Ministry (SHCP) had developed a relative autonomy on the process of economic decision-making in the government. The SHCP had the power to dictate macroeconomic policy, initiate debt negotiations, mediate with the international economy, and control the National Banking Commission, the National Securities Commission, and the National Insurance Commission. It was on the top of the hierarchy of all cabinet ministries (Centeno, 1994:80; Maxfield, 1990: 47).

Strong institutional and informal links had been established with the Banco de México, since the Ministry supervised the administration of the Banco de México until it became an independent institution in 1994.<sup>7</sup> The SHCP had the control over taxes and expenditures of the Mexican government. The ministry had the upper hand in defining the amount of resources states would turn to the federal government (Centeno, 1994,79-80).

Although economic growth and financial stability were important gains of the Stabilizing Development, deficient income distribution policies and the lack of a process of liberalization for political participation increased middle class

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<sup>6</sup> According to López Portillo the president of the country did not interfere with the decisions made by Ortiz Mena and his team in the Finance Ministry due to what the presidents considered extremely complex issues. See López Portillo, 1988: 286, 316.

<sup>7</sup> See, Maxfield, 1990: 47. On the 1994 Banco de México Law reform see <http://www.banxico.org.mx>.

demands.

Prior to 1970, the *técnicos* of the SHCP and Banco de México had in a degree constrained the power of the president. However, during Echeverría's administration the traditional process of power sharing of economic decision-making between the president and the economic ministries ended (Centeno, 1994,76-77). A process of increased centralization of economic policy-making in the hand of the president took place, and a serious confrontation between *técnicos* versus *burócratas políticos* initiated (Centeno, 1994, 79-80).

In order to develop an economic strategy based on the expansion of the public sector, Echeverría had to shift the locus of the decision-making process in economic policy from the SHCP, Banco de México, and the *técnicos* to the president's team, constituted by structuralist economists.<sup>8</sup> It was in the Secretary of the Presidency (*Secretaría de la Presidencia*) where most economic decisions were made. A well known phrase of Echeverría at the time was "economic policy is made at *Los Pinos*" (the official residency)" (Zaid, 1987).

Echeverría's efforts were directed to brake the well-entrenched economic bureaucracy.<sup>9</sup> The conflict between Echeverría and the *técnicos* took a critical turn in 1973 with the resignation of the Finance Minister, a well-known técnico, Hugo B. Margáin. Minister Margáin was replaced by José López Portillo, a good

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<sup>8</sup> State-owned corporations grew from 86 to 740 during Echeverría's regimes. See Smith, 1979: 281

<sup>9</sup> The conflicts between Echeverría and Ortiz Mena were so strong that Ortiz Mena had to leave the country after Echeverría was inaugurated. He later became the Director of the Interamerican Bank of Development, where he stayed until 1989.

long time friend of Echeverría who later became the president of the country, (Centeno and Maxfield, 1992:80).

The economic team of Echeverría was headed by a well known Mexican structuralist economist, Horacio Flores de la Peña (Basañez, 1990:48). Flores de la Peña was the minister of the powerful National Patrimony Ministry (SEPANAL).<sup>10</sup> The SEPANAL was a super-ministry that controlled all government enterprise whose numbers had gone from 86 to 740 during the presidency of Echeverría (Smith, 1979:281).

An economist at the time, close to Echeverría and Flores de la Peña, Carlos Tello, considered false the arguments about the inability of the state to manipulate economic variables. He called this argument a “nonsense”, a “taboo” (Tello, 1979:34). It was during this period that the controversy between structuralists and monetarists became extremely acute (Basañez, 1981, 68-69, Tello, 1979).

It is important to note that the capacity of Echeverría to successfully centralize economic policy in his own hands and implement a new development strategy, derived in part from the availability to obtain cheap financial resources from private foreign banks in the form of euro-dollars and petro-dollars, as well as the ability to tax domestic savings, through the government’s manipulation of the encaje legal (reserve requirements for private bank deposits).

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<sup>10</sup> It is difficult to make a precise translation, some defined it as the National Patrimony Ministry others as the National Property Ministry. The ministry did not have an official name in english.

(Centeno, 1994, 81-86; Friden 1994; Mares 1985:681).

The peak of the conflict between *burócratas políticos* and *técnicos* came in 1976, only 28 days after José López Portillo (1976-1982) was inaugurated as president. With the support of Echeverría, López Portillo created the Secretary of Programming and Budget (*Secretaría de Programación y Presupuesto*, SPP).<sup>11</sup> The creation of the new ministry was a major blow to the finance ministry, and the *técnicos*. The SPP had key functions that used to be under the control by the SHCP, in particular planning and budget control (Centeno, 1994:90). The SPP developed the general plan for public expending, the plan for government expenses and the plan for revenues and expenses of the administration.<sup>12</sup> The SPP substituted the Secretary of the Presidency.<sup>13</sup>

The debate on the need to modify the set of economic policies that had sustained the Stabilizing Development taken place during the Echeverría administration was put on a stand still at the beginning of the presidency of López Portillo. There were several reasons for this change. First, the economic crisis that Echeverría's administration had left behind, placed supporters of public deficit policies and structuralist economists in a difficult position. Second, the introduction of an orthodox economic program, supported by the IMF, had satisfied many of the *técnicos* who were concerned about public spending. Finally, as a result of the oil boom, the amount of government resources put the debate on the role and size of

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<sup>11</sup> SPP was created in December 29 of 1976. See *Diccionario Pomua, Historia, Biografía y Geografía de México*, 1995:3236.

<sup>12</sup> See *Diccionario Pomua, Historia, Biografía y Geografía de México*, 1995:3232.



the public economy and the urgency for trade liberalization to a hold.

The administration of López Portillo took a step further towards the process of centralization on economic making decisions. Through the creation of the National Planning System and its emphasis on planning, the executive developed the capacity to coordinate each ministry. Linked to this measure, the Inter-secretarial Committee on Public Expenditures and Finance was created (Centeno, 1994, p.86). López Portillo's main concern was efficiency and the control of the bureaucracy (Centeno, 1994:88).

López Portillo's concerns on bureaucratic controls was reflected in the appointment of members of his family in high level government post, his sister, Margarita López Portillo, his son, José Ramón, and his cousins Guillermo and Manuel López Portillo (Smith, 1979: 308-309).

Critical in the dominion of economic policy was the SEPANAL, which further increased its powers by becoming, in December 29 1976, the National Patrimony and Industrial Development Ministry (SEPAFIN).<sup>14</sup> The SEPAFIN was extremely powerful because it controlled all-public enterprises, including the Mexican Petroleum Company (PEMEX), and defined industrial policy. The head of this ministry, and López Portillo's confidant, was José Andrés de Oteyza, a Cambridge University trainee structuralist economist.<sup>15</sup>

The increased need for planning, as well as the continued increase in the

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<sup>13</sup> Op.cit.

<sup>14</sup> Op. cit.

<sup>15</sup> Presidencia de la República, 1984:316.

number of financial resources coming from abroad proved to be an important opportunity for a new kind of expert in planning and financial issues to participate in the policy-making process. The new breeds of *técnicos*, the technocrats, had clear political ambitions and worked among themselves to develop a structured team (*camarilla*) whose intentions was the control of the state apparatus.<sup>16</sup>

As minister of the SPP, and a former employee of the Banco de México, Miguel de la Madrid opened the door to the new breed of *técnicos*, most of whom had worked and continued to have strong links with the SHCP and Banco de México (Hernández, 1987).<sup>17</sup> The new technocratic elite took high level positions inside the SPP and outside their natural borders (the Finance Ministry and Banco de México). Once at the SPP, they had the opportunity to control the planning and budgetary process in the Mexican government. As the crisis of 1981-1982 unveiled and López Portillo's solutions to the crisis became increasingly of a populist nature and the debate between monetarists versus structuralists polarized (See Cordera and Tello, 1981).

The concern over the economic crisis and the problem related to the budget and government deficits oriented López Portillo to choose Miguel de la Madrid, minister of the SPP, as his successor (See Castañeda, 1999:103-105).

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<sup>16</sup> A team constituted by personalities such as Carlos Salinas de Gortari, Manuel Camacho, José Serra Pucho, Pedro Aspe, María de los Angeles Moreno, Luis Donald Colosio, among others, all who had started their career either at SHCP or Banco de México. See Presidencia de la República, 1984.

<sup>17</sup> Miguel de la Madrid was a lawyer from the UNAM but had later pursue a Masters degree in Public Administration at the John F. Kennedy School of Government at Harvard University in 1964-1965. See Presidencia de la República, 1994:258.

With Miguel de la Madrid as President, the new technocratic team headed by the new SPP minister, and later President, Carlos Salinas de Gortari, increasingly gained access to most of the economic positions in the government. Furthermore, with: a) the failure of the closed economic model with public deficit spending, b) the increased international and domestic financial constraint, and c) the retrenchment of structuralist economists in the government, the new technocratic team, formed by neo-classical economists trained in U.S. universities <sup>18</sup>, found a window of opportunity to influence the economic project during the administration of de la Madrid and later, under the presidency of Salinas de Gortari, control the whole state apparatus.

## **4.2 Technocrats, Economic Ideas and the Economic Solidarity Pact**

### **4.2.1 Economic Theory, inflation and Heterodox Plans**

The Mexican Economic Pacts were theoretically sustained on a new set of economics statements known as the Modern Theory of Inflation (MTI) (Jarque and Tellez, 1993:29). The MTI gained its scientific status as an explanation of inflation

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<sup>18</sup> There is an important predilection for graduate work in Mexican private universities, US universities and neoclassical approaches to economics among economists in the bureaucracy. 62% of all the office-holders with graduate training in Miguel de la Madrid 's administration have done their training in a foreign university, see *Presidencia de la República*, 1984):854. There has also been an important spill-over of this notions on other professions such as public administration and political science. This probably has to do not just with the better quality of graduate work in US universities, compared to Mexican universities, but also with the fact that since 1988 technocrats have control the governmental offices in charge of the allocation of scholarships for studies abroad. For a deeper explanation on careers trends see Centeno and Maxfield, (1992).

by the end of the 1980s.<sup>19</sup>

The MTI considers inflation as the result of three fundamental causes that can either act independently or interact: 1) an excess of demand, 2) an impact on the supply, and 3) an inertial component.

The idea that inflation is the result of an excess in the demand and problems in the supply derives from Keynesian, classical and monetarist economic thinking (Alt and Chrystal, 1983). However, the inertial component that is used by the MTI to account for the persistence of inflation, and hyperinflation in developing nations, was generated by the monetarist and rational expectations schools within neo-classical economic theory in the 1970s (Kahler, 1990:499).

The MTI capacity to explain inflation and develop policy advice owes its success to monetarists such as: a) Milton Friedman's work on inflation, b) the theory of rational expectation developed by Robert E. Lucas in the mid 1970s, and 3) from the analysis of institutions developed by modern Keynesians such as Franco Modigliani.

Back in the midst of the 1970s, monetarists introduced the notion that individuals act under expectations that are rational and adaptive. Rational expectations are backward and forward-looking, and agents use the available

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<sup>19</sup> For economic theory, I understand a set of ideas (statements, judgments or propositions) about economic phenomena defined as scientific because they have fulfilled a generally accepted epistemological criteria among economists: 1) the statements are falsifiable (i.e. scientific statements are prepared to state observable conditions which would refute them (Popper, 1963; Lakatos 1978:3); 2) the theory contains a greater amount of empirical information or content than its predecessor; 3) it is logically stronger than its rivals; thus it has the greater explanatory and predictive power, and 4) it can be "more severely tested by comparing predictive facts with observations" than

information to update and redefine their future strategies (Samuelson and Nordhaus, 1989:322-344; Alt and Chystal, 1983:62-69).

Monetarists believed that the stagflation process the US economy faced during the 1970s was the result of a shift from a short-run to a long-run Phillips curve. This meant a change from a trade-off between inflation and unemployment (short-run Phillips curve) to a constant increase of inflation and unemployment (long run Phillips curve). Monetarists explained the reason for this shift. Monetarists believed that the explanation of such phenomenon had to do with rational expectation, inflation becomes inertial because agents adapt to new levels of inflation (Samuelson and Nordhaus, 1989:3779).

The rational expectation school took the argument further and argued that agents adjust their expectations, prices and wages formation, to the new expected policy for controlling inflation. As agents anticipate government policy, inflation continues and government policy becomes ineffective. Thus, the possibility for the stabilization of the economy becomes extremely difficult, as governments cannot surprise agents when their policies are predictable (Samuelson and Nordhaus, 1989:3779).

The shift of the Phillips curve from a sloping in the short run to a vertical curve in the long run refuted the argument about the constant trade-off between employment and inflation on the long run, and fueled the worries of economists about inflation. Inflation could easily get out of control and develop as a vicious

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can its rivals (1963:217) (Also see Granovetter, 1990)

cycle in the economy, as it did in the 1970s in the U.S.

For neoclassical economists the dangers of inflation are high, however, the costs of inflation depend on the sources of inflation as well as the structure of the economy. In the case of an economy that has not fully anticipated inflation and adjusted its institutions to the phenomenon, inflation generates more than just shoe-leather (trips to the bank) or menu costs (the cost of changing prices). First, and most obvious, inflation upsets market equilibrium as it distorts price signals, thus breaking the relation among relative prices. The distortion of relative prices has serious effects in market information, these effects are: a) the allocation of resources; b) stock market valuation of firms and investment decisions; and c) interest rates.

Second, inflation increases administrative costs as it: a) distorts the interpretation of the economic situation; b) rises the cost of keeping monetary and liquid assets; and c) decreases government tax revenues. Inflation seriously affects wealth redistribution as it: a) affects intergenerational transfers; c) shortens nominal contracts; d) changes patterns of assets accumulation. And finally, inflation increases uncertainty as it: a) increases transaction costs; and b) limits the planning ability (Fischer, 1986: 1-29).

Confronting inflation and stabilizing the economy is not an easy task. According to economists, disinflation is difficult and expensive because of the stickiness of wages and prices. Wages are fixed by contracts, and expectations are slow to adjust. It is also difficult to control it because governments have to develop

credible policy design in advance, so that "restrictive policies in the distant future will cause current prices to fall..." (Fischer, 1986:155-156).

The inertial component of inflation is related to how wage contracts are structured for two reasons. First, wage contracts are staggered and are made in relation to other contracts. Because of this, some firms will have their own contracts prior to other negotiations, but other firms and unions will establish their wage rates in future periods. Therefore, each written contract is relative to others, thus, shocks can pass from one contract to another. And, second, wage determination in every contract is calculated by backward and forward-looking expectations. That is, a calculation of what has been lost and needs to be recuperated and how things look for the future. Uncertainty about the level of inflation only fuels negative expectations which are discounted in the wage contract (Taylor, 1980).

As inflation accelerates contracts shorten, which further increases inflation. The shortening of contracts (the Olivera-Tanzi effect) becomes in itself a factor that causes inflation to accelerate.

The deterioration of contracts is an important characteristic of accelerating inflation (Dornbusch, 1993:23). As the time horizon of economic agents shrink so do all contracts as well as the maturities of financial assets, until, "...the economy converges to a spot market with the dollar pricing" (Dornbusch 1993:24). However the high cost of such convergence in budget or external balance deficits in turn leads to hyperinflation. According to Dornbusch, hyperinflation is "inevitable because the inflation tax, with sufficient financial adaptation, can be almost totally evaded,

and hence the budget deficit cannot be financed" (1993:24). Hence, the *Olivera-Tanzi* effect widens the deficit and triggers the inflationary process. (Dornbusch, 1993:24).

The importance of contracts in the inflationary process did not lead economists to think that this was the single and most important explanation for inflation. Although neo-classical economists believed that contracts play an important role in the inertial component of inflation, other structural factors are critical. Neo-classical economists paid special attention to the question of fiscal austerity, in particular, balanced budgets. No efforts to deflate an economy will be successful if a government runs into budget deficits and increases the money supply in order to relief the budget deficit (Bruno and Pitemna, 1988:4; Dornbusch 1988:902 and 1993:25; Jarque and Tellez, 1993; Gil Díaz and Ramos, 1988: 385). A rigid control of the budget is critical in order to create the necessary confidence among the economic actors that fiscal measures will be used to sustain the effort of controlling inflation (Dornbusch, 1993: 25).

The elaboration of economic theory culminated, as most economic theories do, in the formulation of policy advice. However, in this case there was no clear consensus on the most effective policy mechanism to combat the disease in nations experiencing chronic inflation or hyperinflation. In the 1980s there was a serious debate among economists on whether a gradualist or shock treatment (or "cold turkey") were better at combating inflation (Bruno, *et al*, 1988; Group of Thirty, 1981)).



Economics professors at Massachusetts Institute of Technology and developing country advisors; “money doctors”, such as Michael Bruno, Rudiger Dornbush, Stanley Fischer, argued in favor of a gradualist approach *versus* the more orthodox policies supported by the IMF (Jarque and Tellez, 1993:13).

The argument made by “money doctors” in favor of a gradualist approach to policy was simple. Monetary policies (orthodox plans) aimed at maintaining price stability have serious costs. Shock plans, through an immediate reduction in the rate of the growth of the money supply, can push for the deflation of the economy, however the cost is a major drop in output and employment.

Orthodox plans use recession as a means to bring inflation down. Such policies bring recession, financial debt related crisis, and may not control inertial inflation. A drastic reduction in the money supply may not cause the immediate reduction of nominal wages because of the stickiness of prices, and wages due to the overlapping and long-term contracts.

Thus, the economic costs of “cold turkey” measures is recession, and, and the uncertainty that the measure will even the control of the inflationary process. For “money doctors” the key to the deflationary process lay in the control of supply and demand. In terms of policy this means a tight control of the deficit, and the inclusion of income policies in the formula (Dornbush and Fishcer, 1980; Fischer, 1981; Bruno *et al*, 1988; Bruno, 1993).

For neoclassical economists, indexation is out of the question. They believe that although indexation is a useful tool for the management of distributive conflicts

its is a highly imperfect mechanism. There are two main reasons that do not make indexation a recommended policy option. First, there is a problem of defining the best periodicity of correction. In order to be socially neutral, adjustments have to be perfectly synchronized, yet this is very hard to achieve. Second, the rules of indexing provide policy-makers with the capacity to control the polity, and the economy. As a referee, policy-makers have control on the allocation and distribution of resources, thus generating a system of privileges and penalties (Sola, 1991:165).

According to economists at the Massachusetts Institute of Technology, successful heterodox plans have to face the following challenges. First, the development of a system of coordination between wages and salaries. It is fundamental to develop a coordination mechanism because a perfect system of wages and price controls is impossible in a world of price setters. For the same reason, scarcity is unavoidable, unless recession appears or trade is liberalized. Second, the perfect alignment of all prices and wages. And third, balancing of the budget. It is critical to fine tune the relationship between deflation and the demand of money (M1), so that the country neither experiences a sudden increase in the aggregate demand, which may disrupt the equilibrium of the budget, nor create a recession. In the particular case of Mexico, it was critical to find a solution to the enormous resource transfers due to the debt problem (Dornbush, 1988) (this was, in a way, solved by the Brady Plan).

#### 4.2.2 Economic Theory, Mexican Economists, and the Economic Solidarity Pact

Monetarist theory was largely developed within the US universities and became hegemonic in American academia in the 1970s.<sup>20</sup>

In Mexico, during the governments of Echeverría and López Portillo, most economists in top policy making positions had been trained and advised by Cambridge University (UK) Keynesian economists.<sup>21</sup> In contrast, the new technocratic elite that had controlled most top policy making positions after the López Portillo administration had been trained in U.S. universities under neoclassical economists. This happened at a time when monetarism and rational expectation theory were clearly the most important theories in the field of economics.<sup>22</sup>

Thus, among these economists there was a clear general consensus among Mexican technocrats that inflation was mainly the result of aggregate demand

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<sup>20</sup> Much of the reason for this phenomenon was due to two facts. First, because in the 1970s the US economy was the only one, among developed nations, that had an independent monetary policy. It was not obliged to maintain fixed exchange rates. And, second, because the monetarist approach had been able to explain inflation in a more comprehensive form than had been by Keynesians (Alt and Chrystal, 1983:629).

<sup>21</sup> Economists such as Carlos Tello and José Andrés de Oteyza had been trained in Cambridge University and had also been advised by economists from the Cambridge Economic Policy Group such as Terry Barker, John Eatwell and Ajit Singh. (See Balassa, 1985:209).

<sup>22</sup> Top economists of the Mexican government in both de la Madrid and Salinas' administration had been trained in US Universities. Pedro Aspe, Ph.D. in Economics, Massachusetts Institute of Technology (1974-1978); José Córdoba Montoya, Ph.D. in Economics, Stanford University (1974-1977); José SerraPuche, Ph.D. in Economics, Yale University (1975-1979); Herminio Blanco, Ph.D. in Economics, University of Chicago (1973-1978); Ernesto Zedillo, Ph.D. in Economics, Yale University (1974-1978); Francisco Gil-Díaz, Ph.D. in Economics, University of Chicago (1972). Presidencia de la República, (1992), Diccionario Biográfico del Gobierno Mexicano, México D.F., FCE. .

growth and governments deficits, which in turn upset exchange rate and price stability (Lustig, 1989).

Although there was a consensus on the origins of inflation, there was a debate on the most efficient set of policies to achieve its control.<sup>23</sup> The orthodox approach had not proven very successful in the previous economic programs (PIRE and PAC).

A critical actor that was able to develop a coherent policy proposal and gathered consensus around the establishment of a heterodox<sup>24</sup> stabilization and adjustment program was Mexican economist Pedro Aspe.

Pedro Aspe had been the undersecretary of SPP when Carlos Salinas de Gortari was heading this powerful ministry. When Salinas de Gortari became the PRI's candidate for the presidential election of 1988 (in October 5, 1987), Aspe occupied his position as secretary of SPP. He was clearly a man of de la Madrid and, very importantly, Salinas de Gortari's confidence.<sup>25</sup>

Aspe obtained a Ph.D. in economics from MIT. Economist Rodiger Dornbusch, his advisor, Franco Modigliani and Richard Eckaus had integrated his dissertation committee (Golob, 1997:111). His work on income inequality in Mexico shows that Aspe had never taken a completely *laissez-faire* posture and had

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<sup>23</sup> Interview with Mexican government official, México City, July 7, 1997

<sup>24</sup> A heterodox stabilization program is one that it is not only oriented toward the demand, as an orthodox does, but that includes income policies. See Jarque and Tellez, 1993:11-16; Moreno Brid, 1988

<sup>25</sup> Interview with government official, Mexico City, July 7, 1997 and see Golob, 1997:118..

recognized the role of the state in the development of better distributional mechanisms (Golob, 1997:15).

At MIT, Harvard and the National Bureau of Economic Research, Aspe had interacted with renowned economists. One of them was Michael Bruno, an economist from Israel's Hebrew University, a visiting scholar at the NBER and MIT in 1981 and, later, Governor of the Bank of Israel from 1986-1991, when the Israeli stabilization was implemented (Golob, 1997:112; <http://www.nber.org>. September 12, 1998. 1:00pm).

The PSE was designed by Pedro Aspe, his team of economists<sup>26</sup>, and José Córdoba Montoya, a Stanford University trained economist and Salinas de Gortari's main economic advisor.

As a Massachusetts Institute of Technology trained economist, Aspe was influenced by the Modern Theory of Inflation. The impact of the MTI in the design of the Economic Solidarity Pacts and following Pacts is more than evident<sup>27</sup>. According to Aspe: "(..) 'non-orthodox' programs combine the principles of the neoclassical theory of aggregate demand with a more detailed study of the effect of market structure on the way in which fluctuations in nominal variables are divided between prices and quantities in the equilibrium. This viewpoint holds that inflation has an important inertial component. It can be caused by imbalances in the real sector and by mal-adjustments in monetary policy. Factors associated with the distribution of

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<sup>26</sup> Interviews with government official, Mexico City, July 7, 1997 and October 30, 1998. Pedro Aspe's team was mainly constituted by students if his from the Instituto Tecnológico Autónomo de México. See. Golob, 1997, 124..

income, market structure, the type of wage contracts, and other institutional factors have an important role to play in the behavior of aggregate demand and the inertial component of inflation (...) the disappearance of the monetary and fiscal causes of inflation is not reason enough for inflation to drop.” (p. 9-10)

Córdoba Montoya, Salinas de Gortari's top economic advisor, also argued in favor of a “heterodox” program. Córdoba (1991) held that the inter-temporal structure of the contracts opens the door for relative price variance: “(...) thus the attempt to control inflation exclusively by orthodox measures, that is, through the control of the aggregate demand in nominal terms, has a recessive impact in the economy and carries a social costs that difficult the maintenance of such a program. Hence, the need to complement the fiscal and monetary discipline with income policies that break the inertial factors in the process of price and wage fix” ((p.35).

The Economic Solidarity Pact, and following Pacts, were gradualist approaches to inflation. The Pacts were built over fiscal austerity, trade policy, and, what gives it its heterodox character, income policies. Income policies implied the joint, and coordinated adoption of government, business, and labor efforts to anchor the evolution of the exchange rate, wages and prices to future inflation.

The first Pact, the PSE, proposed concertation as the mechanism for the coordination of public tariffs, prices, and wages according to the predicted future evolution of an inflation index built upon a “basic consumption goods basket ” (Moreno Brid, 1988: 27).

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<sup>27</sup> See Aspe, 1993 and Jarque and Tellez, 1993.

In other words, contracts were designed on a forward-looking calculus of inflation. Another important objective of the coordination system was the alignment of prices and wages in order to synchronize the contracts and avoid its overlapping.

Before embarking on the design of the Pact, Pedro Aspe and his team had closely followed the results of similar policies in Israel, Brazil and Argentina. As argued by Golob (1997), Aspe's training in a world's prestigious university provided him with critical tools of cross-national comparative analysis and with international contacts. The success of the *Pacto* was the result of a careful design that took into account the experiences of other countries and the advice of Aspe's friends, renowned economists Dornbush, Modigliani, Fisher and Bruno that had participated in the design and implementation of stabilization programs. (Golob, 125).

On a footnote of his book Crisis, Stabilization and Economic Reform (1993) Michael Bruno comments: "(...)the Mexican team, of the highest professional caliber, was headed by Pedro Aspe, Miguel Macera, and several other ministers with Ph.D's from U.S universities. It was fully supported first by President de la Madrid and, after 1988, by his successor Salinas. The team prepared its strategy learning from the failures and successes of its predecessor, by sending a mission of senior economists to study the stabilization of Argentina, Brazil and Israel *insitu* and prepare a written report" (Bruno, p.195).

According to Aspe, the basic problems that led to the failure of the Argentinean and Brazilian programs were the were due to the following factors: a) an incomplete fiscal reform (thus large deficits), b) incomplete change in the institutions that create

price momentum (the continuation of wage indexing and no trade liberalization), c) excessive expansion of aggregate demand (lack of control of demand that led to current account deterioration), and d) inadequate relative prices (lack of a system that would take care of the sectors that were lagging behind due to price controls)(Aspe,1993:21-22).

### **4.3 Economic Policy, the Capacity of the Mexican State and the Regime's Policy Preference**

The policy demands of the heterodox economic program required the government's capacity to control the budget, monetary policy, wage policy, prices, price alignment, and trade liberalization. Clearly the Mexican government had the capacity to follow the recommendations made by the policy makers in government due to three basic factors: 1) the executive's strong control on economic policy and its insulation from electoral and constitutional pressures, 2) the regime's corporatist system of state-society relations, and 3) the knowledge built on a legacy of pasts price controls experiences.

Since the institutionalization of the system in the 1930's, until the moment the PRI lost its hegemonic control of the Congress in 1997, the Mexican presidency had managed to concentrate enormous powers. On the one hand, the Mexican Constitution of 1917, in particular the Law on the Executive Attributions on Economic Matters of 1950 (*Ley de Atribuciones del Ejecutivo en Materia Económica*,



December 30, 1950) provided the presidency with extensive powers on the economic aspects of government. The most important of these powers were the executive control on: Monetary Policy<sup>28</sup>, international loans, foreign investment, fiscal policy, the introduction of the budget, government expenditures, industrial policy, labor policy and the control on government organisms and state own enterprises (Carpizo, 1978:135-156).

Moreover, such formal powers were enhanced by the fact that the president was the head of the PRI, and by the PRI's control of all the electoral processes, giving this party the control on the legislature. The result was that the executive in Mexico always found itself insulated from electoral pressures, and with extraordinary discretionary power on most economic issues (Carpizo, 1978; Heredia, 1994:9).

In this case, the governments of de la Madrid and Salinas de Gortari found themselves in a particularly privileged position being able to define budget, fiscal, and monetary objectives basically insulated from constitutional and electoral pressures.

Although the regime was in control of the Congress and the electoral process, increasing political pressures as a result of the deepening economic crisis convinced President de la Madrid on the necessity of a new electoral law to bring better mechanism of representation but without losing control of the legislative. The new law's objective was to maintain the PRI control of the Congress, even if

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<sup>28</sup> Until December of 1993 when the new Law of the Banco de México granted its autonomy from the executive. See <http://www.bxico.org>

during the presidential elections of 1988 there was a significant vote against the PRI. The electoral law of 1987 increased the number of seats of the lower chamber from 100 to 200 to be distributed by proportional representation, and introduced a so-called governability clause. The governability clause assigned extra seats to that party that did not have the absolute majority (50% plus 1) but had the simple majority. The clause assigned extra seats to the party that obtains more than 35% of the votes but less than 51%. The clause does not apply if no party wins 35% of the votes (Lujambio, 1993:520).

The idea behind the clause was that the party with the relative majority had the absolute majority and, thus, there is a stable Congress. With the clause the number of possible negative outcomes against the PRI was drastically limited. Due to its historical presence in Mexican politics and its control of the electoral system the most probable party to win a relative majority of votes in any election was the PRI (Lujambio, 1995:110-11). This clause was, therefore, a guarantee of the presidential control of Congress and, very importantly, the executive assured itself the necessary support for policy changes in its economic modernization programs.

The successful management of income policies demanded not just the control of the economic issues by the executive but a system of consensus building. In the Mexican case, the nature of the corporatist relationship provided the regime with a set of tools that allowed for the concertation and coordination of income policies. On the one hand, the historical alliance between labor and the regime gave the president sufficient political capital to demand wage restrictions to the leaders of

labor confederations (Burguess, 1997). On the other hand, the experience in tripartite negotiations and the organization of labor and business in a corporatist manner, guaranteed the control of collective action problems and provided a system for coordinating the alignment of prices and wages. As argued by Miguel de la Madrid "it was a habit of the Mexican political system to make agreements".<sup>29</sup>

In Mexico, labor and business organizations managed their conflicts and coordinated their actions with the government. The Mexican regime had the political capital and the institutional mechanism not only to control wages but prices as well. The control on prices was an outcome of the expertise provided by the historical experiences of price controls and a system of price information.

Historically, since the establishment of the Law on the Executive Attributions on Economic Matters in 1950, the Mexican government had developed various mechanisms of price controls of goods and services. These experiences provided the policy makers with the necessary skills and information to develop an efficient system of flexible price controls during the time of the *Pactos*<sup>30</sup>.

The legislation that established the president's capacity to intervene in economic issues also provided the regulatory frameworks that allowed the executive to control and determine the prices of goods and services in the Mexican economy.

For a period of twenty years, 1954–1974, the Ministry of Commerce, SECOFI; had a tight control on prices. The prices in the economy were set by SECOFI by

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<sup>29</sup> Interview, Mexico City, March 19, 1998.

<sup>30</sup> Interview with government official, Mexico City, July 15, 1997

determining a maximum price that was the result of a calculation between production and distribution costs and, what the government considered, a "reasonable profit margin" (Dávila, 1991:35-36).

The system was preserved as a response to the inflationary pressures that the Mexican economy experienced in the 1970s. A new executive decree in 1974 established a new more flexible price regulation mechanism. The new system considered price variations according to changes in the production costs of goods and services. The government then defined a specific list of products approved for price fluctuation. By 1974, there were two mechanisms of price regulation, one rigid and another more flexible (Dávila, 1991:36).

However, the further increase of inflation by the end of 1985 and 1986 flared the demands of the business sector for a more flexible system and the need for periodic adjustment of prices. The inflationary process and the demand for prompt solutions outdo the capacity of SECOFI to respond. Hence, SECOFI opted for across the board increase of those prices of goods that were not part of a rigid list of government controlled prices. Most of the goods and services with strict price controls were considered basic products (food, transportation and electricity), for the maintenance of the living standards of millions of Mexicans. The prices that were not a part of this list could be increases according to the monthly rate of inflation. However, at the end of every semester firms had to give SECOFI the arguments for their price changes (Dávila:1991:36).

When the PSE took effect all different system of price controls were nullified

and all prices in the economy were under the controlled by the government. To modify product prices the producers had to file a petition to SECOFI with a detailed argument about the need to raise their product prices, supported with information on how the changes in the structure of costs demanded an increase in prices. SECOFI would then review the report, study the productive chains involved in the production of such good, and approve or deny the petition.

For decades SECOFI had gathered abundant information about the behavior of prices and the production chains of Mexican products. Although SECOFI was strict in its objective to price controls, it had to cultivate a careful balance between retaining price controls and maintaining profits (Dávila, 1991:36).<sup>31</sup> Indirectly, SECOFI's policy of tight price controls became a source of pressure for companies to become more efficient and modernize.

An important component of the government's capacity to monitor price freezes during the *Pactos* was the Mexican consumer protection agency known as PROFECO (Procuraduría Federal del Consumidor). Created in 1976, as a product of the Federal Law for the Protection of Consumers (Ley Federal de Protección al Consumidor, February 3, 1976), PROFECO is the government agency in charge of the promotion and protection of consumers' interests.<sup>32</sup> Since its creation PROFECO has undergone many changes but the most important was probably in 1989, when the government of Salinas de Gortari, at the time of the Pacts, modified

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<sup>31</sup> Interviews with businessman, Mexico City, March 15, 1996 and government official, Mexico City, July 15, 1997

<sup>32</sup> <http://www.profeco.org.mx>

the Federal Law for the Protection of Consumers and allowed PROFECO to sanction businesses that were not complying with the price freezes established in the Pacts.

During the Pacts, the PROFECO worked as a sort of "Damocles sword" over the heads of business. Inspectors of PROFECO continuously showed up in businesses, verifying that price controls were being observed. If this was not the case, a fine was issued against the business, as well as a threat of closing down the business in the case of recurrence.<sup>33</sup> In that way PROFECO played an important role in the monitoring of the price accords established in the *Pactos* <sup>34</sup>.

In sum, technocrats' capacity to understand key aspects of inflation, the executive's strong control of the economy and its insulation from electoral politics, and the experience of price controls provided the state with the mechanisms to control the most important macroeconomic aspects of the new heterodox plan: budget controls and income policies.

The new heterodox program recommendations were a feasible solution to the problem of inflation in the economy due to the institutional context established during the life of the regime. The Mexican State had the capacity to follow the recommendations made by the policy makers, and pursue a heterodox economic program to control the inflationary spiral.

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<sup>33</sup> Interview with business person, Mexico City, May 18, 1999

<sup>34</sup> Interview with government official, Mexico City, July 15, 1997

In the next chapter I will explain the process of political negotiation that led to the creation of the Economic Solidarity Pact, and the ways in which interests, ideas and institutions collide to generate the preference for a concerted tripartite agreement.

## **CHAPTER 5**

### **THE DEVELOPMENT OF THE ECONOMIC SOLIDARITY PACT: MAKING THE AGREEMENT**

As the Economic Solidarity Pact (PSE) was formed, so were the economic and political foundations of a new regime alliance. With the PSE, the new technocratic elite, large industrial, commercial, and financial interests coalition found a strategy to stabilize the economy, mediate conflict, and thus lend certainty and legitimacy to the process of free market economic reform.

The expanding political opposition in the country, the economic and political interests opposing the free market reform process, and the instability of the economy were a serious threat to the interests of the new governing coalition. For years, the regime had managed to solve conflict through the use of its corporatist apparatus; yet in the 1980s the political panorama had radically changed. On the one hand, the 1982 economic crisis and the breakdown of the traditional cooperative arrangements among the government, the business sector and the labor sector had turned the problem of inflation into an extremely serious distributive conflict among the country's economic actors. Lack of confidence in the government, particularly by the business sector, deepened the non-cooperative game. On the other hand, years of authoritarianism had limited



the possibilities of the state to mediate conflict through democratic institutions, thus raising the chances of a serious conflict between political and economic groups.<sup>1</sup> In other words, by 1987 the challenge for the regime was the development of a new political mechanism that provided grounds for the development of a new consensus.

The regime's alliance found a solution to these problems with the development of a tripartite (government, business, and labor) bargaining mechanism that generated a political accord for the implementation of a series of policies that sought to stabilize and reform the economy. This policy mechanism was known as the *Pactos*.

With the *Pactos*, the regime was able to redefine the rules of the new economy and boost its political and economic power. As an institutional instrument that created a system for building dialogue and consensus, the pacts lowered the likelihood that political groups opposing the free market and the modernization of the economy could seriously affect the interest of the new free-trade alliance and the reform of the economy. In other words, the *Pactos* were the political backbone that sustained the process of free-market reform in Mexico. Hence, the pacts were the most important economic policy configuration in the country for a decade.

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<sup>1</sup> This argument is based in Przeworski's idea that democracy creates a system in which established democratic institutions provide relevant political forces with a "reasonable guarantee that their interests would not be affected in a highly adverse manner in the course of democratic competition" (Przeworski, 64: 1988).

This chapter answers the following questions: What was the importance of the pact for the survival of the new regime alliance? How, in a context of high inflation and economic disharmony, was consensus achieved among the most important political and economic agents? Why did the preferences towards policy suddenly move actors from non-cooperative behavior to one of cooperation? And why did labor and business support the Economic Pacts from 1987 to 1997?

In this section of the dissertation, I argue that the development of a new tripartite accord and the shift from a non-cooperative game to one of cooperation was the result of strategic calculations of political actors in an institutional context shaped by the traditional Mexican corporatist institutions. First, Mexican corporatist arrangements shaped the actors' preferences for concertation by assuring them that the political regime had the capacity to develop a political agreement and the instruments to coordinate, monitor, and sanction the parties involved in the Pacts. The government's capacity to monitor actors helped ease the concerns of both labor and the business sector on joining a Pact and free raiding. Second, traditional corporatist arrangements between the government and the labor sector, as well as its historical alliance, assured the cooperation of the workers. Third, the corporatist arrangements limited the presence and political force of antagonistic groups by not recognizing their interests and, thus, excluding them from the policy-making decision process. This factor, together

with their limited market power due to their small size and number, limited their ability to seriously affect policy. Fourth, the pacts provided labor and business sectors with an invaluable opportunity to intervene in the decision-making process of the government economic reform process. The Pacts were also an historical occasion on which to monitor government actions. The process of building the necessary trust to build the Pacts entailed government commitments and sacrifices in return for the support of the different economic sectors. Finally, as a result of the high political and economic costs of the inflationary spiral for most actors, failure to engage in a process of cooperation endangered the stability of the economy, its future recovery, and the political survival of the new regime alliance. Hence, political and economic actors made a clear calculation of sacrifices in the short run for future gains.

To explain this argument, this chapter presents a detailed analysis of this process of consensus-making. The chapter is divided in five sections. The first section explains the economic and political costs for government, business, and labor of an environment of non-cooperation that propelled the inflationary process and the how the institutional context shifted actor's preferences for policy toward a tripartite concerted effort to control inflation and reform the economy. The second section describes the particularities in the development of the agreement between the business sector and the government, and the sources of their political support. The third section explains the negotiations

between the government and the labor sector, and labor's preference for the Pact as a strategy to stabilize the economy. The fourth section describes the outcome of the strategy as a process of cooperation. Finally, the last section, describes the sort of opposition the Pacts faced in the business community and the labor sector, and the failure of opposition groups to become a serious threat to the process of concertation.

## **5.1 The Economic Solidarity Pact: From Uncertainty to Cooperation**

### **5.1.1 Uncertainty: the months before**

The month of October 1987 was a turning point in the development of a new strategy to reform the Mexican economy. A series of crucial events modified the regime's strategy toward the process of market liberalization.

The first of these events took place on October 4 1987, when Carlos Salinas de Gortari was nominated as the PRI candidate for the July 6, 1988 presidential elections. Salinas de Gortari's candidacy signified the triumph of the interests of the new regime coalition. It also meant the advancement of the economic reform process started by de la Madrid in 1982. During his acceptance speech as the PRI pre-candidate for the presidency, Salinas de Gortari openly claimed the need to modernize the politics of the country and build a new economy.<sup>2</sup>

The day after Salinas *destape*, Monday October 5, the support of the

business community was evident, the Mexican Stock Market went into frenzy and the index advanced 8% on one day.<sup>3</sup> The president of the CCE, Agustin Legorreta, openly demonstrated his satisfaction for the choice and argued that Salinas de Gortari was a dynamic young man with many virtues, and an education that made him suitable for the position.<sup>4</sup> The head of CONCAMIN, Vicente Bortoni, also supported Salinas de Gortari, arguing that the PRI candidate would continue the process of economic reform.<sup>5</sup>

In public the PRI's labor sectors supported Salinas de Gortari's candidacy, though, behind closed doors, there was much uneasiness among union leaders. Contrary to what had happened in the period 1930-1970, when the corporatist system grew in strength<sup>6</sup>, in the period 1982-1988, the government had been extremely tough on labor. The government had broken the power of the independent labor movement, limited the strength of the CTM by supporting other labor confederations such as the CROM, CROC and CRT and controlled the power that National Industry Unions had on administrative decisions in the

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<sup>2</sup> UnomásUno, October 5, 1987, p.1

<sup>3</sup> UnomásUno, Tuesday, October 6 1987, p.3. "Destape", unfolding, is the verb used by Mexicans to allude a process of political simulation in which, supposedly, the PRI sectors manifest their preference for a presidential candidate, in reality, however, the president of the country hand picks his successor. This process was a traditional practice since the 1920s, though the process was ended by presidency of Ernesto Zedillo and primaries inaugurated. For more on this subject see Castañeda, 1999.

<sup>4</sup> UnomásUno, October 6, 1987, p. 3.

<sup>5</sup> UnomásUno, October 6, 1987, p. 18.

<sup>6</sup> The Banco Obrero (Worker's Bank) was created, labor had representation on the National Commission for Minimum Wages, the IMSS, the INFONAVIT and controlled major positions in government (Aguilar, 1995:49)

public sector industries (Aguilar, 1995: 55).

As the head of the SPP and the mastermind of the economic project during de la Madrid's presidency, Salinas de Gortari was, for the labor movement leadership, directly responsible for the lost of their privileges.<sup>7</sup> Notwithstanding, union leaders disliked of Salinas de Gortari, party discipline and the historical alliance between the government and the labor sector remained.

The second event took place on October 19, when the New York stock exchange crashed, taking with it the Mexican stock market (Bolsa Mexicana de Valores) and the Mexican economy, as well. The collapse of the Mexican stock market was followed by a peso crisis. The effect of the devaluation of the Mexican currency threw the government's recovery program off track. The result of price increases and the deterioration of the economy caused increasing tensions between capital and labor. The stock market crash hit a large number of small investors that had speculated in the stock market as a result of its high profits (421% increase in stock prices between January - October 1987) and the

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<sup>7</sup> A particular example of the tension between the technocrats and the labor movement was the relationship between Salinas de Gortari and the Petroleum Workers Union (Sindicato Revolucionario de Trabajadores Petroleros de la República Mexicana, STPRM by its spanish acronym) and its powerful leader Joaquín Hernández Galicia, "La Quina". The STPRM had serious differences with Salinas de Gortari during the presidency of de la Madrid. As Secretary of Planning and Budget Salinas de Gortari had tried, through the Director of the Mexican Petroleum Company (Pemex) Mario Ramón Beteta, to limit the unions control over local contracts. Since 1984 the STPRM had been automatically awarded with 50% of the firms local contracts. Mario Ramón Beteta reduced it to a 2%. See Centeno, 1994:92. Some gossips in Mexico City said that "La Quina" had financially supported the candidacy of Cuauhtémoc Cárdenas. The end of the confrontation between Salinas de Gortari and "La Quina" came in the January of 1989, when the new president incarcerated "La Quina" on charges of illegal firearms possession, See Middlebrook, 1995:294.

lowering of the regulatory frameworks permitting tiny investors to engage in speculative practices.<sup>8</sup>

The attack on the peso came as a surprise to many due to the relatively high levels of foreign reserves at the Banco de México and the acceptance of the government's macroeconomic policy among national and foreign investors. Policy makers believed that the source of these negative expectations was the high inflation rate (Lustig, 1992: 50).

To the negative expectations on high inflation another concern was added. Most economic agents made a political business cycle calculus. These actors down-played the chance that the government would advance on tough economic policy to control inflation during electoral times (Alesina, 1995; Nordhaus, 1975; Tufte, 1978).

Lastly, as a result of Salinas *destape*, the weight of Cuauhtémoc Cárdenas grew stronger. The leader of the dissident PRI reformist, wing *Corriente Democrática*, began assembling the political alliance that would launch him as the candidate of the Democratic National Front (FDN) in the presidential elections of 1988.<sup>9</sup> On the one hand, small political parties that had historically supported the PRI, such as the Socialist Popular Party (PPS) and Authentic Party of the Mexican Revolution (PARM), considered Salinas an "enemy of the

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<sup>8</sup> *UnomásUno*, October 21, 1987, p.13.

<sup>9</sup> The FDN was constituted of a series of small parties that sought to profit from the PRI split. The parties that constituted the alliance were the Partido Popular Socialista, the Partido

Mexican Revolution" and shifted their political support toward Cárdenas, whose ideas were more in line with their political struggle.<sup>10</sup> On the other hand, in an effort to unify the moderate left and generate a coalition that could truly confront the PRI in the presidential elections of 1988, left wing politicians gathered around the Mexican Socialist Party (PMS) who also joined the coalition favoring Cárdenas.

For the new regime alliance, the rise of Cárdenas was a factor that strengthened the movement against the free-market economic reform (Tornell, 1993). Cárdenas alliance was backed by a former PRI neo-populist sector with links to the governments of Echeverría and López Portillo and left wing parties. On September of that same year, before the *Corriente Democrática* was expelled from the PRI. The group had openly confronted the policies of de la Madrid and argued that a "neocolonialist project" was being established in the country and that the ideology of the Mexican revolution had been abandoned (Molinar, 1991:192-193).<sup>11</sup>

### **5.1.2 The Long Road to Cooperation**

By November 1987 the most important economic actors had recognized that the economy situation of the country was extremely precarious with negative

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Auténtico de la Revolución Mexicana and the Partido del Frente Cardenista de Reconstrucción Nacional. See Molinar, 1991:195-198

<sup>10</sup> UnomásUno, October 7, 1987, p.4 and October 13, p.4.

<sup>11</sup> In an interview in September of 1987, Porfirio Muñoz Ledo, one of the leaders of the "Corriente Democrática" pointed out: "Since Lázaro Cárdenas, with his openly revolutionary



repercussions extending into the political arena. The failure of all previous orthodox economic plans since 1983 had drastically diminished the social, political, and economic margins necessary to support another austerity adjustment plan. Uncertainty was taking over all social groups. The phantoms of hyperinflation, labor unrest, destabilization of the economy, electoral risk, had all become critical variables for negative expectations. Furthermore, the political time horizon was shrinking due to the up coming presidential elections of July 1988 and increased political opposition.

The dramatic situation not only threatened the economic stability, which was by itself a serious concern for every social sector in the country, but further it was a mayor menace to the new and waited market reform project and the political continuity of the regime itself. The fundamental preferences shared by the "official"<sup>12</sup> unions, the financial and export business sector and the government technocrats was the successful establishment of a new economic model, which was itself linked to the success of the stabilization package and the political permanence of the regime alliance<sup>13</sup>. As a representative of large commerce argued "We enter the Pact freely because we knew that we were going to suffer for a time, however, we also knew that on the long run we were going to arrive at the objective we have always wanted and have been looking

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regime, there has been no other ideologically defined government in Mexico, contra-revolutionary, as that of Miguel de la Madrid" , Proceso, No. 569, (September 28, 1997),p.12

<sup>12</sup> By official unions I refer to the labor movement link to the PRI and the government .

<sup>13</sup> Interview with business leaders, Mexico City, May 20, 1997 and September 23, 1997 .

for, that was free commerce".<sup>14</sup>

The stock market crash fueled the inflationary process even further<sup>15</sup> due to the players' expectations. Most economic actors clearly believed that it was highly inconceivable that the government would put forward a shock plan to control inflation due to the proximity of the presidential election. Actors' believed that a more politically feasible course of action by the government would be indexing the economy.<sup>16</sup> In the words of a business leader: "When the economic crisis appeared, the government realized that it could not count with the support of the labor sector (for tough economic measures to stabilize the economy) because the labor sector had suffered enormously in the previous years...".<sup>17</sup>

The government was the party most interested in curbing inflation for two reasons. First, high inflation was seriously hurting the finances of the government because public prices can not align at the same time and speed as private prices do. The result is that public prices lag behind inflation generating a waste of valuable resources (electricity, water, gas, etc.) and a serious decrease in government revenues.<sup>18</sup> Secondly, as a result of the polarization of the country between "Nationalists" versus "Neoliberals" politicians the new regime alliance view the political horizon as short. In other words, the survival of

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<sup>14</sup> Interview with business leader, Mexico City, September 23, 1997 .

<sup>15</sup> See Aspe, 1993:19.

<sup>16</sup> Interview with business leader, Mexico City, March 2, 1998.

<sup>17</sup> Interview with business leader, Mexico City, May 20, 1997 .

the regime depended on a feasible adjustment program that could a) control the inflationary spiral on the short run, and b) launch the economy into a major economic reform, making pre-existing arrangements hard to reverse. (Alesina, 1991:40-43; Pierson, 1997:29). Hence, the real challenge was the design of an economic plan that could generate the necessary certainty and positive expectations that would get the country into a virtuous cycle of low inflation and growth.

Crucial to the question of stabilization was the control of the inflationary process. The government's economic team had realized that, to a great extent, inflation was inertial. Thus, even if demand was depressed, inflation could not be controlled because it was already in a spiral. Price and wage increases were moving according to the economic agents' future expectations (Aspe, 1993; Jarque and Téllez, 1993).

Although indexing seemed a politically viable option government economists disregarded it due to its disruptive nature. Contrary to other countries in Latin American where indexation was established by law ( i.e. Brazil), this was not the case in Mexico (Sola, 1991:163-195). There were several factors that explain why top Mexican economists in government were not tempted with indexing: a) economics actors' lack of an historical memory of long inflation periods. This was the result, probably, of the regime's capacity to

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<sup>18</sup> Centro de Analisis e Investigación Económica, 1988, "La Política Pública del Pacto Económico de Solidaridad", Informe Mensual Sobre la Economía Mexicana, No. 11, Year V,

regulate the workers' wage bargaining and maintained low inflation levels for most of the country's history; b) the PRI's control over government apparatus which isolated policy makers from social pressures, and c) the type of economic postulates that technocrats held. Most economists in the government had a neo-classical education in economics and believed in the stability of prices, as these are market signals through which economic actors make decisions (Córdoba, 1994:238)

Sectors of the business community were also against indexation. In a study made by the Private Sector Economic Studies Center (*Centro de Estudios Económico del Sector Privado*, CEESP) of the influential CCE, the business sector argued that indexation schemes, like in the case of Brazil, did not bring economic prosperity as was expected. The study held that the "... the only option to reestablish the basis for a healthy and sustained growth of the economy is by the substantial reduction of the inflationary pressure".<sup>19</sup>

From the development of a mechanism of concertation, coordination, and the control future expectations in the Pacts, it is possible to infer that for those that design the *Pactos* inflation was not only the result of demand or supply shocks, but also the outcome of a distributive conflict. In the words of Albert O. Hirschman: "the product of a social conflict between groups, each aspiring to a greater share of the social product" (1981:183).

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(January), pp.21-22.

The problem of inflation was a form of prisoner's dilemma centered in the tension between the continuous demands of workers for higher wages and salaries, and price increases by the earners of capital. This non-cooperative game is related to future expectations where the group that is able to gain an initial redistributive advantage from inflation will be, for a moment, better off. Although the game is self-defeating, once actors have learned the game it is hard to stop it, everybody wants to have the initial advantage.

However, not all actors in this prisoner's dilemma have the same possibilities to influence distributional gains: "the speed with which the initial redistributive impact of inflation is counteracted by a groups that is being squeezed depends of course on the political and economic leverage of that group: this leverage depends, at least in part, on the economic damage that groups can inflict on the economy..." (Hirschman, 1981:190).

In a non-cooperative inflationary spiral it is clear that the business community tends to be better off because it is easier for firms to simply increase prices than it is for unions to engage in collective action and confront the interests of capital and, probably, government (as it has been argued earlier, the law that regulate capital-labor conflicts in Mexico established strong limitations for unions to go into strike) (Collier and Collier, 1991: 52; Lindblom, 1977; Olson, 1971; Offe, 1994; Offe, 1985).

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<sup>19</sup> Centro de Estudios Económicos del Sector Privado, (1987), *Actividad Económica*, México D.F., No. 107, (January).

For a good example of the wage-price-wage cycle are wage revisions from 1982 to 1987, which went from year to three-month basis, yet wage raises had no effect over workers living standards. From 1982 to 1987 the minimum wage suffered a reduction of 49% in real terms (See Table 5.1).

**Table 5.1 Average Minimum Wage Increases 1980-1988**

1980	-6.98
1981	1.08
1982	-11.33
1983	-16.73
1984	-6.83
1985	-1.29
1986	-8.73
1987	-5.66
1988	-12.57

Source: Mexico Social, 1996-1998, Estadísticas Seleccionadas, División de Estudios Económicos y Sociales, Banamex-Accival, 1998, p.402.  
Calculations made by the author. Minimum Salary Mean

For the Mexican working class the situation was becoming unbearable and regardless of their political limitations, the labor movement was beginning to flex its muscles. On November 23, the Workers Congress (CT) threatened with a general strike on December 18. Although the umbrella labor body, the CT, and the labor confederations linked to the PRI had always been historical allies of

the regime and never went ahead with their threats of a general strike, the mere menace of a general strike and the CTM leader Fidel Velázquez<sup>20</sup> demand of a 46% emergency increase in wages for workers in the central zone and a 133% increase for workers in the border areas, showed the annoyance of the official labor sector toward the economic policy of the government.<sup>21</sup>

For the business sector, the economic situation was difficult but the major concern had to do with future expectations. Inflation was generating high administrative costs and clearly disrupting the possibilities for firms to develop long-term business strategies and planning. In other words, inflation was interfering with the corporate way of doing business. However, the most important concern for the small and medium firms was labor unrest, increasing social tensions and the threats of two terrible scenarios: hyperinflation or deep recession.<sup>22</sup> For big business the situation meant the impossibility to transit to a stable economy and launch the country into a free-market reform. Business anxieties came from the possible disruption of the relative certainty and stability they had previously enjoyed.

By the end of November 1987, the economy was in bad shape and future expectations were gloomy. The demand for a general increase on wages made

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<sup>20</sup> Fidel Velázquez comments to the press were unusually strong: "we have come to the limits of our efforts" or "we will not continue making more sacrifices". See Proceso, November 30, 1987, p.7

<sup>21</sup> See Latin American Weekly Report, 17 December 1987, p.10.

<sup>22</sup> Interviews with business leaders and government officials, Mexico City, January 19, 1996; March 28, 1996; June 10, 1996; June 11, 1996; June 13, 1996; November 6, 1996.

by the Workers Congress (CT) escalated the tensions between all the sectors: government, business and labor. The business sector stood against the labor sector proposition of a general wage increase of 46%, arguing that wage revisions should be made one by one and according to the possibilities of each firm, otherwise a general increase could mean the bankruptcy of many firms. The Rumor of the possibility that the government would develop a shock plan was an everyday thing.<sup>23</sup> Uncertainty and distrust were at their highest.

While in the public sector existed much debate over the issue of wage increases, economists in the government, headed by Pedro Aspe and under the initiative of PRI's presidential candidate, Carlos Salinas de Gortari, were developing a program for a concerted heterodox economic plan. The idea of a heterodox stabilization program was something that had been mentioned for some time and the team of Pedro Aspe at the SPP had been watching at different experiences around the world. Yet, the program eventually developed was a totally new strategy, one not included in the Government's 1988 General Guidelines for Economic Policy (Criterios Generales de Política Económica) submitted by the executive branch to the Congress on November 23.<sup>24</sup>

Among the business community the idea of a concerted agreement had also been considered. Since August, Vicente H. Bortoni, a prominent business leader and head of CONCAMIN, had maintained the need to develop an

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<sup>23</sup> Proceso, November 16, 1987, No. 576, pp.24-26, November 23, No.577, pp.6-12.

<sup>24</sup> Presidencia de la República, 1988:223.



agreement between all economic sectors in order to control the inflation, hence limit the negative impact of inflation on wages and the aggregate demand.<sup>25</sup> The problem with Bortoni's plan was that it supported an indexation scheme. The government economists quickly disregarded Bortoni's project because they feared it would only fuel inflation.<sup>26</sup>

Regardless of the fact that economists around the world were using the ideas of a heterodox economic program, there was a lack of consensus among the government policy makers that this was the best solution to the problems of the Mexican economy. However, the candidacy of Salinas de Gortari was the factor that triggered its acceptance.

In the beginning important economists in the government, and future members of Salinas de Gortari cabinet members (Pascual Garcia de Alba , Jaime Serra Puche and Ernesto Zedillo) were skeptical about a concerted economic adjustment plan due to its heterodox nature. Pedro Aspe held a series of private meetings with these individuals in order to convinced them that a concerted heterodox program was the best solution to the problems of stabilization and reform, the meetings, were however, unsuccessful. Nonetheless efforts continued and things quickly change, José Córdoba Montoya, Salinas de Gortari's main political and economic advisor and already a key member of his political campaign, together with Pedro Aspe, held another

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<sup>25</sup> CONCAMIN, No. 803, August 1987, p.2

<sup>26</sup> Interviews with business leaders, Mexico City, March 18, 1997 and May 20, 1997.

meeting with Serra, Zedillo and Garcia de Alba. In this meeting, Córdoba argued that that he, Pedro Aspe and the presidential candidate (Salinas de Gortari), believed that a concerted agreement could definitively work. Córdoba gave a general sketch of the plan and asserted the need to create a solid team around this policy. After this meeting Serra, Zedillo and Garcia de Alba changed their minds and supported the program.<sup>27</sup>

Thus, it was evident to Serra, Zedillo, and Garcia de Alba that if they failed to support Salinas de Gortari, Aspe, and Córdoba's plan it would mean their own isolation from Mexican politics since Salinas de Gortari was, most likely, going to be the next president of the country. It was also clear that by November 1987, de la Madrid was the lame duck and that Salinas de Gortari, his campaign team, and those inside the government were designing a transitional economic policy to bridge the two governments.<sup>28</sup>

According to a prominent businessman the lack of power of President de la Madrid was evident: "fifteen days or a week before the signature of the Pact, we met with the president, and in that meeting Pedro Aspe explained the timings, objectives, and the government commitments in the Pact. When Aspe stated the compromises made by the government President de la Madrid looked perplexed. In fact President de la Madrid turn to Pedro Aspe and asked Are we giving so

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<sup>27</sup> Interviews with business leaders and former government officials March 18, 1997 and July 9, 1997.

<sup>28</sup> Interviews Mexico City, March 18, 1997; May 20, 1997 and March 12, 1998.

much? Are we going that far? ".<sup>29</sup>

Hence, internal PRI electoral politics played a major factor in the development of a cooperative core to support the initiation of the Pacts. Before the *destape* of Salinas de Gortari, it was extremely difficult to demand political groups to engage in a cooperative game around a new economic plan because groups were reluctant to play along without a clear notion of the individual or the group in charge of orchestrating such a consensus.<sup>30</sup> In order to engage in a cooperative behavior it was essential to have intelligible information of who was the most probable future president of the nation.<sup>31</sup> The stakes of participating in a cooperative effort without knowing the key government players that had the capacity to define the rules of the game were too high. The vacuum of political power in the proximity of the *destape* increased the incentives for free riding.

But a major shift took place as Salinas De Gortari became the PRI candidate for the Mexican presidency. The *destape* provided the environment that the political class and political actors outside government needed to lower their perception of risk and accept a new economic program. (Soskice, Bates,

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<sup>29</sup> Interviews with business leader, Mexico City, May 20 1997.

<sup>30</sup> Clearly, by October of 1987 political actors believed that de la Madrid was a lame duck and there was no clear successor. In fact, days before the "destape", the PRI engage in a "simulation" game in which six member of de la Madrid's cabinet (Alfredo del Mazo, Manuel Bartlett, Carlos Salinas de Gortari, Ramón Aguirre, Sergio García Ramírez and Miguel González Avelar) "contended" for the PRI presidential candidacy and presented their government agendas to the three sectors of the PRI, supposedly in charge of defining the new candidate. See *Proceso*, No. 569, (September 28, 1997), p.6.

<sup>31</sup> According to Przeworski the difference between democracy and authoritarianism is one of conditional uncertainty: In a "democracy outcomes of the political process are to some extent

and Epstein, 1992: 547-560.)

### **5.1.3 The Light at the End of the Spiral: Achieving Cooperation**

By the end of November the situation was critical in many ways, however, the country had the necessary macroeconomic conditions for the proposed economic restructuring. The recipe for a good stabilization program had three basic economic ingredients: fiscal over-adjustment, strong external accounts, and the realignment of relative prices. (Córdoba, 1994: 240). The government had been able to achieve two of these ingredients, and the alignment of relative prices would come with the Pact.

On the one hand, previous stabilization plans during the de la Madrid administration had given the country sufficient international reserves and a current account surplus (Aspe, 1993: 20; Córdoba, 1994: 240-241). On the other hand, the corporatist nature of the political system provided the elements to coordinate income policy for the realignment of relative prices.

The governments of de la Madrid and Salinas de Gortari realized that in order to develop a credible program that would stabilize the economy it was critical to gather the most important economic actors and generate a series of compromises. However, the failure of all previous economic programs during the de la Madrid administration together with the recent memory of disastrous

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indeterminate with regard to positions which participants occupy in all social relations, including the relations of production and the political institutions" Przeworski, 1988: 61.

economic experiences under the governments of Echeverría and López Portillo, seriously affected the credibility of the government. To go unilaterally would probably have meant the failure of any economic recovery program. The success of the economic reform project was strongly dependent on the cooperation of all the productive sectors. The new regime alliance created the political mechanism that would prevent a political outcome highly adverse to their interests which would be the continuation of an inward oriented model of development.

The new elements inserted into the stabilization program were two related concepts: 1) the introduction of income policies (this is the variable which made the plan heterodox in nature), and 2) social concertation. Income policy involved the "the joint adoption by government, labor, and business of nominal guidelines to anchor the exchange rate, wages, and key prices" (Córdoba, 1994: 239). For social concertation it was understood "...a neocorporatist mode of policy making that emphasizes the institutionalization of consultation, cooperation and consensus on macroeconomic policy involving peak representation from organized capital, trade unions, and the state" (Encarnación, 1997:388).

The design of the stabilization program required the establishment of a set of credible commitments by all parties, as well as predetermined general guidelines of a system that would monitor, coordinate further action and sanction parties involved in the Pacts.

## 5.2 The Agreement with the Business sector

The initiation of the agreements for a concerted stabilization plan started by the end of October 1987 and carved through November and December.<sup>32</sup> The first meetings were held between members of the de la Madrid Cabinet, Gustavo Petricioli, Secretary of the Treasury (SHCP), Pedro Aspe, Secretary of Planning and Budget (SPP), Arsenio Farell, Secretary of Labor (STPS) and the leaders of the CCE, CMHN, CONCAMIN, CANACINTRA, CONCANACO, ANTAD, AMCB, AMB, CNA, and the CEO's of leading firms. The meetings were once or even twice a week. In the first meeting with the business sector, Gustavo Petricioli, the Secretary of SHCP, said "Well, *señores*, the situation is very bad, what are we going to do?"<sup>33</sup>. Petricioli's position indicated that the government of de la Madrid knew that the only means to generate a successful program to stabilize the economy had to be achieved with the help of the business, and labor sectors. The government could not go unilaterally.<sup>34</sup> The initiation of a *Pacto* depended upon the support of the most important business leaders, the heads of large firms and the elite that controlled the PRI and the corporatist apparatus (Kaufman, Bazdrech and Heredia, 1993:3).

According to former Labor secretary, Arsenio Farell, for the *Pacto* to

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<sup>32</sup> Interview with business leaders, Mexico City, March 18, 1997; May 20, 1997 and August 3, 1997.

<sup>33</sup> Interview with business leader, Mexico City, May 20, 1997.

<sup>34</sup> Interview with business leaders, Mexico City, February 7, 1997 and May 20, 1997.

function it was key to establish first agreement with 20 to 25 individuals in the business sector<sup>35</sup>. In a similar line of argument, Agustín Legorreta, president of the CCE, had openly acknowledged that 300 Mexican businessmen controlled most prices in the economy.<sup>36</sup> Thus, for government policy makers and business leaders it was evident that, together with the control that business organizations had over their affiliates, the oligopolistic structure of markets in Mexico was a helpful component for the success of the concertation effort (See Kaufman, Bazdresch and Heredia, 1993: 15).

In order to convince the business sector to compromise with the economic program the government had to commit itself to important sacrifices. In a meeting with the leaders of the business chambers, the CCE and important members of the businessman community, about two weeks after the stock exchange crash, Secretary Petricioli, told the business sector "... (T)he government is going to do what you have always wanted. What is that? (asked the members of business sector gathered) Well, the government is going to lower its spending, drop its deficit, in order to control inflation, liberalize commerce, in order to reduce and eliminate controlled prices, rationalize trade with reasonable tariffs, determine a more consistent privatization process, and avoid a race between salaries and prices".<sup>37</sup> For the business sector this clearly

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<sup>35</sup> Interview with business leader, Mexico City, March 2, 1998.

<sup>36</sup> See *Excelsior*, February 14, 1988.

<sup>37</sup> Interview with business leader, Mexico City, May 20, 1997.

signaled a major policy change toward free market reform.<sup>38</sup> Together with the government offer, the members of de la Madrid's cabinet also argued about the costs of the inflationary spiral on real wages, the further contract of domestic markets and the rise in the cost of money.<sup>39</sup>

The business sector, in particular big business and the financial sector, was satisfied with the government's intent to engage into a stabilization program and the continuation of the policies that de la Madrid had initiated since 1982.<sup>40</sup> Brokerage Houses owners backed the Pact because economic instability could seriously hurt creditor's obligations. However, the program went much further, the liberalization and privatization provisions established in the stabilization and reform program provided big business and the financial sector with an array of opportunities never experienced before.

The large commercial sector also believed that the process of economic liberalization, which de la Madrid had started, was the solution for the country's development. For the large commercial sector the official and controlled prices schemes had signified lower profits. As an important business representative from the large commerce sector argued "Although inflationary processes can benefit commerce in the short run, in the long run what the large commercial interests seek to benefit from is high volume sales and services, and not from

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<sup>38</sup> Interviews with business leaders, Mexico City, May 20, 1997: September 23, 1997.

<sup>39</sup> Interview with business leaders, Mexico City, March 12, 1998.

<sup>40</sup> Interview with businessman, Mexico City, May 21, 1997.



high margins and speculation".<sup>41</sup> The large commercial sector was looking for free market policies, long term price stability and higher incomes for the general population.<sup>42</sup>

For the COPARMEX and the CCE, who had always been critical to statist, protectionism and pro-labor policies, the furthering process of economic liberalization coincided with their traditional positions toward the economy.<sup>43</sup> As it was put it by Hector Larios, "We believe that the liberalization of the economy was great".<sup>44</sup>

Since the beginning of 1987 small and medium industrialist gathered around CONCAMIN had identified inflation as the worst disease, an obstacle for industrial growth, in particular for domestic markets, due to the decrease in the purchasing power and a major contraction of industrial output. In January 1987, then president of the CONCAMIN, Silvestre Fernández Barajas, declared that after a three digit annual inflation in 1986, it was imperative to control inflation in order to achieve a moderate rate of growth and plan industrial activities under a reasonable range of risk and adjustment. "It is necessary not only to decrease inflation, but to stop its growth."<sup>45</sup>

In August 1987, Vicente H. Bortoni supported the idea of a political agreement to control inflation, however Bortoni's proposition was in reality a

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<sup>41</sup> Interview Mexico City, September 23, 1997

<sup>42</sup> Interview Mexico City, September 23, 1997.

<sup>43</sup> Interviews with business leaders, Mexico City, March 18, 1997 and May 20, 1997.

<sup>44</sup> Interview with government officials, Mexico City, March 19, 1998

political accord for indexing the economy, something that was very much out of the question for economists in the government.<sup>46</sup>

For the small and medium industrialists, used to decades of protectionism, the liberalization and stabilization of the economy through wage and prices freezes meant significant losses. Nevertheless, the sector agreed that it was only through a process of cooperation that inflation could be stop without the need to go into a recession or work-capital conflicts. On the Pact the CONCAMIN's 1987-1988 year report claimed that "(...) this is the opportunity that the Mexican people show ourselves that through solidarity it is possible to acquire mayor compromises for the benefit of the industry, the economy and the nation as a whole"<sup>47</sup>.

Small and medium business realized that liberalization was an unstoppable worldwide process in trade, finances and politics, with an increasing power of big business and technocrats in the national and international scene. Thus, even if they did not agree with the policy of economic liberalization, it was better to join a process of negotiation than to be excluded.<sup>48</sup> Because trade liberalization was packed as a key component of the Pact, liberalization was the price to pay in order to be included in the negotiations (Kaufman, Bazdresch and Heredia 1993:17)

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<sup>45</sup> CONCAMIN, XXXII, No. 796, México, D.F., (January, . 1987).

<sup>46</sup> CONCAMIN, No. 803, August 1987, p.2

<sup>47</sup> CONCAMIN, Informe de Labores, 1987-1988, Asamblea General Ordinaria, México D.F., March 24, 1988, p.8.

By being in the *Pacto* the different sectors could influence policies. Furthermore, small and medium national industrialists believed that a process of concertation was the only way in which recession and labor unrest could be controlled, these were important concerns for this sector.<sup>49</sup>

A fundamental aspect for generating consensus around the *Pactos* was the packaging of the program set to reorder and launch the economy into the global markets (Kaufman, Bazdresch and Heredia 1993:3). Mexican policy makers had the ability, through the market, to shape the preferences of domestic firms for the support of the concerted agreements. At a first moment, the alignment of relative prices and limited depreciation of the ex-change rate, were used by the government as a mechanism to cushion firms link to domestic markets and obtain their support for stabilization.<sup>50</sup>

It was evident that the *Pactos* gave the business sector the possibility to: 1) participate in the economic planning of the country, 2) permanently discuss economic policy with the government, and 3) check on the government.<sup>51</sup> These were exceptionally important issues in a country where, because of the PRI's control on the executive, the congress and the judicial powers, it was extremely

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<sup>48</sup> Interview with business representative, Mexico City, March 18, 1997.

<sup>49</sup> Interviews with business people, Mexico City, January 19, 1996; June 10, 1996; June 11, 1996; June 13, 1996; May 20, 1997

<sup>50</sup> For an interesting account on how market mechanisms fostered cooperation between business in Mexico, see Calvo (1997).

<sup>51</sup> Interviews with business leaders, Mexico City, February 7, 1997; March 19, 1998 and June 16, 1998.

difficult to examine, monitor, and overlook the functioning of government.<sup>52</sup>

The commitments and sacrifices that the government had accepted (the reduction of the fiscal deficit and the privatization of public enterprises) played a decisive positive effect on the minds of the business community and open a critical space for the business support toward the accords. For years the business sector had believed that the PRI governments had never assumed risks and that the distribution of the political, social and economic costs of all major crises since the 1970's had only favored government and labor and injured business.<sup>53</sup> In this respect a business leader commented, "The government had to cede a lot to get to the Pact. The government had to pay a high cost. From the political point of view of the government, the Pact was the lifeboat of the political succession (...) for a long time the changes the government had done had been the minimal to keep social peace, but never the necessary to engage into a new economic model".<sup>54</sup>

Although support was achieved, negotiations were extremely difficult. At moments, problematic issues threatened to shatter the possibility for an accord. "The environment was extremely hostile. However, the government showed its serious commitment. We started negotiating".<sup>55</sup> The first difficult issue had to do with the fact that the business sector did not appreciate the idea of controlling

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<sup>52</sup> In 1997 for the first time in its history the PRI lost its control over the chamber of deputies

<sup>53</sup> Interviews with business leaders, Mexico City, February 7, 1997; March 18, 1997; May 20, 1997; September 23, 1997.

<sup>54</sup> Interview with business leader, Mexico City, May 20, 1997

the economy, "We were totally against the Pact, it was a straight jacket. But we admitted the idea as a purge, due to the grave situation we were confronting. But we argued about the need to define a limited period for the Pact. A period that could not go for more than six months or after a monthly inflation of two per cent was reach".<sup>56</sup> So the length of the agreement was always an issue for debate. In order to obtain the business support for the PSE hours before its signature the government agreed that the accord could not extend more than six months<sup>57</sup>. However, probably as a result of the beneficial effects of the PSE and the building of positive expectations, the duration of the *Pactos* were broken and the Pacts lasted for years with the complete support of the business sector.

Another issue was price controls. For obvious reasons the business sector had always been against this type of policy. Although the large commercial and the industrial sector had always argued that government control on prices had drastically lowered profits to a minimum, the measure was accepted for two reasons: 1) the business sector made a calculated trade off of price controls for an increase participation in the policy making process<sup>58</sup>, and 2) the measure was only temporarily.<sup>59</sup>

The business sector also tried to push for an historical demand, a reduction of the tax base and the simplification of the tax collection system. However,

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<sup>55</sup> Interview with business leader, Mexico City, May 20, 1997

<sup>56</sup> Interview with business leader, Mexico City, May 20, 1997

<sup>57</sup> Interview with business leader, Mexico City, May 20, 1997.

<sup>58</sup> Interview with business leader, Mexico City, March 19, 1998

these demands had no echo in the government. Based on strong quantitative information and comparative international data, the government counter-argued the business sectors demands and managed to keep its control on fiscal policy guidelines. Through the use of strong international data the government demonstrated that: 1) taxes in Mexico were among the lowest in the developing world, even lower than in many developed nations, and 2) government spending in education, health and other social issues could not be satisfied with a reduction on government revenues from taxes.<sup>60</sup>

### **5.2.1 Convincing the Rank and File in Business Associations**

When the agreements to support a heterodox stabilization package were reached the leaders of the business organizations faced a new challenge, that of gaining the support from their rank and file on their decision to support a tripartite Economic Pact.

Business organizations engaged in different kinds of strategies to develop the needed backing. Business leaders faced a delicate dilemma. On the one hand, they seriously believed that only a compromise would help find a way out to the dramatic economic situation. On the other hand, playing along with the government would mean a serious criticism from the rank and file. In the case that the stabilization plan failed these could increase in the political cost of the

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<sup>59</sup> Interviews with business people, Mexico City, May 20, 1997 and September 23, 1997..

<sup>60</sup> Interview with business leader, Mexico City, May 20, 1997.

organization.<sup>61</sup> It was evident that the leaders confronted a fragile process of accommodation between the personal and organization's long term interest, versus the short term calculus made by some members and their expanding radicalization in order to gain recognition and seize the control of the organizations (Sable, 1981)

The COPARMEX, probably the most democratic of all business organizations in Mexico, found that gaining the support of the rank and file of this business union was a process. Bernardo Ardavín leader of the COPARMEX from March 1986 to March 1988, made an important effort to explain and inform the members of his organization about the reasons that convinced him to support the PSE. He was a firm believer that an accord was the only option available to alleviate the economic situation of the country, and that in order to reach an agreement the business community had to engage in a number of trade-offs<sup>62</sup>. Together with Agustin Legorreta, head of the CCE, Ardavín had a strong presence in the business community.<sup>63</sup>

Although Ardavín was an extremely practical man and a measured negotiator with a good understanding of economics, during the first the COPARMEX board meeting, the following week after the PSE was signed, José Maria Basagoiti, a former head of the organization, seriously disputed Ardavin's

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<sup>61</sup> Interview with business leader, Mexico City, May 20, 1997.

<sup>62</sup> Interviews with business leaders and CONCAMIN officials, Mexico City, April 8, 1997 and May 20, 1997.

<sup>63</sup> Interview with COPARMEX official, Mexico City, April 8, 1997.

decision to join the Pact. Probably, as result of leadership competition for the control of the organization, Basagoiti confronted Ardavin, and argued against the support of the Pact (See Murillo, 1999:13). Basagoiti believed that the government had to assume its own responsibility for solving the problem of the economy.<sup>64</sup>

Ardavin confronted Basagoiti and presented his case. He provided information on the economy of the country and asked the members of the board for other policy options, as well as other elements to engage in a better negotiation. Ardavin believed there were no other options but to cooperate. Ardavin's arguments were convincing and won the support of the board, which agreed that signing the PSE was the best possible strategy at that particular time<sup>65</sup>. It is probable that since Ardavin was among the business negotiators on the Pact he had obtained important economic information. Ardavin's monopoly of information on the negotiations provided him with better arguments to counteract Basagoiti's position, and find the support of the board (Sable, 1981: 211).

After the first agreement was reached, the COPARMEX engaged in a continuous informative process. There was constant information and a process of feedback between the leadership, the directors' board, the executive commission and the members. The pulse of the members was always taken and the general

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<sup>64</sup> For an analysis of leadership and union competition see Murillo, 1997:13.

<sup>65</sup> Interviews business leaders, Mexico City, February 7, 1997, April 8, 1997 and March 20, 1998.



position of the rank and file was that it was always better to negotiate and monitor the government actions rather than to be self-excluded from process and freed the government to take unilateral decisions.<sup>66</sup>

From March 1988 to March 1989, the CONCAMIN organized a series of meeting with the board of directors (representatives of 67 chambers and 38 industrial associations) and the executive commission of the chamber, in those meetings the problems surrounding the process of negotiation and compromises in the Pact were discussed. However, the outcome of those long and complicated deliberations was a general consensus toward the support of the PSE. According to a CONCAMIN leader: "...every decision around the Pact was discusses with the council of 200 people...it was very hard to explain (the support) ...very difficult to negotiate". The belief inside the CONCAMIN was that the PSE "...was catch 22... it was bitter medicine".<sup>67</sup>

The CONCAMIN also provided information about the Pacts to its membership. Between March 1988 to March 1989 it organized two seminars in which the Pact and its different phases were evaluated (results and perspective in the short run for the industry).<sup>68</sup>

The CONCAMIN openly supported the Pacts and believed in a process of continuos concertation "...the industrial leaders of the country, represented

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<sup>66</sup> Interview with business leader, Mexico City, February 7, 1997.

<sup>67</sup> Interview with business leader, Mexico City, June 19, 1998.

<sup>68</sup> Concamin, Informe de Labores, 1988-1989, LXXXI Asamblea General Ordinaria, March 15, 1989

under the CONCAMIN, have always been in favor of making effective a solidarity Pact of concertation between the sectors involved in the national production, industrials, workers and government, in order to attack inflation and to achieve a price stabilization".<sup>69</sup>

Right after the Pact had just been signed, In December 1987, the president of the CONCAMIN declared that although the Pact of Economic Solidarity would represent sacrifices for most of the population, these would be less than the costs of a continued increase on prices. Bortoni clearly stated that both government and business sector shared responsibilities for the success of the Pact: "The success of the Pact depends upon the effective determination of the government to reduce substantially the public sector's deficit"<sup>70</sup>. "The industrial sector compromise, under the Pact context, to act with solidarity and make the necessary adjustments to moderate the increase of prices".<sup>71</sup>

The Center for Industrial Studies at the CONCAMIN provided the membership with two kind of information: a) monthly information on the economy and the Pact, and b) in depth analysis on the Pact and its effects on the development of the industry.<sup>72</sup>

Due to its size and heterogeneity, meetings in the CONCAMIN were

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<sup>69</sup> CONCAMIN, XXXII, No. 803, México, D.F., (August 1987). See CONCAMIN, CEI, Una Nueva Concertación. Hacia un Acuerdo para el Desarrollo y la Competitividad, October 1991.

<sup>70</sup> CONCAMIN, XXXII, No. 807, (December, 1987).

<sup>71</sup> CONCAMIN, XXXII, No. 807, (December, 1987).

<sup>72</sup> Centro de Estudios Industriales, subdirección de Análisis, Reporte Mensual de Análisis de Coyuntura, "El pacto, las premisas políticas de una estrategia económica", October 1990,

designed to produce a general consensus in order to present a united voice and a common strategy of the sector in the Pact negotiations<sup>73</sup>.

As the most important business organizations of the country, the role played by the CCE in the negotiations and support of the Pacts, was critical. As the umbrella organization where the most important business organizations were gathered (AMIS, AMCB, CONCANACO, CONCAMIN, COPARMEX, CMHN and the CNA) the CCE acted as the coordinating mechanism in the negotiations and communication channel where the business sector concerns on the Pacts were transmitted and discussed. However, as it was previously analyzed, due to its internal composition, the CCE tended to magnify the interest of the large financial-industrial group interests, which tended to support the stabilization package (Kaufman, Bazdresch and Heredia 1993: 18).

As the first Pact was reached, the CCE organized weekly meetings with the executive committee to discuss relevant questions surrounding the negotiations. All business organizations benefited from these meetings by bringing into the table concerns of their rank and file. The weekly meetings had an important effect on the unity of the sector.<sup>74</sup> The Center for Economic Studies also organized monthly meetings to discuss economic issues and the impact of the

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photocopy.

<sup>73</sup> CONCAMIN, Informes de Labores, 1988-1989, 1989-1990, 1990-1991, 1991-1992, 1992-1993, 1994-1995, LXXI, LXXII, LXXIII, LXXIV, LXXV, LXXVI, LXXVII Asamblea General Ordinaria.

<sup>74</sup> Interview business leader, Mexico City, March 18, 1998.

PSE on the business sector.<sup>75</sup>

After the general framework of the *Pactos* was accomplished, the government's next step was the advancement of the concertation at the sectorial level with each industrial chamber. Smaller chambers complied with the decisions made by the larger organizations and confederations and, together with SECOFI, developed Concertation Agreements (*convenios de concertacion*).<sup>76</sup>

The Concertations Agreements were compromises on the prices of different products. The basis for such compromises was the creation of a matrix for different products. The matrix developed by SECOFI in coordination with the business sector analyzed a) the costs of a product during every aspect of the production chain, and b) the business chambers representing the different business interests involved in the manufacturing and commercialization of the product. In this way, the government, through SECOFI, generated relevant information on the costs of every product or service in the economy and, thus was able to monitor and control price increases<sup>77</sup>. As it was argued by a former government official, "We (SECOFI) always set the prices. Prices can not be set in a referendum process. We performed a permanent act of equilibrium. We always listen to people telling us to liberalize prices and we always comply with

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<sup>75</sup> Concamin, Informe de Labores, 1988-1989, LXXXI Asamblea General Ordinaria, March 15, 1989.

<sup>76</sup> Interview with business representative, Mexico City, June 17, 1998

<sup>77</sup> Interview with government official, Mexico City, July 15, 1997.

what we had promised".<sup>78</sup> SECOFI had long time experience in dealing with price controls, "Far from being perfect, we had a tradition of price controls. We had a good idea of production chains. Also, sectors gave us information. We had a very, very strong contact with the chambers. We also discussed not just prices but efficient distribution and quality, we were preparing for NAFTA".<sup>79</sup> (For an example of a Concertation Agreement See Appendix B).

The ANTAD played an important role monitoring the concertation agreements. According to the president of the ANTAD "We (ANTAD) exercise an incredible amount of pressure, for the benefit of the general population and the project (the Pact). Every time a retailer came into our stores with an increase in the prices of the products it was selling, the buyers from our stores would ask for the reason of that increase and whether SECOFI had approved it".<sup>80</sup>

As the inflation declined, expectations raised, thus making it easier for the government to exploit the virtues of the settlement and find the business and labor sector support for the continuation of the Pacts until 1997.

### **5.3 The Agreement with the Labor Sector**

For the *Pactos* to function, it was key to control two decisive variables: 1) the

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<sup>78</sup> Interview with government official, Mexico City, July 15, 1997.

<sup>79</sup> Interview with government official, Mexico City, July 15, 1997

<sup>80</sup> Interview with business leader, Mexico City, September 23, 1997 .

exchange rate, and 2) wage increases. However, these two variables were linked. To keep the exchange rate steady it was critical to anchor wages, by doing this it was also possible to coordinate prices and diminishing its variance (relative prices)<sup>81</sup>. Therefore, it was critical to engage in some kind of agreement with the labor sector, without it the system of Economic Pacts would not have functioned.<sup>82</sup>

Negotiations with the labor sector were different and probably less complicated than with the business sector. The incorporation of the labor sector into the structure of the governing party and the state apparatus since the 1930s, and the systems of inducements and controls over the labor sector, provided the mechanism to establish a remarkable system of political bargaining and a strong state-labor historical alliance (Collier and Collier, 1991; Burgess, 1999).

The corporatist system of negotiation provided the regime with the devices to regulate popular demands, "de-radicalizing" working classes and, at the same time, organize working classes in order to establish a system of political legitimization for the state (Reyna, 1977).

The system also benefited the labor sector, which since the 1930s witnessed the promulgation of labor rights, unionization, collective bargaining

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<sup>81</sup> Interview with government official, Mexico City, October 30, 1993

<sup>82</sup> Interviews with labor leader Mexico City, March 15, 1996; March 28, 1996; May 1, 1996; June 5, 1996; June 10, 1996; June 11, 1996; June 13, 1996; October 30, 1996; January 19, 1996; February 11, 1997; October 22, 1996; November 4, 1996; May 20, 1997; September 23, 1997;

and the establishment of a populist project that supported their interests (Zapata, 1992:148). Rightly put by Zapata: "Mexican labor maintained a relationship with the state that relied not only on the satisfaction of employment and salary demands but also and especially on the satisfaction of the collective needs of the country's workers such as housing, social security, health benefits, and education. This trade-off resulted from the mediating character of the labor movement which gave the Mexican state its support in exchange for those benefits." (p.150).

The Mexican corporatist system in terms of labor was fundamentally based on two pillars, the CTM <sup>83</sup>, headed by the octogenarian labor leader Fidel Velazquez, and the CT, which, although is an independent agency, it has always been highly controlled by the CTM and unions close to the PRI.

The Party-Union alliance born in the 1930s held together even in times of an accelerated decline of the political influence of labor. In the particular context of the PSE and following Pacts, it is difficult to understand the limits of the alliance and the support of a policy measure that pushed for wage controls, free market reform and the diminishing role of the state in the economy.

Several ingredients played against the negotiating capacity of unions and favored the labor movements' cooperation in the Pacts. A combination of endogenous (organizational overlaps, structured exchanges, and loyalty) and

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March 18, 1997; May 14, 1997; May 16, 1997; February 7, 1997.

<sup>83</sup> With 2 million affiliates in 1980, See Camacho, 1980.

exogenous (factional divisions and labor regulations) factors and conjunctural variables (globalization and the technocratic control of the government) shaped the sector capacities and, thus, preference toward government defined political strategies (Burguess, 1997).

For the PSE to function, it was key to establish a link between the state and key labor organization leaders. In this particular case the figure of Fidel Velázquez was determinant. Velázquez had been the leader of the official labor movement since the 1930s and had participated in important economic negotiations with the government and the business sector since the 1940s. Particularly meaningful was the *Pacto Obrero Industrial* of 1945 in which the CTM and the CANACINTRA signed an agreement that established harmonic labor-capital relations (Collier and Collier, 1991:417, Roxbourough, 1984:20; Leff, 1992),

The immense power that Velázquez had gained over the years made him the most important intermediary of the labor sector.<sup>84</sup> The organizational overlaps between the CTM and the PRI placed Velázquez in a peculiar situation, helpful to the interest of the government. As a member of the PRI, he could not confront the regime to the point of creating a political crisis. It was in his interest and of those on the CTM that the PRI would continue controlling the state apparatus. However, as the pragmatic head of the biggest workers union in the

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<sup>84</sup> Fidel Velázquez died in 1997 at the age of 100 years old and, until his dead, still was the General Secretary of the CTM



country and by using the art of negotiation, Velázquez and his pro-regime labor leaders managed to obtain many privileges for them and the union membership.<sup>85</sup> Consequently, the relation between labor leaders and the government since the 1930s had clearly institutionalized a system of exchanges in three arenas: socio-economic policy, electoral politics and organizational relations (Burgess, 1997:21).

Most probably, the unique presence of Velázquez within the official labor movement and the Workers Congress made him the most important individual, capable of mediating between the labor movement and government in the first round of negotiations for the making of the PSE.<sup>86</sup>

Still, the situation was troublesome. Notwithstanding, sectors of the labor movement<sup>87</sup> disagreed with the use of a general labor strike as a resource to pressure government, the threat of general strike promoted by Velázquez for December 18, clearly persuaded the government to move quickly and engage in a negotiation process<sup>88</sup>. During the month of November Labor Secretary, Arsenio Farrell, started negotiations with the octogenarian leader, its main task was to convince Velázquez that the race between prices and wages was hurtful

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<sup>85</sup> According to a former labor secretary, Velázquez was "very intelligent, a great negotiator, malicious and clever", Interview, Mexico City, March 12, 1998

<sup>86</sup> Interviews with business leaders and government officials, Mexico City, April 8, 1997; March 12, 1998 and March 18, 1998

<sup>87</sup> In particular Hugo Domenzáin of the Federación de Sindicatos de Trabajadores al Servicio del Estado, Cuauhtémoc Paleta of the Confederación Revolucionaria de Obreros Mexicanos and Alberto Juárez Blancas of the Confederación Revolucionaria de Obreros y Campesinos. See Presidencia de la República, 1988:206.

to the economy, that wages could never catch prices and that this process would only generate an unstoppable inertia. According to the Labor Secretary the key was to convince the labor leader "(...) that the important thing was not to demand for more wage increases, but that the key to the solution of the problem was to find a system for controlling price increases"<sup>89</sup>. Obviously, an agreement between the sector would accomplish this. The government was able to convince Velázquez to support a tripartite agreement<sup>90</sup>. As the intermediary between government and workers interest Velázquez further gained political power within the regime alliance.

Even with the backing of Velázquez it was crucial for the government to find the support of the larger and most influential organizations within the Workers Congress<sup>91</sup>. Determinant to the support of the Pact was the incorporation of large unions and confederations such as the CROM, the CROC the CRT, the teachers union (SNTE), and the state workers union (FSTE).<sup>92</sup>

Because of their size, the backing of these organizations was important for the success of the negotiations. Unions like the SNTE that incorporated more

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<sup>88</sup> Interview with government official, Mexico City, March 12, 1998.

<sup>89</sup> Interview Mexico City, March 12, 1998.

<sup>90</sup> Interview with government official, Mexico City, March 12, 1998.

<sup>91</sup> Interview with government, Mexico City, March 12, 1998

<sup>92</sup> At the beginning of the 1980s the Confederación Revolucionaria de Obreros Mexicanos (CROM) had 400,000 affiliates, the Confederación Regional de Obreros Campesinos (CROC) with 850,000 affiliates, the Confederación Revolucionaria de Trabajadores (CRT) with 370,00 affiliates, the Sindicato Nacional de Trabajadores de la Educación, Education (SNTE) with 645,500 affiliates and the Federación de Sindicatos de Trabajadores al Servicio del Estado (FSTE) with 1,518,100 affiliate. See Bizberg, 1990:376.

than half a million education workers (primary and secondary education teachers) was extremely important, so were confederations such as the CROC, which had always been an unconditional ally of the government in particular during the *sexenio* of de la Madrid. The unrestricted support to the government's economic policy was clearly recognized by the leadership of CROC arguing that "the economic policy of the government has been successful in terms of creating a global market economy"<sup>93</sup>.

Critical to the Pacts was the backing of modern unions. Here, the packaging of free-market policies in the PSE played an important role for the support of unions in the most dynamic sectors of the economy.<sup>94</sup> With the reform of the economy some union leaders visualized a whole window of opportunities for the company and their unions. This was the case of the Mexican Telephone Company (TELMEX), keystone for the technological modernization of the country and its union (STRM) with 27,000 members (Bizber, 1990:376)<sup>95</sup>.

The General Secretary of the STRM, Francisco Hernández Juárez, was a key figure for the success of the Pacts. Hernández Juárez was very close to Velázquez, for a time it was believed he was his successor, and had developed

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<sup>93</sup> Interview Mexico City November 4, 1996.

<sup>94</sup> Controls over minimum wages have little impact over these workers position toward the PSE because workers on these sectors had salaries higher than the minimum wage and unions had a strong collective bargaining power (Interview with labor leader, Mexico City, February 11, 1997)

<sup>95</sup> A monopoly; since 1972 the Mexican Telephone Company (TELMEX) was a company with 51% of its shares owned by the government and the rest 49% by private hand. In probably one of the biggest privatization process of state own companies, in 1991 the government sold its

a strong alliance with Salinas de Gortari, based in a common project of economic modernization and that of a "new unionism" (Hernandez Juárez, 1991). As the leader of STRM and, by 1990, head of FESEBES<sup>96</sup>, a labor confederation that assembled unions from the most dynamic and modern sectors of the economy, Hernández Juárez was interested in increasing the domestic and international competitiveness of Mexican companies. Contrary to the old labor guard, mostly in their eighties, Hernández Juárez possessed a whole new understanding of the relation between the government and workers. He acknowledge that globalization was an intrinsic process of modern capitalism, an unstoppable trend. Thus, unions had to face this fact and, instead of trying to stop the process, rather participate in the economic modernization of the country. He believed that by engaging in a process of concertation and jointly participate in the process of company modernization, unions and managers would bring benefit to the firms and workers. Hence, for Hernández Juárez it was clear that favoring free-markets, new technologies and production processes, in a context of union participation, would bring better wages and

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participation to the private sector. Mexican businessman, Carlos Slim, became its main shareholder. Hémandez Juárez 1991:43-49.

<sup>96</sup> The Federación de Sindicatos de Empresas de Bienes y Servicios (Federation of Good and Services Union, FESEBES) was created in April of 1990 with the backing of Salinas de Gortari, however, it was officially recognized until 1992 due to the opposition of CTM. The FESEBES included workers unions in telecommunications, airline, electrical power generation, tramway, film and television and automobile (VW). See Middlebrook, 1995:296.

employment security.<sup>97</sup>

It is probable that the support of Hernández Juárez toward the Pacts came out of different decisive strategic choices. First, the PSE was the most feasible solution to the problem of inflation. As it has been argued previously, other alternatives, either indexation or recession had serious political costs for the regime and for the long-term economic project. Second, favoring a tripartite agreement would situate Hernández Juárez in a privileged position in relation to the Salinas de Gortari government, as he became the most important intermediary of the unions in the modern sectors of the economy. Third, the success of the program to stabilize the economy would contribute to establish the solid ground for the process of economic modernization, which was on the interest of his union and the FESEBES. Lastly, he believed that only through a process of concertation the labor sector could face a process of economic internationalization in which workers were clearly the weakest force (Hernández Juárez, 1991).

If these were the calculations of Hernández Juárez, time demonstrated they were correct: a) in 1992 workers confederation FESEBES was recognized by the government, making Hernández Juárez together with Fidel Velázquez the most

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<sup>97</sup> Hernández Juárez strongly supported concertation schemes. The process of company and union concertation for the modernization of TELMEX was extremely successful. During the process of privatization the workers of TELMEX became co-owners of the company with 4.4% of the shares and have always actively participated in company strategies. See Hernández Juárez, 1991:48-49. Also see León,1992: 273-274 and 267-277), and Interview with labor leader, Mexico City, February 11, 1997)

important labor leader in the country, and b) by using in a concertation strategy between the firm and the workers in the privatization process of TELMEX he placed the telephone workers in a privileged position by making them co-owners of the company with 4.4% of its shares (Hernández Juárez, 1991; Midlebrook, 1995:296.<sup>98</sup> .

In order to control the power of workers inside the Pacts, the government nurtured traditional divisions within the labor movement and foster union competition. Union competition fed the concerns of union leaders over losing their political influence and bargaining power (Murillo, 1997:13). Government alliances with labor confederations in competition with the CTM, such as the CROC, were essential for the support of labor policies inside the *Pactos* and keeping the CTM in line<sup>99</sup>. Contrary to the case of the business sector, which found itself increasingly united since the creation of the *Pactos*, the internal division of the labor sector made it easy for the government to push its labor agenda<sup>100</sup>. The CROC tended to act as an unconditional ally of the government during the negotiations of the different Pacts. There were situations in which the whole labor sector lobbied for an increase on wages and the representatives of CROC boycotted the position by unconditionally supporting the government and

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<sup>98</sup> Interview labor leaders, Mexico City, February 11, 1997 and April 30, 1997.

<sup>99</sup> Interview labor activist, Mexico City, June 18, 1996

<sup>100</sup> Interviews with labor activist and business leader, Mexico City, June 18, 1996 and March 19, 1998.

arguing about the dangers of fueling inflation<sup>101</sup>. On November 1991, Fidel Velázquez blamed the leaders of the CROC, in particular Roberto Castellanos, of generating a series of obstacles that impeded a unified front and a demand for serious wage increases<sup>102</sup>.

At other times it was the CTM itself that broke the unity, as it acted against the organization members of the CT. In the October 1993 Pact negotiations, the labor sector pushed for the disappearance of the three minimum wage regions and demanded an all-across general increase of 18% in minimum wages<sup>103</sup>. Yet, the CTM did not agree with this and in an unilateral measure, according to some union leaders, signed the government proposal, keeping the three zones of wage differentials<sup>104</sup>. Clearly the labor sector faced many divisions and was never able to become a unified voice.

The historical alliance between the regime and the labor movement played a significant role in the union's backing of the PSE, as it was put by leaders of the CROM : "in our relations with government there has always been concertation, understanding, collaboration, because that is how the history of

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<sup>101</sup> Interview with labor leader, Mexico City, May 14, 1997.

<sup>102</sup> El Financiero, November 11, 1991, p.26

<sup>103</sup> In Mexico the minimum wage is defined according to three economic zones. Zone A includes the states of Baja California Norte, Baja California Sur, D.F., and municipalities of Chihuahua, Guerrero, Estado de México, Sonora, Tamaulipas and Veracruz. Zone B includes municipalities of Jalisco, Nuevo León, Sonora, Tamaulipas and Veracruz. Zone C includes the states of Aguascalientes, Campeche, Coahuila, Colima, Chiapas, Durango, Guanajuato, Hidalgo, Michoacán, Morelos, Nayarit, Oaxaca, Puebla, Querétaro, Quintana Roo, San Luis Potosí, Sinaloa, Tabasco, Tlaxcala, Yucatán and Zacatecas. Municipalities of Chihuahua, Guerrero, Estado de México, Sonora, Tamaulipas and Veracruz. El Financiero, November 11, 1991, p.26.

Mexico is explained" <sup>105</sup>. Although many labor leaders believed that the sector had lost its political presence within the state apparatus, they also knew that they were unable to confront the state apparatus. Labor leaders knew the state was the dominant partner and that workers were organizationally weak (the restricting legal framework, organizational ties with the PRI, divisions inside the sector). This concern is illustrated by a union leader comment "A general strike, instead of the Pact, would have led us to a political strike against the future president (Salinas de Gortari). That would have led to a major problem, a problem that could become uncontrollable. The effects of a general strike more negative than positive" <sup>106</sup>.

In 1987 workers leaders knew they had little space to maneuver for either their rank and file economic leverage or the promotion of labor political interests (Whitehead, 1991: 58). With Salinas de Gortari as the PRI presidential candidate, the organized workers realized that they had, at least for a time, lost the battle in the definition of the nation's economic project.<sup>107</sup> Thus, the best suitable strategy was to incorporate themselves into the Pact negotiations, a bitter-sweet arrangement, as it was put by labor leaders: "if you are not in, you are in limbo"<sup>108</sup> or "the key is to be in the game not out".<sup>109</sup>

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<sup>104</sup> Interview with labor leader, Mexico City, May 14, 1997

<sup>105</sup> Interview with labor leader, Mexico City, October 22, 1996.

<sup>106</sup> Interview with labor leader, Mexico City, May 14, 1997.

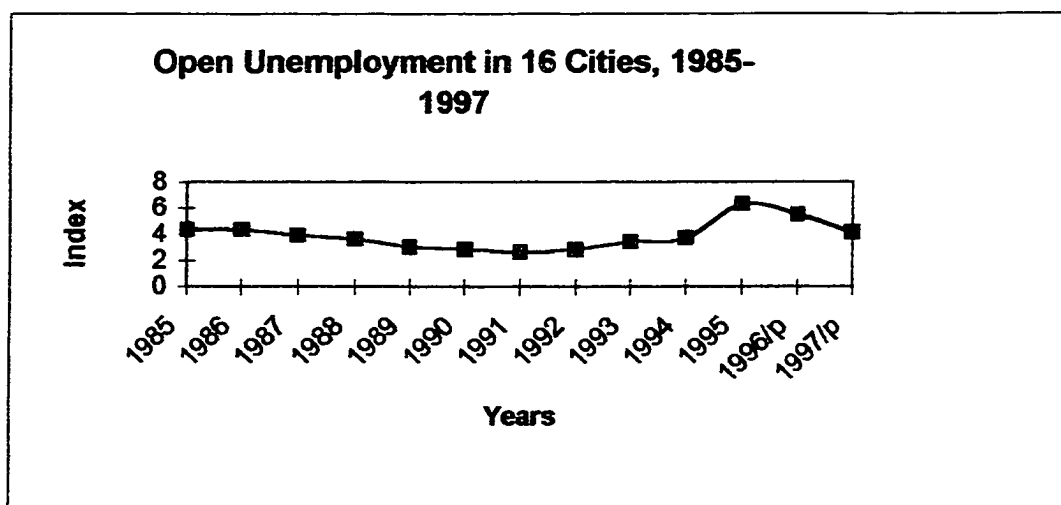
<sup>107</sup> Interview with labor leader, Mexico City, March 28, 1996

<sup>108</sup> Interview with labor leader, Mexico City, February 11, 1997



By including themselves into the tripartite agreement workers tried to, at least, reduce the orthodoxy of economic measures and minimize its costs.<sup>110</sup> In the rationale of the labor organizations leadership, social partnership could, in a degree, restore the negotiating position of workers. In many ways labor exchange wage militancy in collective bargaining for employment and other non-material benefits provided by the government through the Pacts, specially provided during the policy discussion in the Pacto follow-up commission: "...the most important thing was the trade off between salaries and employment. An increase in salaries meant a loss in employment. The fundamental concern was to keep the level of employment".<sup>111</sup> (See Graph 5.1 and Table 5.2)

**Graph 5.1 Open Unemployment in 16 Cities, 1985-1997**



<sup>109</sup> Interview with labor leader, Mexico City, November 4, 1996.

<sup>110</sup> Interviews with labor leaders, Mexico City, October 22, 1996; October 29, 1996; October 30, 1996; November 30, 1996; May 14, 1997.

<sup>111</sup> Interview with labor leader, Mexico City, March 12, 1998

Source: Mexico Social, 1996-1998, Estadísticas Seleccionadas, División de Estudios Económicos y Sociales, Banamex-Accival, 1998, p.380. LFP: Labor Force Participation

**Table 5.2 Rate of Annual Growth of the Minimum Wage in Mexico**

<b>Years</b>	<b>Increases/Decreases</b>
1980	-6.98
1981	1.08
1982	-11.33
1983	-16.73
1984	-6.83
1985	-1.29
1986	-8.73
1987	-5.6
1988	-12.6
1989	-6.17
1990	-9.22
1991	-4.21
1992	-4.72
1993	-1.53
1994	0

Source: Mexico Social, 1996-1998, Estadísticas Seleccionadas, División de Estudios Económicos y Sociales, Banamex-Accival, 1998, p.402.  
Calculations made by the author. Minimum Salary Mean

The labor movement perceived itself as part of the regime, thus, concerns on the stability of the political system and perceptions of risks in the economy played an important factor. The government used tactics of fear by generating catastrophic scenarios to elevate threats of possible unemployment and of an increase in the power of the opposition, if labor did not cooperate in the Pact. Labor leaders argued that "If we had not signed the Pacts it would have brought negative signals to the markets and investment would have stopped, thus, we

would have had problems "<sup>112</sup>.

The trade off between wage controls for stability and employment was clear<sup>113</sup>, or as former president de la Madrid put it: "Labor reduced its claims for an increase in salaries in return for stabilization"<sup>114</sup>.

The weakness of the labor sector was also significant in relation to its incapacity to generate coherent policy proposals and an information system. A very different situation compared to the case of the business sector, which since the 1980s had seen an increase in its political power and its organizational capabilities. In the 1980s the business sector created think tanks and information centers within their organization and companies to support their firm strategies and policy proposals<sup>115</sup>.

Labor unions and confederations seriously lacked information and had a deficit of political and economic advisors. In the creation of the *Pactos* and

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<sup>112</sup> Interviews with labor leaders, Mexico City, October 22, 1996; November 30, 1996 and March 12, 1998

<sup>113</sup> Interview with labor leader, Mexico City March 12, 1998

<sup>114</sup> Interview with business leader Mexico City, March 18, 1998.

<sup>115</sup> Most of these new think-tanks were created in the 1980's: Departamento de Estudios Sociales, BANAMEX; Centro de Estudios de Economía y Educación; Centro de Investigaciones para el Desarrollo; Centro de Investigaciones sobre la Libre Empresa; Instituto de Proposiciones Estratégicas; Instituto Von Mises, among others. See Heredia, Blanca, 1990. It is interesting to point out that contrary to the case of Mexico, the late development of the US administrative state, governmental agencies lacked the adequate amount of qualified bureaucratic personnel. On the contrary, big business and trade associations had a qualified bureaucracy that was developed in the late nineteenth century. As a consequence, government agencies such as the National Recovery Administration in the 1930s, had to draw most of the key officials from the ranks of business bureaucracy. Historically US trade associations had meaningful information about the industry. The reason was that since its development, in the mid nineteenth century, business associations tried to influence the political setting and protect the interest of their members. See Skocpol and Finegold, 1982: 255-278 and Galambos, 1966..

during their life, labor leaders were unable to advance intelligible economic policy proposals and had only reacted at the recommendation made by the government.<sup>116</sup> Labor organizations and leaders had no information and, much less, the necessary training in economics that could make them a serious threat to the economic arguments made by the government technocrats. According to business sector and labor sector leaders themselves, the labor sector proposals were fundamentally naive.<sup>117</sup> This can be exemplified by the proposal made by Mario Suárez, leader of the CRT and former president of the CT in 1991, whose plan to control the inflationary spiral was an indexation scheme, an antithesis of the logic being applied by the government economists. This suggestion reveals the inability of the sector to come up with coherent proposals in line with the arguments presented by the government technocrats.<sup>118</sup> It is only until very recently that the leadership of powerful unions have created offices with staff of economic and political advisors.<sup>119</sup>

Although factors such as the divisions, incapacity of generating policy proposals and control on issues like wage increases all played against the capacity of the labor movement to influence policy, the labor movement was able

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<sup>116</sup> Interviews with labor leaders, Mexico City, November 30, 1996 and May 14, 1997.

<sup>117</sup> Interviews Mexico City, May 20, 1997; May 21, 1997; October 29, 1996 and May 14, 1997.

<sup>118</sup> Interview with labor leader, Mexico City, October 29, 1996

<sup>119</sup> Unions like the STPRM have created offices with political and economic advisors such as the Centro de Investigación de Estudios Económicos, Políticos y Sindicales. Other union leaders like of Elba Esther Gordillo have created think-tanks such as the Instituto de Estudios Educativos y Sindicales de America created in 1993 which functions as a economic and political advisor to the Gordillo herself. Interview Mexico City, August 23, 1999.

to push for policies at the heart of the *Pactos* that benefited working classes.

In the October 1992 negotiations, the government acceded to change its fiscal policy by eliminating taxes for those workers that earned less than four minimum wages. This process was the result of the lobbying done by the labor movement inside the Pact negotiations.<sup>120</sup> Furthermore, in an effort to link wage to productivity increases and solve a traditional demand made by the CT the members of the Pact for Stability, Competitiveness and Employment, established the National Accord for the Increase in Productivity and Quality in the Pact renewal of October 20th, 1992 (See Appendix C).<sup>121</sup>

However, it is important to point out that most policies favoring the interests of workers were less the result of negotiations during the Pact renewals, due to the strict policies toward income policies, and more the by-product of negotiations taken place in the follow-up commission.

#### **5.4 Achieving Cooperation**

Consultations were final and on the night of December 15 1987 the Economic Solidarity was signed by the government, the labor movement, peasants organizations and the business sector.

As an adjustment policy package, the Economic Solidarity Pact contained

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<sup>120</sup> Interview with labor leader, Mexico City, May 14, 1997

<sup>121</sup> El Financiero, September 28, 1993, p.26. According to the undersecretary of Labor, Pablo Reyes, the creation of such accords responded more to a political demand rather than to an economic reality. It is extremely difficult to measure productivity because there is no relevant information of every industry and region that permits the creation of a productivity index. Interview Mexico City, March 19, 1998.

both stabilization and structural reform policies. According to Aspe the PSE was designed to:

a) "continuing commitment to the permanent correction of public finances" b) "restrictive monetary policy", c) "correction of the wage momentum", d) "agreement on prices in leader sectors", e)"liberalization of trade", f)"control of inflation and the negotiation of leader prices instead of total price freezing, and g)"adoption of measures based on negotiated price controls".<sup>122</sup>

Accords to follow such measures were signed by the government, labor and the business sector and the fundamental issues on economic policy were related to: the exchange rate, public finances, public prices, private prices, income policy and trade policy (**See Appendix C**).

Notwithstanding the Pacto was a political mechanism built upon the idea to generate credibility and cooperation, during its first year of life the time span of the accords was short, due to the still high levels of uncertainty among the players.

**PSE: Phase 1, December 1987-February 1988.**

**PSE: Phase 2, March 1988.**

**PSE: Phase 3, April-May 1988**

**PSE: Phase 4, June-August 1988**

**PSE: Phase 5, September-December 1988.**

During the first phase of the PSE there was much skepticism on the results of the new policy. For one thing, the alignment of public prices and services defined in this first phase (See Appendix C) had generated a profound incredulity about the measure to control inflation in the general population. A Gallup Poll taken five months after the PSE was implemented shows that most Mexicans were skeptical about the PSE. (Domiguez, 1993:194-211). For the government it was difficult to explain to the general population that a set of policies supposedly design to stop the inflationary process began by increasing public prices and tariffs. Thus, at this time the only resource the government had to convince the population was through a mass media campaign to explain the nature of the accords.<sup>123</sup> The government commitment to the agreement was revealed by the severity in which the PROFECO acted against those who tried to foster shortages and increase prices beyond what had been established, particularly in non-durable goods, such as sugar, cooking oil and meat.<sup>124</sup>

### **5.5 Opposing the Pactos: A failed movement**

Opposition to the *Pactos* came from different directions. There was some resistance to the Pacts from members of the de la Madrid's cabinet that did not agree with the measures presented, in particular wage controls and trade

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<sup>122</sup> Aspe, 1993: 23-24.

<sup>123</sup> Presidencia de la República, 1988:201

liberalization. This group was formed by the old guard of traditional ISI politicians such as Commerce Secretary, Héctor Hernández, Health Secretary Jesús Kumate, and Agriculture Secretary Eduardo Pesqueira. Ministers Pedro Aspe and Arsenio Farrell, with the absolute support of the president and the presidential candidate, had to apply pressure so that these cabinet members would follow the accords signed by the government.<sup>125</sup>

Although never strong, the opposition to the PSE and following Pacts basically came from the labor sector. It is interesting to note that the organized business community did not really engage in a clear confrontation against the agreements. Business groups that confronted the PSE were small and organized outside the traditional corporatist structure. These organizations were not part of the regulatory framework defined by the 1936 Law of Chambers of Commerce and Industry and therefore not recognized by the government as "organs of consultation for the state" and subject to government regulation. Business associations that represented small and medium industrialists, like the AIEM and the AIV criticized policies surrounding the *Pactos* and, at times, questioned the legitimacy of the decisions taken by the leadership of the CCE, in particular Agustín F. Legorreta. For the firms gathered around these associations the policies assembled placed small and medium business in a difficult position by opening traditionally closed markets to international

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<sup>124</sup> See *Presidencia de la República*, 1988:201.

<sup>125</sup> Interview with government official, Mexico City, July 9, 1997.



competition and, at the same time, by depressing domestic markets through wage controls.<sup>126</sup>

However, it is important to point out that there is no clear evidence on any real impact, negative or positive, of these organizations on the creation and development of the Pacts. There might be several reasons that help explain the low collective action capacity of these associations. First, these were voluntary organizations that gathered a small number of firms and that were not recognized by the government as legitimate, independent from the chambers, consultative organism.<sup>127</sup> These factors kept such associations out from seriously affecting large markets and from directly taking part in the corporatist decision making process. Their participation was only indirectly through the CONCAMIN, which the confederation was part of. However, the number of participants in the CONCAMIN is so large that the possible contributions of these organizations on the decisions of the CONCAMIN are marginal. Second, for the same reason, the impact of these organizations in large markets is minor (See Olson, 1965:53).

Finally, other possible constraints on the associations' collective action capacity were the controls on firms through authoritative and market compliance mechanism. Defection was limited and firms were kept in line with the accords

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<sup>126</sup> Matilde Luna brought to my attention the role of association like AIEM and AIV. See El Norte, January 20, 1989. See Hernández, 1991:446-471.

<sup>127</sup> For example, the AIV had 400 members in 1989. In comparison CONCAMIN had 125,500 the same year. See Organizaciones empresariales mexicanas. Banco de Datos, 1994.

through government agencies like the PROFECO and private distribution markets mechanisms, such as the ANTAD.<sup>128</sup>

The power of these organizations tended to be reduced, as it was clear for firms that the cost of joining a business organization that a) was shut-out or had little influence in the policy-making process, and b) whose members (firms) could suffer severe sanctions by not complying with the decisions taken by the elected majority constructed within the corporatist structure, are extremely high. Thus, the strength of the resistance of these organizations to the stabilization and reform policies established in the Pacts was minimal.

This situation contrasts with the strategy developed by what remained of the independent labor movement, left wing political parties and popular urban movements.

The rise of public prices established in the first phase of the PSE (December 1987– February 1988) triggered a popular response. Popular urban organizations and independent unions, in particular Public University unions, conformed the National Front of Resistance against the Pact. The Front was conformed by several different organizations, most importantly: the Independent Proletariat Movement; the University Students Council; the Union Concertation Round Table; the Authentic Labor Front (FAT); the National University Workers Union (STUNAM); the Sindicato de Trabajadores de la Universidad Autónoma

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<sup>128</sup> Only in December of 1987 PROFECO received more than 200,000 complains of businesses not observing the signed accords. See Presidencia de la República, 1988:200. Interview with

Metropolitana (SITUAM); the University Workers Union (SUNTU) and the National Confederation of University Workers (CONUT). However, large independent unions such as the Mexican Union of Electricity Workers (SME) or the National Coordinator of Education Workers (CNTE) were absent (Méndez, 1988).<sup>129</sup>

The Front strategy against the PSE was basically defined by solidarity strikes, however the movement never picked-up and it was never really able to gather forces around its rejection to the PSE. The Front did not live more than a month. The zenith of the movement came in February 18 1988, where in a meeting in downtown Mexico City the Front was able to mobilize more than 300,000 individuals, however, by the end of February the slow weakening of the movement was more than evident as the National University workers (STUNAM) and different university unions refrained from going into a general strike (Méndez, 1988:84-91). Because university unions and consumer groups had no critical influence over the distribution of goods or in the production chains, their power on the accords was minimal.

Member of opposition political parties also proposed civil resistance measures to confront what they considered an authoritarian measure, however, such actions were only sporadic, more the result of electoral politics than a serious confrontation against the PSE. It seems that these were no more than

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business leaders, Mexico City, January 19, 1996 and March 15, 1996.

<sup>129</sup> See Proceso, No. 585 and 587, January 18, 1988 and February 1, 1988.

rhetorical speeches in the light of a process of presidential elections.<sup>130</sup>

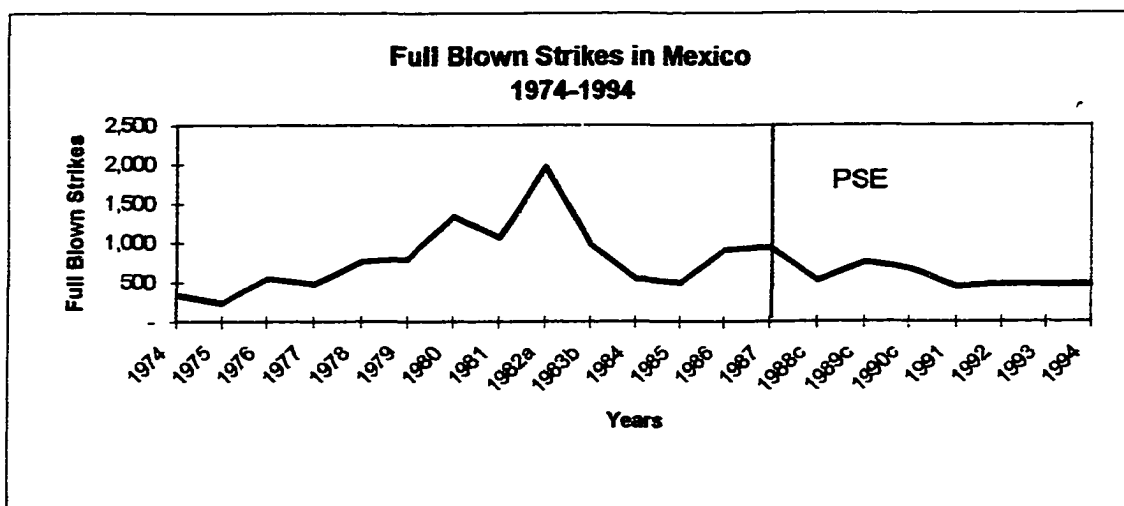
Most independent unions played their own game. A number of independent unions tried to defy the wage increase guidelines defined by the PSE, but did not engage into collective action with other unions. 39 unions from insurance companies (among them Seguros América, Monterrey, Hidalgo, Mexicana, Seguros La Provincial, La Nacional, Atlas and Aseguradora Nacional Agrícola y Ganadera) went on strike on January 17 1988. Yet, the strike only lasted a week when the workers members of the National Union of Workers from Insurance Companies and Similar accepted a 22% raise in their salaries. On February 1st 1988 the Volkswagen Independent Union went on strike, on January 8 so did the workers of Ford Motor Company in the state of Chihuahua and General Motors. The strikes of Volkswagen and General Motors were soon solved.<sup>131</sup> However, as the PSE entered its second phase the 28 of February of 1988 prices and wages were freezed and the movement against the PSE slowly melt. (See Graph 5.2).

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<sup>130</sup> See Proceso, No. 582, December 28, 1987 and El Norte, March 8, 1988.

<sup>131</sup> See Presidencia de la República, 1988:206-207.

**Graph 5.2 Full Blown Strikes in Mexico**



Sources: Sexto Informe de gobierno José López Portillo, Sector Laboral 1982  
 Segundo Informe de gobierno Miguel de la Madrid H. Sector Laboral 1984  
 Quinto Informe de Gobierno Carlos Salinas de Gortari, Anexó Estadístico 1993  
 a/ does not includes the state of Tabasco  
 b/ does not includes the state o Nayarit, Tabasco and Veracruz  
 c/ does not includes the Federal District

Among the independent union movement, FAT was probably the only organization that confronted the strategy developed from the beginning to the end of the Pacts. An independent federation of workers, civil organizations, cooperatives, and the FAT opposed the PSE since its birth.<sup>132</sup> A Christian-Democratic organization born in 1960 and basically sustained through solidaristic support from international labor organization, the FAT had opposed the regime and the non-democratic practices of the official labor movement

<sup>132</sup> The unions that participate in the FAT are Sindicato Nacional del Hierro y el Acero, Sindicato Belisario Domínguez de la Industria Textil and the Sindicato en Calzado y Textiles. Interview labor leader, April 30, 1997.

(Middlebrook, 1995).

According to the FAT the Pacts were a simulation of an authoritarian regime that never consulted, only controlled labor and imposed its will over the working class with the help of a corrupted labor leadership<sup>133</sup>. However, the effect of the battle of FAT and other organizations against the *Pactos* was limited due to internal problems and a lack of cohesion of the independent labor movement. Furthermore, as the country engaged in a process of economic modernization and the Pacts were able to control inflation during the *sexenio* of Salinas de Gortari, the FAT slowly changed its defensive strategies and moved toward a more cooperative relation with capital and to a closer relation with FESEBES<sup>134</sup>.

Thus far we have seen that, in Mexico, political institutions created the context under which it was possible to move from a non-cooperative behavior to one of cooperation. The institutional context shaped political actors' preferences toward a system of tripartite consultation. Long living corporatist institutions provided the mechanism that could bring a solution to the problems surrounding the control of the inflation: consensus, coordination, collective action and legitimacy.

Uncertainty was a critical variable in shaping actors' preferences.

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<sup>133</sup> According to the FAT the control of the inflation could have been achieved only through the control of prices and the growth of the internal market. Interview labor leader, Mexico City, April 30, 1997.

<sup>134</sup> Interview with labor leader, Mexico City, April 30. See Méndez and Quiroz, 1991:37-54.

Uncertainty of "1) the present institutional alternatives available to them, 2) the present consequences of their present institutional choices, 3) the future consequences of their present institutional choices, 4) the future institutional alternatives that will be available to them, and 5) their future preferences regarding alternative outcomes" (Knight, 1992:45). For the most important economic actors of the Mexican scene, present sacrifices were fundamental for future gains. However, it was the institutional context of Mexican corporatist politics that made it possible to generate a mechanism that could coordinate political and economic actors and, thus, shape the preferences for a framework of Economic Pacts for almost a decade.

Strategies, expectations and political commitments are continuously forged as a result of conflict, as well as by the possibilities that institutions provide political and economic actors (Knight, 1992; March and Olsen, 1989; Przeworski, 1985).

## **CHAPTER 6**

### **THE INSTITUTIONALIZATION OF THE ECONOMICS PACTS**

The establishment of the Economic Pacts provided the setting in which the business community, the labor sector and the government were able to engage in a process of collaboration. By entering into and remaining in the Pact negotiations, organized actors accepted sacrifices and risks in the short run for the prospect of future gains. In the end, the outcome of the cooperative effort was positive for the economy reform project as defined by the new regime alliance. Maintenance of the commitments by all sectors drastically reduced inflation in a short period of time, stabilized the economy, and opened the path for free-market reform.

The Economic Pacts lasted a decade and survived a deep economic crisis. From 1987 to 1994, the Pacts were the key political component that helped stabilize, reform, and launch the Mexican economy into free-market.

This chapter will answer the following questions: How was this policy mechanism able to last a decade? What elements account for its success in achieving a long-lasting cooperation? What explains the continuity of the Mexican Economic Pacts? In this section, I hold that the process of



institutionalization, the system of flexible adjustments, and positive expectations explain the survival of the Pacts.

On the one hand, institutionalization of the Pacts helped reduce transaction costs by constraining the participants' present and future choices. Institutionalization of the agreement through the building of rules and the development of mechanisms to monitor, enforce, coordinate, and distribute economic and social gains helped reduce uncertainty and lowered the costs of sacrifices. On the other hand, continued Pact renewals, and concertation agreements among the government, labor, and business sectors sustained a flexible arrangement that helped redistribute costs and benefits.

The first section of this chapter will explain the way in which the process of Pact renewals and concertation agreements made it possible for the Pacts to adapt to changing conditions and group pressures. This section will also explain the process of negotiation between the government and the business and labor sectors for Pact renewals. The second section of this chapter will explain the process of institutionalization and how the development of the follow-up commission of the Pact, as a governance structure, produced a system for coordination, enforcement, and the distribution of social and economic benefits. Finally, the third part of the chapter deals briefly with the effect of the Pacts on the expectations of the business community and the general population.

## **6.1 Adapting to Changing Conditions: The *Pacto* Renewals and Concertation Agreements**

The first agreement, the Economic Solidarity Pact of December 1987, helped assure cooperation among labor, business, and the state. Yet this process of cooperation threatened to last only a limited amount of time. Hence, a challenge for the technocratic administrations of de la Madrid and Salinas de Gortari was the establishment of a mechanism that would provide a continuous flow of cooperation for an extended time period, a system that would thus avoid putting a straitjacket on the economy, but that would monitor actors and allow for flexible negotiations.

The governing elite solved the problem of learning and monitoring<sup>1</sup> through the Pact renewals, the Concertation Agreements (*Convenios de Concertación*), and, most importantly, through the Commission for the Follow-up and Evaluation of the Pact (*Comisión de Seguimiento y Evaluación del Pacto*). These three mechanisms provided actors with the possibility of negotiating adjustments to the Pacts according to changing needs and conditions, thus properly designing suitable and credible commitments for the different sectors of Mexican industry and commerce (See

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<sup>1</sup> This refers to the question raised by Charles Sable on the contradiction between adaptation and monitoring. This dilemma is particularly difficult because learning is, among other things, a process of adaptation to changing conditions. On the other hand, monitoring is a process that determines to the transacting parties that "(...) the gains from leaning will be distributed according to standards agreed among them (...)" (Sable, 1994:137). Monitoring is, thus, the capacity to assess. Hence, the problem is that "(...) learning undermines the stability of relations normally required for monitoring (...) learning disrupts regularity"(137). Learning rises the fears

**Appendix C).**

The Economic Solidarity Pact that began in December 15, 1987 went through different stages and had different names, yet, macroeconomic policy was basically maintained until 1994 (**See Appendix C**).

The economic and political circumstances surrounding the first phase of this *Pacto* were extremely difficult. In particular because the labor sector strongly pressured for wage increases and openly argued about their concerns over price changes, and business cheating. Yet, labor never used the “exit” option and continued in the negotiations. The agreement held part due to the craftsmanship of the Secretary of Treasury, Pedro Aspe, and the Secretary of Labor, Arsenio Farrell. Both government officials managed to convince business and labor leaders that the end of the inflationary process was a gradual process. Furthermore, government officials argued that during the first stage of the Economic Solidarity Pact prices would not stop from increasing because the economy needed a period to correct the distortion among relative prices.<sup>2</sup> According to former Labor Minister, Arsenio Farrell, “...there was a problem of a lack of trust. This is the reason why the first (phase of the Pact) *Pacto* lasted 30 days, and the reason why we (the government) created the follow up commission, to observe the development of the *Pacto* “. <sup>3</sup>

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and threats monitoring. See Sable 1994.

<sup>2</sup> Interview with government official, Mexico City, March 2, 1998.

<sup>3</sup> Interview, Mexico City, March 2, 1998.

In the second phase of the PSE, March 1988, price and wage controls, and a fixed exchange rate were established. As a result, by April 1988 inflation was clearly dropping and the Pact was showing its benefits (See Table 6.2). It was until this point that positive expectations about the Pact began taking a hold.

The exchange rate and income policies were key ingredients for the success in the control of inflation, and remained relatively fixed until 1994.<sup>4</sup> Although prices, wages, and the peso stay relatively fixed one of the most important characteristics of the *Pactos* was their flexibility. Since the establishment of the first Pact the government avoided the creation of an overwhelming number of controls over the economy that would hinder the possibility of economic growth, induce scarcity, and reduce firm's profit margins (See Córdoba, 1994:241).

Continuous concertations allowed for flexibility and cooperation. Flexibility helped to confront situations such as supply shocks, in particular those related to the increases in the international prices of products or goods, as it was the case of the international energy prices in 1991. Flexibility also helped maintain

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<sup>4</sup> The exchange rate policy was off limits from the pact discussions. The government was able to control the exchange rate was relatively easy through the Banco de México. Regarding wages, although the establishment of minimum wage levels is the result of a concertation between the capital, labor and government inside the National Minimum Wage Commission, during the life of the pacts, and until 1998, this office followed the recommendation made by pact members. The Comisión Nacional de Salarios Mínimos, (National Minimum Wage Commission, CNSM) is a government tripartite organism link to the Secretary of Labor which defines minimum wage increases. See Secretaría del Trabajo y Previsión Social, Informe de Labores, 1989-1990, p.49 and interview with government official, Mexico City, March 19, 1998.

the support for the Pact. For example, although minimum wages were fixed the government allowed for changes in contractual wages and provided fiscal exemptions for workers in 1993 (**See Appendix C**).

There were also cases in which, because of the slow economic growth as it was during the first semester of 1993, the government responded by increasing wages and by implementing tax exemptions for workers with earnings of less than 4 minimum wages<sup>5</sup> (**See Appendix C**). This was important because it permitted adjusting individual prices without jeopardizing credibility (Schneider, 1997:203).

Still, the government was very strict regarding wages controls and used its muscle to keep this compromise. This obviously generated tensions. In a meeting on May 21, 1993 Mario Suárez García, president of the Workers Congress (CT), argued against the government's wage control policy and favored a change of policy. Suárez argued against controls over wages and the need for a policy towards the benefit of the majority of the country's workers. Although Secretary Arsenio Farell did agree with Mr. Suarez García about the historical lag between prices and wages, as well as the slow come back of wages, he argued that the reason was precisely the galloping inflation the country had been experiencing. Farell held that until the economy stabilizes wages could never catch up with prices and that it was only through productivity

risers accords that wages could increase. Treasure Secretary, Pedro Aspe, supported Farrell's arguments and argued that it was not possible to fight inflation and, at the same time, endorse the causes that generated it.<sup>6</sup>

The generation of an effective consultation between actors helped to build bridges of cooperation, confidence, and information sharing. Government commitments were an intrinsic part of this process. The decades of government's unilateral decisions had created a sense of absolute distrust from the business community towards the government. However, as the governments held to its commitments during the time of the Pacts, it precipitated a sense of trust and positive expectations.<sup>7</sup> A critical government commitment was fiscal austerity and a continued process of state owned enterprise privatization. This was one of the core components of the reciprocity to business.<sup>8</sup> The administration of de la Madrid and Salinas de Gortari unquestionably honored such commitments while they were in power. From 1987 to 1989 the fiscal

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<sup>5</sup> See *El Financiero*, September 19 and 20, 1993.

<sup>6</sup> Although I was never able to verify this information some businessmen and labor leaders say that also Cervercería Cuauhtémoc tried to increase wages beyond the accords established in the Pacto. However they were restrained from this by a telephone call made by the Secretary of Treasury, Pedro Aspe. Allowing an increase on wages above the established Pacto guidelines would have certainly broken collective action efforts, allowing for free-riding behavior and the destruction of the cooperative effort around the pacts. Although the case is different, it does suggest the concern of the *Pacto* players about problems of free riding. In April of 1991 the Hospital "Los Angeles del Pedregal" in Mexico City asked permission to the follow-up commission for an increase in their tariffs to the public. One of the arguments of the members of the commission was not to accept such petition because it would establish a precedent that could destroy the stabilization effort (Minute of the Follow-up commission, April 18, 1991).

<sup>7</sup> Interview with business leaders, Mexico City, May 20, 1997 and June 16, 1998.

<sup>8</sup> Interview with business leaders, Mexico City, February 7, 1997; May 20, 1997 and June 16,

deficit as a percentage of the GDP was dropped more than 10 per cent, and the privatization of government owned companies deepened (**See Table 6.3 and Appendix**).

The renewal of the Pact in January 1989 and its change of name from the Economic Solidarity Pact to the Pact for Stability and Economic Growth, provided an opportunity for an important adjustment in the economic policy. First, the fixed exchange rate was rectified, and the Mexican currency was to crawl 1 peso a day against the dollar. This 1 peso crawl a day was reduced to 80 cents in May 1990, then further reduced to 40 cents in November 1990. In November of 1991 the crawling was moved again to 20 cents. In October 1992, it moved up to 40 cents, until December 1994, when the price of the peso against the dollar collapsed (**See Appendix C**). The exchange rate was a critical anchor for controlling inflation, however, it became a variable that seriously increased the balance of payments problems of the country by 1994.

The other important change was the increased flexibility over price freezes. A key concern of the government was avoiding scarcity. The danger of scarcity was solved through the creation of a flexible adjustment system that would control prices but that would not hurt the profit margins of firms to the point of bankruptcy. As it was argued in the previous chapter, the government through SECOFI developed, together with the business sector chambers, a price matrix for every good the

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1998. Also see Schneider 1997:203.

economy produced based on the costs in the manufacturing of the product. The matrix for every industry was established in the concertation agreements and was the result of a process of negotiation between SECOFI government officials and the representatives of the business chambers that were involved in the productive chain.<sup>9</sup> Concertation agreements brought about the possibility to adjust prices whenever it was necessary (**See Appendix B**). Avoiding scarcity was a very significant concern, but price flexibility allowed for developing of a sense of fairness in the distribution of the social costs of the adjustment (Córdoba, 1994:241).

Companies eager to increase their prices had to fully state the reasons and provide reliable data to support their petition. In a follow-up commission meeting in the month of April 1991, the commission rejected Hospital *Los Angeles del Pedregal* petition to increase tariffs. The decision was made on the basis that: 1) the hospital did not provide enough information to justify the increase, 2) by accepting the increase, the commission would establish a precedent that would allow other hospitals to increase their tariffs, thus breaking the stabilization efforts, and 3) it was SECOFI and the corresponding business chambers, and not the follow-up commission, the ones in charge of reviewing individual cases.<sup>10</sup>

As the *Pacto* changed names again, from the Pact for Stability and

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<sup>9</sup> Interview with business leader, Mexico City, September 17, 1997 and government official, Mexico City, July 15, 1997

<sup>10</sup> See minute of the Comisión de Seguimiento y Evaluación del Pacto para la Estabilidad y el



Economic Growth to the Pact for Stability, Competitiveness and Employment and, again, to the Pact for the Welfare, Stability and Growth, macroeconomic policy was maintained. The new agreements only introduced policies that would give more emphasis to issues such as growth, productivity, deregulation and trade barriers (**See Appendix C**). This was particularly clear in the case of the follow-up commission that moved from issues exclusively related to price stability to issues related to productivity, lowering trade barriers, and deregulation. These changes had an important effect in the dynamics of price increases, competitiveness, and economic growth.

As certainty and credibility became stronger among all actors, the Pact renewals were moved from monthly to three, six months, and yearly negotiations (**See Table 6.1**). Yet things radically changed in 1993 when the political climate of the country took a major turn. In January of 1993 the Zapatista Army (*Ejército Zapatista de Liberación Nacional*, EZLN) emerged in the state of Chiapas, later, in March of that same year, the PRI presidential candidate Luis Donaldo Colosio was shot and killed; later, in September, the Secretary of the PRI was also assassinated and, lastly, in December 1994 a major economic disaster hit the country. As these political events increased the perception of risk among investors, cooperation was seen as crucial to solve the problem of political uncertainty and allow the economy

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Crecimiento Económico, April 18, 1991.

take its course.<sup>11</sup> (See Appendix C).

**Table 6.1 Phases of the Pacts 1987-1994**

**Economic Solidarity Pact**

Phase 1, December 1987-February 1988.

Phase 2, March 1988.

Phase 3, April-May 1988

Phase 4, June-August 1988

Phase 5, September-December 1988

**The Pact for Stability and Economic Growth:**

Phase 1: January-July 1989

Phase 2: August 1989-March 1990

Phase 3: April-July 1990

Phase 4: August 1990-January 1991

Phase 5: November 1990-December 1991

Phase 6: November 1991-January 1993

**The Pact for Stability, Competitiveness and  
Employment:**

Phase 1: October 1992-December 1993

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<sup>11</sup> See minute of the Comisión de Seguimiento y Evaluación del Pacto para la Estabilidad, la competitividad y el empleo, August 12, 1994

Phase 2: October 1993–December 1994

Phase 3: January 1994 (Necessary ratification of the agreements due to guerrilla activity in the state of Chiapas).

Phase 4: March 1994 (Necessary ratification of the agreements due to the killing of PRI presidential candidate Luis Donaldo Colosio).

**The Pact for the Welfare, Stability and Growth:**

Phase 1: September 1994–December 1994.

This Pact was ratified in December 20 and December 21 1994 as a result of the economic crisis of December 1994.

**6.1.1 Adapting to Changing Conditions: Negotiations of *Pacto* Renewals**

Negotiations to renew the *Pactos* took place in the Labor Ministry (STPS) under the direction of the Labor Minister Arsenio Farell Cubillas (throughout the administrations of de la Madrid and Salinas de Gortari), and the Minister of Programming and Budget, and later Minister of the Treasury and Public Credit, Pedro Aspe Armella. The date for the meetings to renew the agreements was defined by the government and never disclosed until a few hours before the gathering. The end of the *Pacts* period was pre-established and negotiations

took place generally a month before the Pacts were due. Meetings always started at 6:00 p.m. on a Friday, lasted until late Friday night, continued during all day and night of the following day (a Saturday) until an agreement was reached.<sup>12</sup>

Negotiations were centered on a proposal pre-drafted by the government and the parties negotiated the government agenda and economic policy guidelines. According to a government official, the government always tried to control the agenda, "controlling the agenda was critical, otherwise it would have created chaos", and it was obvious that the government did not allow unions to negotiate the prices matrix.<sup>13</sup> According to a labor leader, "the government controlled the agenda but through a process of persuasion and negotiation"<sup>14</sup>.

Business and labor representatives were kept in separate rooms, and no one could leave the rooms until the negotiations were over. Government negotiators had a support team in a room in the same ministry building composed by political, labor, legal, and economic advisors with full access to industrial and economic data. Agreements usually finished on early morning Sunday so that the *Pacto* renewal could be officially signed on that day in a pompous ceremony at *Los Pinos* (the executive mansion) in the presence of the

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<sup>12</sup> Interviews in Mexico City, October 22, 1996; October 29, 1996; March 18, 1997, May 14, 1997; May 20, 1997; July 15, 1997; March 12, 1998.

<sup>13</sup> Interview with government official, Mexico City, March 19, 1998.

<sup>14</sup> Interview with labor leader, Mexico City, March 12, 1998

President.<sup>15</sup>

The secrecy of negotiations during weekends was the result of a well thought out strategy that aimed at keeping the financial markets isolated from the uncertainty surrounding the agreements<sup>16</sup> and controlling the flows of information. By doing this, the government lowered the chances that an information leak could destroy the process of negotiations and credibility by providing advantages to a particular party in the negotiations.

Pedro Aspe and Arsenio Farell were the key figures in all negotiations. Aspe had excellent relations with the business sector and Farell was a severe but respected negotiator with the labor sector.<sup>17</sup> According to both business and labor leaders, Aspe's main input was his knowledge on the critical variables of the Mexican economy and his capacity to explain and respond to questions effectively with logic and hard data.<sup>18</sup>

To both, government officials, and business sector leaders, repeated interaction helped cooperation because a critical trust bond between negotiators was created<sup>19</sup> (Axelrod, 1984). Yet, negotiations were difficult in the

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<sup>15</sup> Interviews in Mexico City, October 22, 1996; October 29, 1996; March 18, 1997, May 14, 1997; May 20, 1997; July 15, 1997; March 12, 1998.

<sup>16</sup> Interviews with labor and business leaders, Mexico City, March 18, 1997; May 20, 1997; October 29, 1996; April 8, 1997; May 14, 1997; March 8, 1998.

<sup>17</sup> Interview with business leader, Mexico City, May 20, 1997 and government official March 19, 1998.

<sup>18</sup> Interview with labor leader, Mexico City, October 29, 1996.

<sup>19</sup> Interview with government official, Mexico City, July 15, 1997; March 21, 1998 and with business sector advisor, April 8, 1997. According to the COPARMEX advisor, personalities such as conservative Carlos Abascal, president of COPARMEX, and peasants unions leader, Beatriz

making of the PSE and *Pact* renewals, however institutions played a major role.

Both the business and labor sectors accepted the government role as the third and most important party in the negotiations. Two different factors, information and expertise gave the government its advantage. The government controlled most of the country's economic information, from wages to products in every sector.<sup>20</sup> According to business leaders, the government had the upper hand in all negotiations due to its long experience in negotiations and expertise in economic matters. Neither business nor labor had the primary sources of information, "...we used the government generated information", or the expertise and experience.<sup>21</sup>

However, this did not mean that neither the private nor labor sector had any influence over policy. Leaders of the business sector argued:"... although we were not able to change the government objectives, I believe we were able to change or modify certain policies".<sup>22</sup> For example, argued a former business leader, "We were able to eliminate a proposal of a tax on production and services of sodas. It was absurd to add, besides the VAT of 15%, a tax of 15.7% to a general consumption goods..."<sup>23</sup>. The drop of the VAT from 15% to 10%

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Paredes, repeatedly interacted and even tell each other jokes.

<sup>20</sup> Interview with labor leader, Mexico City, February 7, 1997 and with government official, July 15, 1997.

<sup>21</sup> Interviews with business leader, Mexico City, May 20, 1997.

<sup>22</sup> Interviews with business leader, Mexico City, February 7, 1997.

<sup>23</sup> Interviews with business leader, Mexico City, February 7, 1997

was also negotiated inside the *Pactos*.<sup>24</sup>

Not all sectors of the business community lacked information. The financial sector had their own center of economic and financial data, as well as their own economic advisor, as it was the case of Eduardo Sanchez, economic advisor for the Brokerage House Probursa.<sup>25</sup> Yet, the financial sector never used the information against the government policy guidelines in the *Pactos*. The financial sector advisor's agreed with the economic objectives of the government's economists, "We coincided with the PSE, we agreed with the measure" said a financial sector businessmen.<sup>26</sup> However, the weakness of policy-making capacity and access to data of the labor, and the business sector was always evident in the negotiations.

Another factor that gave the government's negotiators an advantage was the element of surprise. Once the first agreement was established, the renewal of the *Pactos* developed its own logic. The government never announced in advance when the negotiations for the renewal would take place. It was suddenly, through a telephone call, always in a morning of a Friday, that the business sector representatives, and labor leaders were asked to meet with the government negotiators in the building of the labor ministry to start the process of negotiation. Certainly the surprise factor had an effect over the development

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<sup>24</sup> Interviews with business leader, Mexico City, February 7, 1997

<sup>25</sup> Interviews with business leader, Mexico City, May 21, 1997.

<sup>26</sup> Interviews with business leader, Mexico City, May 21, 1997

of a strategy and information gathering for both the business and labor sector. However, the business sector leaders prepared themselves by calculating the proximity of such negotiations, and developing their own strategy with the members of their organization. The COPARMEX leaders met every month with its council (120 representatives of the COPARMEX centers all over the country), and discussed future strategies.<sup>27</sup>

In the case of the CCE, since the establishment of the *Pactos*, the executive committee had meetings every Wednesday night. These meetings were an open forum for the exchange of concerns and proposals of the business sector. Thus, the CCE created a whole system of consultation between the business sector as a result of the *Pacts*.<sup>28</sup>

## **6.2 The Process of Institutionalization and the Creation of Governance Structures: the Comisión de Seguimiento y Evaluación del Pacto**

Routines were institutionalized with the creation of the Commission for the Follow-up and Evaluation of the Pact (CSEP). The follow-up commission was established right after the signing of the first Pact, the Economic Solidarity Pact, but it only became a formal institution with the signing of the Pact for the Stability and the Economic Growth which occurred in the first days of the Salinas de Gortari

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<sup>27</sup> Interviews with business leaders, Mexico City, February 7, 1997 and May 20, 1997

<sup>28</sup> Interview with business leader, Mexico City, March 19, 1998



presidency (December 12, 1989).<sup>29</sup>

The Mexican government institutionalized the relationship between the state and social actors through the building of a set of rules that structured their interactions (Knight, 1992). This process of institutionalization<sup>30</sup> created a mechanism that further increased the levels of trust and reduced transactions costs between the business and labor sector and the government for almost a decade (See March and Olsen, 1989: 21-25; Krasner, 1989: 77). Yet, this process of institutionalization also had an effect over future policy options as the Pact became "locked-in" in the political structures of the country (Pierson, 1993, 1997).

As an institution, the follow-up commission was critical for the success of the agreements. The commission clearly helped to lessen the chances for non-cooperative behavior and lowered transaction costs by institutionalizing formal and informal rules and procedures. The commissions induced stability and consistency to the collective life of those players in the Pact and facilitated concertation by "1) reducing the cost of cooperation, and 2) constraining participant's future choices" (Lange: 1984; Soskice, Bates Epstein, 1992). A central authority was created, in Hirschman's words, "a sort of deus or social contract *ex machina* that could produce a cooperative solution" (1981:197).

The follow-up commission was a key mechanism that guaranteed, first, the

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<sup>29</sup> See El Mercado de valores, num 1, enero 1 de 1989, pp.29-31.

<sup>30</sup> By institutionalization I refer a mechanism by which patterns of behavior, norms and formal structures are created to persist through time. See March and Olsen, 1989: 21-25; Krasner, 1989:

government's compromises. Second, it constrained the government to consult with business, and labor over economic policy. And third, it limited possible defection of the business or labor sector through the establishment of a system of inducement and constraints that increased the cost of non-cooperation and rewarded cooperation. Hence, the follow-up commission produced a set of collective goods or benefits that benefited all players that were willing to be at the negotiating table.<sup>31</sup> In other words, the follow-up commission became a structure of governance that intended to attenuate conflict and the potential for exploitation (Lange, 1987:25).

I should point out the relevance of the commission in the context of Mexican politics. The PRI's control over congress,<sup>32</sup> a strong executive, fraudulent electoral processes, and the lack of a working and effective separation of powers, transformed the follow-up commission into a mechanism that could check on government. In other words, for the first time in Mexican history the business and the labor sectors were able to check the government. The commission served as a parallel system, to the congress and the judiciary, of checks on the government. For business and labor the follow-up commission became itself a key mechanism that, on the one hand, reduced the concerns of labor and firms over the government behavior, and, on the other, increased their power of influence over the governments economic policies

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<sup>31</sup> Interview with business leader, Mexico City, June 16, 1998

<sup>32</sup> Until the Congressional elections of 1997 when the PRI lost its majority in the lower chamber

Here, again, the history of Mexican corporatism created important conditions that helped lower uncertainty, and increase cooperation, and create for positive outcome around this prisoner's dilemma.

First, Mexican corporatism created a political context in which all actors did recognize the "other" as a legitimate player with voice and power. Second, players knew each other from before, they have dealt with each before in other arenas<sup>33</sup>. Third, because of the institutionalization of the commission, actors knew that they would meet again. And, finally, the shadow of the future (i.e. the break down of the economic reform project and the stability of the regime itself) was the "Damocles sword" that made actors perceive that future gains had a better payoff than present defection choices (Axelrod, 1981; Hirschman, 1981). For most actors the institutional setting of the Pact provided the foundation to build a mechanism that could monitor, sanction and coordinate. Thus most actors believed that the Pact created a context in which a positive expected value would come out of the concertation.

### **6. 2.1 Structures of Governance**

Between December 1987 and November 1988 there had been 32 ordinary and four

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of the Congress.

<sup>33</sup> By other arenas I refer to other institutions that have tripartite commissions where government, workers and business are represented, i.e. the Juntas de Conciliación y Arbitraje of the Labor Ministry, the Comisión Nacional de Salarios Mínimos or the Instituto Mexicano del Seguro Social

extraordinary meeting to monitor compliance to the PSE. Later, once the follow-up commission was institutionalized, 295 meetings took place between January 1989 and December 1994. Around the CSEP sub-commissions were established in charge of tracking the Pacto accords. By December 1994 the sub-commission of Supply had presented 69 reports to the CSEP and the sub-commission for Development, Commerce Integration, Industry and Services did 62 studies on prices and price matrixes. According to Pedro Aspe the SHCP had participated in 2,717 concerted accords in productivity programs with different economic sectors.<sup>34</sup>

The follow-up commission was a high level board that met every thursdays at 8:30 in the morning for a period of six years at the Labor Ministry building. All the government's economic policy decisions were discussed inside the commission. The government was always represented by the most important ministers of the cabinet: Pedro Aspe (SHCP, Treasury and Public Credit), Jaime Serra Puche (SECOFI, Trade and Industrial Development), Carlos Hank González (SARH, Agriculture and Water Resources), Ernesto Zedillo Ponce de León (SPP, Programming and Budget) and Luis Donald Colosio and Carlos Rojas Gutiérrez (SEDESOL, Social Development). If a minister could not attend the meeting, an undersecretary would take its place. The director of the INCO (Consumers National Institute), the PROFECO (Federal Attorney for Consumer Issues), the technical secretary of the follow-up commission and the coordinator of the sub-commission in

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<sup>34</sup> Minute of the Comisión de Seguimiento y Evaluación del Pacto for November 24, 1994.

prices were also present at every meeting. The labor sector was always represented by the President of the Workers Congress, a representative of the CTM and the CNC (National Confederation of Peasants), and according to the agenda, there could be some variations over who was to be invited. Important labor leaders such as Rafael Riva Palacio Pontones (General Secretary of the Sindicato de Trabajadores del Instituto del Fondo Nacional de Vivienda para los Trabajadores), Francisco Hernández Juárez (General Secretary of the Sindicato de Telefonistas de la República Mexicana) or Ignacio Cuauhtémoc Paleta (General Secretary of the Confederación Regional Obrera Mexicana) were invited regularly. The business sector was represented by the heads of business organizations such as: the CONCAMIN (National Confederation of Industrial Chambers), CONCANACO (National Confederation of Commerce Chambers), CCE (Business Coordinating Council), COPARMEX (Business Confederation of the Mexican Republic), and ANTAD (National Association of Self Service and Department Stores). In all cases, depending on the issues on the agenda, other business representatives could be invited.<sup>35</sup>

By monitoring, coordinating actors, developing a system of sanctions, and distributing gains, the follow-up commission contributed to promote flexible adjustments in policy and generate a sense of credibility and reciprocity. The

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<sup>35</sup> Minutes of the Comisión de Seguimiento y Evaluación del Pacto for April 4, 1991, April 18, 1991; August 1, 1991, February 4, 1993; March 19, 1993; May 6, 1993; May 21, 1993; December 16, 1993; January 18, 1994; February 22, 1994; March 1, 1994, November 24, 1994.

commission built key elements to foster collaboration. The game in which actors were asked to engage had to be perceived by all actors involved as one of positive gains a not as a zero-sum game (See Córdoba, 1994:241; Axelrod, 1984).

### **6.2.2 Monitoring:**

The continuous monitoring of the participants of the Pacto solved collective action problems. The follow-up commission, which met once a week, served as a benchmark mechanism. Actors could check on each other avoiding, thus, the possibility of no compliance, which could favor the interests of some at the expenses of others (Olson, 1984). Monitoring help support the sense of fairness built around the agreements.

In a meeting celebrated in April 18, 1991 labor representative, Juan Moisés Calleja, openly recognized SECOFI's efforts in its fight against inflation and confirmed the labor sector's positive view over the accomplishment of the stability of prices in the economy.<sup>36</sup>

The traditional corporatist system of intermediation and the sanctioning capacity of the state in Mexico, together with its knowledge and information of the economy and the system of prices, supported the design of a successful monitoring mechanism. The limited numbers of encompassing multi-sectorial business associations and labor confederations in Mexico certainly helped overcome

problems such as free riding and defection.

The representational monopoly of peak labor and business organization as well as their strong vertical integration, improved, not just the bargaining process, but the functioning of system of external (among the players of the Pact) and internal (within the organizations) monitoring (Lehmbruch, 1979). It also contributed to the perception of greater symmetry in class relations. (Lehmbruch, 1984:9)

The benefits that the corporatist system of interest representation had on the Pact agreements can be illustrated by the case of price controls and private hospitals in Mexico. Although business chambers, labor confederations or unions represented most sectors in the economy, that was not the case of the Mexican private hospitals. There was no peak association that represented their interests. In the absence of a peak organization that represented the interest of hospitals, the follow-up commission had been incapable of controlling price increases in private hospitals. Negotiations with individual hospitals had been unsuccessful. In fact, individual negotiations had been unable to solve the problem of free riding. The lack of a peak organization that gathered the interests of private hospitals failed to provide an internal system of monitoring and sanctions that, in most cases, helped assure cooperation.

The follow-up commissions found a mechanism to develop a new negotiating scheme in order to stop the price increase in private hospitals. Insurance

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<sup>36</sup> Minute of the Comisión de Seguimiento y Evaluación del Pacto for April 18, 1991.

companies' representatives proposed the members of the commission they could become an intermediary. Insurance companies had a strong and working relationship with hospitals due to the great number of insurance companies' members that use private hospital services. Hence, the labor secretary asked insurance companies to coordinate with the Health ministry and its Secretary, Dr. Jesus Kumate, and present to the commission the results of the negotiations between private hospitals and insurance companies, in order to develop the standard for a future concertation.<sup>37</sup>

Transparency was also an important element in the process of monitoring. The government, through a sub-commission, opened the Thursday meetings by providing the member of the commission with information on the economy, on particular prices variations and on inflation<sup>38</sup>. The sub-commission was an *ad-hoc* agency created according to particular problems (i.e. if there were critical increases in the prices of houses, or sea products during religious holidays such as lent, or high school tuition increases). The sub-commission followed the development of these increases by evaluating the accords with every chamber involved in the productive chain and by doing a serious diagnose of the costs involved in the production and commercialization of the products. The results were later presented

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<sup>37</sup> Minute of the Comision de Seguimimiento y Evaluación del Pacto for March 19, 1993.

<sup>38</sup> Minutes of the Comision de Seguimimiento y Evaluación del Pacto for April 4, 1991, April 18, 1991; August 1, 1991, February 4, 1993; March 19, 1993; May 6, 1993; May 21, 1993; December 16, 1993; January 18, 1994; February 22, 1994; March 1, 1994, November 24, 1994



to the follow-up commission.<sup>39</sup> In turn, the commission evaluated the case and the effects of a price increase in the economy. The commission included the issue in the agenda, and invited the representatives of the chambers that had an interest on the problem. In case that a parallel negotiation was needed to deal with the issue, the commission proposed that the actors involved in the productive chain negotiated, together with the government, a solution to the problem. Usually, the different actors involved in the productive chain met with SECOFI officials in order to determine a matrix (the concertation agreements) which defined the real price of the product but that did allow business to obtain a fair profit margin.<sup>40</sup>

In these meetings the labor sector openly discussed its concerns over prices, wages, and continuously demanded the strengthening of the sanctioning system. The business sector also openly discussed its concerns over issues like taxes, the production matrix, free-trade barriers and industry incentives.<sup>41</sup> Although the agenda setting was flexible, Arsenio Farrell, the head of the commission, strictly followed it.<sup>42</sup> The different members of the commission could bring up issues not contemplated in the agenda and these issues were integrated in the future agenda, and later discussed. State commissions were also created, however, these

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<sup>39</sup> Minute of the Comisión de Seguimiento y Evaluación del Pacto August 1, 1991

<sup>40</sup> Minutes of the Comisión de Seguimiento y Evaluación del Pacto for April 4, 1991, April 18, 1991; August 1, 1991, February 4, 1993; March 19, 1993; May 6, 1993; May 21, 1993; December 16, 1993; January 18, 1994; February 22, 1994; March 1, 1994, November 24, 1994

<sup>41</sup> Minutes of the Comisión de Seguimiento y Evaluación del Pacto for April 4, 1991, April 18, 1991; August 1, 1991, February 4, 1993; March 19, 1993; May 6, 1993; May 21, 1993; December 16, 1993; January 18, 1994; February 22, 1994; March 1, 1994, November 24, 1994

commissions followed the policy guidelines defined by the follow-up commission at the federal level. Members of the commission at the federal level divided themselves in teams to visit state commissions once a year in order to develop better channels of communication and consolidate the control of the inflation, promote productivity growth, and employment.<sup>43</sup>

The government was always open to include any issues that the labor or business sector considered important for their interests. However, in the minutes evaluated by this author, from 1991 to 1994, even though the government did provide actors with macroeconomic information, it never gave information, neither discussed issues regarding international reserves and short term borrowing.

### **6. 2.3 Coordination:**

The follow-up commissions created a mechanism that coordinated actors, set times and established general criteria in policy matters. The problem of glass production in the country can illustrate how the commission became a formidable channel to solve problems of coordination between government officials and labor and business sector representatives. In a meeting celebrated on May 6, 1993 SECOFI's undersecretary, Fernando Sanchez Ugarte, presented to the members of the commission an analysis on the characteristics and problems of the glass industry in

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<sup>42</sup> See minute of the Comision de Seguimimiento y Evaluación del Pacto for August 1, 1991.

<sup>43</sup> See "Programa de Visitas a las comisiones estatales de seguimiento y evaluación del PECE", January 25, 1994. Document from the Comision de Seguimimiento y Evaluación del Pacto.

the country. The fundamental concerns over the glass industry were related to the high costs of production and their effects over the prices of glass, which were putting the industry out of competition, specially regarding its American counterparts. Loosing competitiveness was a major concern for both the business sector and SECOFI. Furthermore, this was a growing concern specially when the country was about to enter a free trade agreement with the U.S.A and Canada.

The analysis by SECOFI presented a series of problems that were affecting the industry: 1) increasing costs and problems in the supply of industry inputs, in particular water, gas, and electricity 2) raising costs in transportation due to problems of high regulation, and 3) problems in the supply of key inputs such as sodium carbonate. Although unrelated to the prices of glass, two other issues were a concern for the members of the commission: a) certain methods in the manufacturing of glass used in the country had a serious impact on the environment due to the production of nitrogen oxide and sulfur dioxide, and b) workers safety. According to a member of the commission and labor leader, Ignacio Cuauhtémoc Paleta, this industry had one of the highest work related accidents records in Mexico.

Reducing prices in the Mexican glass industry, and increasing its competitiveness required the development of a matrix that established policy guidelines, and compromises among all parts involved in the production process. It

required the intervention of government agencies, labor and business representatives. However, coordinating actors was not difficult because the head of the most important government secretaries and agencies, as well as the representative of business and labor in this particular sector were present at the meeting. The government agencies involved were Electricity Federal Commission for energy prices and supply, the Communications and Transports Secretary, for transports deregulation, the National Water Commission for water prices and supply, SEDESOL<sup>44</sup> and the Environmental Federal Agency for environmental issues, and SECOFI. In this meeting the special guests were the representatives of the glass industry (Federico Ruiz Sacristan, Vice-president of CONCAMIN, Juan Manuel Denigirs, coordinator of the Glass industry COECE-CONCAMIN, and Jorge Arturo Cárdenas, coordinator of the glass industry CANACINTRA-CONCAMIN). For the labor sector, Reynaldo Torres, general coordinator of autonomous unions. For the commission it was relatively easy to ask all the parts involved finding an environmentally safe and economically efficient solution to the problem for glass production in the country. Labor minister Farell asked the parts involved to develop, within a period of three weeks, an agreement (a price matrix) with the results and the compromises in the industry of glass.<sup>45</sup>

On the importance of policy coordination by the follow-up commission, Pedro

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<sup>44</sup> At that meeting Luis Donaldo Colosio , the head of SEDESOL and later PRI's candidate for the 1994 presidential elections was present. He was assassinated in March 23, 1994.

<sup>45</sup> Minute of the Comision de Seguimimiento y Evaluación del Pacto for May 6, 1993

Aspe, key strategist in the Pacts, argued "...(T)he controls and bargaining mechanisms have had positive microeconomic results (...) One example of this was given during the third round of the PSE negotiations. At that time, businesspeople felt that given the trend of the economy, the price level of some products was simply too high for the market to bear. However, if one of the suppliers were to lower its price unilaterally, there was a chance for a "price war", which would make things worse for all. This bleak scenario prevented firms from making an initial price reduction, unless it could be accomplished in a coordinated manner. In the context of the Commission for the Pact, in the presence of the authorities, businesspeople agreed on a general uncontrolled price reduction of 3 percent" (Aspe, 1994:42-42. **See Appendix C).**<sup>46</sup>

#### **6. 2.4 Sanctioning:**

A key factor for gaining credibility was the capacity and will of the commission to sanction. The power of the state together with a system of networks and alliance between the business sector and the government proved to be ideal for setting an effective system to control "bad apples".

The government used different mechanisms for enforcing the *Pacto* commitments. One way were the use governmental agencies, such as the Federal

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<sup>46</sup> According to Aspe "...the situation in which prices were too high with respect to their equilibrium price was more common in areas where there is a high degree of market concentration, and therefore where it is usually the case that problems of coordination emerge"

Attorney for Consumer Issues (PROFECO), the Mexican consumer protection agency. These agencies had capacity to monitor price control agreements, and sanction individual firms that were breaking the *Pacto* accords. The sanctions could go from the warning to the closing of business. Most businesses were afraid of PROFECO officials because they could either sanction, close the business down, or asked for a bribe. Neither scenario was acceptable for businesses so most preferred to stick to the prices stipulated in the agreements.<sup>47</sup> Often, PROFECO was entrusted with the job on checking popular complaints of unauthorized price increases or basic goods scarcity. The most sounded cases were related to price increases of sea products during catholic lent, unfair increases on private school tuition and public parking tariffs.<sup>48</sup>

A second form of enforcement was through business alliances. The large commerce sector, which had almost total control over retail and whole sale, provided the government with an excellent mechanism to enforce price controls. In retail trade, for example, the ANTAD members controlled from 35 to 60 percent of the retail business. The government generated an alliance with ANTAD to control price increases. Firms belonging to ANTAD bought from their distributors at prices authorized by the government. This mechanism prevented distributors from raising prices. A by-product of this practice was that big retail forced the small stores to

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(Aspe, 1994: footnote number 25, page 253).

<sup>47</sup> Interview with small business owner, Mexico City, September 17, 1999.

<sup>48</sup> Minutes of the Comisión de Seguimiento y Evaluación del Pacto for August 1, 1991 and

control their prices, as the latter feared that their customers would stop from buying (Kaufman, Bazdresch and Heredia, 1993).<sup>49</sup> The ANTAD also played an important role by generating discounts to their products and by maintaining the levels of commercialization of products in order to guarantee its adequate supply.<sup>50</sup>

Together with ANTAD's capacity to enforce official prices, the government also made alliances with whole sale distributors gathered around the National Grocery Whole Sale Association and the Merchants Union of Mexico's City Central Supply Center.<sup>51</sup> With this alliance the government had almost the full control over all channels of product distribution and sale in the country.

A third mechanism in the hands of the government was trade opening. The power to close or open trade gave the government the upper hand in business negotiations. If the commercial or industrial sectors did not comply with the prices established by the *Pacto*, the government used trade opening as a weapon to demand business compliance.<sup>52</sup>

A fourth form of enforcement was through social pressure. If business did not comply with the established compromises and kept on increasing prices, the follow-

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March 6, 1990

<sup>49</sup> Interviews with business leaders, Mexico City, September 23, 1997 and small and medium businesses March 15, 1996 and May 18, 1999. See Minute of the Comisión de Seguimiento y Evaluación del Pacto for May 6, 1993. See Acuerdo de concertación que suscriben por una parte la Secretaría de Comercio y Fomento Industrial, y por la otra, la Asociación Nacional de Tiendas de Autoservicio (ANTAD). Noviembre 1991

<sup>50</sup> See Acuerdo de concertación que suscriben por una parte la Secretaría de Comercio y Fomento Industrial, y por la otra, la Asociación Nacional de Tiendas de Autoservicio y Departamentales, A.C. (ANTAD). August 30, 1991.

<sup>51</sup> Minute of the Comisión de Seguimiento y Evaluación del Pacto for March 6, 1990.

up commission threatened the sector to inform public opinion about the sectors' failure to stick to its compromises.<sup>53</sup>

Finally, self-monitoring was also a crucial mechanism to enforce commitments.

Although the heads of business organizations disliked the idea of controlling their own membership, it was also in the interest of business chambers to control free riders. Although never a popular measure, business organizations had no alternative but policing their membership. The key form of controlling dissent within the organizations was a system of self-monitoring, based on moral obligations and sanctions: "(...) suckers within CONCAMIN were singled out (...) these guys knew that it (free riding) could destroy their business relations (...) destroy trust".<sup>54</sup>

Mechanisms to enforce labor unions to comply with wage controls did not appear in the negotiations of the follow-up commission. These arrangements were probably the result of a direct negotiation between the labor sector and the government.

### **6.3 Distributing Benefits: Socio-Economic Gains and Information**

Supporting the Mexican economic stabilization and reform program had enormous costs to all players in the Pact. However, an essential form of strengthening this fragile collaboration was through the possibility given to the different actors to

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<sup>52</sup> Interview with high level government official, Mexico City, March 19, 1998.

<sup>53</sup> Minute of the Comisión de Seguimiento y Evaluación del Pacto for March 19, 1993.

<sup>54</sup> Interview with business representative, Mexico City, June, 19, 1998



influence policy.

Although income policies and exchange rates remained relatively fixed along the different Pacts, the control of the inflationary process required members of the follow-up commission to reviewed the impact of a number of different variables over prices levels (i.e. government regulations, workers productivity, workers safety, products supply and its commercialization, technology, environmental standards, and trade barriers). The revision of these variables within the follow-up commission provided the business and the labor sectors with a unique opportunity to express their opinion on different issues, pressure government for policy changes, and increase benefits.

This high level tripartite commission also provided an advantageous space for the representatives of the labor and business to position themselves in the political arena, as they were able to meet once a week the highest-ranking officials of the Mexican government.<sup>55</sup>

It is also very likely that not all benefits for business and workers were only the result of pressures or negotiation. It is very possible that the government recognized that in order to diminish the tensions between the leadership of labor and business organizations and their rank and file, the *Pacto* had to provide goods in the short term. These benefits would surely help to build a stable and enduring series of compromises by lowering the risks of rank and file distrust and leadership

competition.

The benefits from being involved in the *Pacto* negotiations were basically of two kinds, socio-economic goods and information.

### **6.3.1 Socio-Economic Goods**

The follow-up commission was a critical space where the different sectors of the Mexican economy could influence policy by bringing about concerns over unfair treatment or by demanding more attention to different issues. Sometimes it worked sometimes it did not, however representatives of the different sectors never lost the opportunity to express their opinion and the follow-up commission meetings provided the ideal arena for it.

For the labor sector, the constant source of concern was the restructuring of Mexican firms and its effects over the living standards and the collective bargaining capacity of Mexican workers. The new economy increasingly demanded the: a) decentralization of bargaining (seeking greater flexibility), and 2) shifts in the content of the bargaining process, moving from macroeconomic issues to a greater emphasis on productivity and efficiency. Under this context, labor leaders openly expressed their worries and used every chance to remind government and business the need to strengthen social policy and workers' economic benefits.

In a meeting celebrated on March 19, 1993 private and government insurance

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<sup>55</sup> Interview with business leader, Mexico City, April 19, 1998.

companies presented a report on the situation of the sector, and the series of compromises to restructure the sector and increase its productivity. The compromises ranged from issues related to taxes, workers training, and finances, to administrative and legal aspects. The labor sector, through the voice of labor leader Francisco Hernández Juárez, argued that the productivity increases should be reflected on wages, and the living standards of workers in that sector. Hernández Juárez demanded a detailed account from both, private and government insurance companies, on the benefits of workers from the restructuring process of insurance companies and productivity increases.

The government, through Arsenio Farrell, acted as a mediator and showed its "impartiality". On the one hand, Farrell argued on behalf of the insurance companies and stated that the restructuring process had positioned workers in top decision-making posts. On the other hand, he also agreed with labor concerns, thus demanded a detail analysis of this sector, and the benefits for workers of the restructuring process.<sup>56</sup>

At other times, the workers' representatives used the *Pacto* arena to express their general views on the process of economic reform and the importance of concertation. During a discussion on productivity increases and the restructuring the Mexican plastic industry, CTM representative, Mioses Calleja, argued: "(...) the labor sector is very conscious about the world's transformation, from the point of

view of open competition. A country that doesn't have this clear will be excluded from international markets, even its domestic market will be affected (...) There is a firm purpose to modernize the country as soon as possible. However, in many occasions the labor sector has been moved aside because this process has been understood by many as a way to diminish workers benefits, through the reduction of work contracts or wage decrease (...) the labor sector is conscious and agrees with the modernization of the country, as long as it provides results that do not jeopardize the rights of the working class (...) the *Pacto* meetings are not a forum to criticize without a reason. It is necessary that the business sector walks together with labor to reach these goals".<sup>57</sup>

There were other occasions in which the labor sector obtained clear social benefits from the government. In February 1994 the Secretary of Education, Fernando Solana, suggested to the president of the National Chamber of Food Preserves, at that time León Halkin, the need to tighten the links between the companies and the education sector. He proposed the creation of a new profession, a technical career that would meet the requirements of the industry. Mr. Halkin agreed and argued that the industry was already working in this particular issue with the National College for Professional and Technical Education (CONALEP) and the National Council for Science and Technology (CONACYT). The labor

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<sup>56</sup> Minute of the Comisión de Seguimiento y Evaluación del Pacto for March 19, 1993.

<sup>57</sup> Minute of the Comisión de Seguimiento y Evaluación del Pacto for February 4, 1993, p.17.

representative in this sector, Sergio Flores, pressed on the need to foster work training.<sup>58</sup> The issue of workers training was also present during the meeting of December 15, 1994. In this meeting, Jaime Serra Puche, the new Secretary of Treasure in 1994, affirmed that the government was supporting workers training in two ways: a) through fiscal incentives to firm's supporting training, and b) by the expansion of a system of scholarships for workers (the CIMO, Programa de Calidad Integral y Modernización, and the PROBECAT, Programa de Becas a los Trabajadores, which re-train unemployed workers). In this same reunion, labor leader and head of the CROM, Ignacio Cuauhtémoc Paleta, showed to be in agreement to the 1995 government's plan to increase in 20.1% its expenditures in labor issues, which included workers training and scholarships.<sup>59</sup>

There were other occasions in which the government accepted workers demands without a debate. In a meeting, the labor representative from CTM, Juan Moisés Calleja, expressed his worries about constant price increases in restaurants, bars and housing. The government immediately agreed that there was a problem controlling repeatedly increases in house rents. The members of the commission found it necessary that the "sub-commission on housing"<sup>60</sup> generated a report of this sector to detail the reasons for the rise in prices.<sup>61</sup>

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<sup>58</sup> Minute of the Comisión de Seguimiento y Evaluación del Pacto for February 22, 1994.

<sup>59</sup> Minute of the Comisión de Seguimiento y Evaluación del Pacto for December 15, 1994. Before this could happen the 1995 economic crisis hit the country.

<sup>60</sup> One of the many *ad hoc* sub-commission created during the life of the follow-up commission.

<sup>61</sup> Minute of the Comisión de Seguimiento y Evaluación del Pacto for March 6, 1990.

The meetings of the follow-up commission were a good occasion for the business sector to demand policy changes and a great opportunity for business representative to position their particular interests. The fundamental concerns of the business sector were related to variables that affected business competitiveness and prices: fiscal policy, government regulations and credit. It is important to note that because both actors, business and government, had the interest of reforming the economy towards free markets, in many occasions their interests came together.

Thus, it was very common that in the follow-up meetings government proposals over economic liberalization were instantly accepted by the business sector. Although the government was flexible and accepted policy changes, it was extremely rigid on the question of tax policy, and price controls.<sup>62</sup>

A meeting that took place on the September 30, 1994 is an example in how business representatives of the restaurant sector tried to push forward their tax agenda but confronted government resistance. On the day of the meeting, SECOFI presented a report on the development of the restaurant industry in the country, and the matrix of compromises that the different parts of the productive chain had agreed on, the vice-president of the National Chamber of the Restaurant and Food Industry, José Manuel Delgado Téllez, used the occasion to play a failed but interesting strategy. Mr. Delgado tried to position his particular interests together with the interest of his fellow chamber members.

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<sup>62</sup> Interview with government official, Mexico City, March 19, 1998.

Before Mr. Delgado started expressing the demands of his sector, he tried to find the support from the members of the commission as he informed them that he was running for the presidency of the Chamber. Mr. Delgado pointed out that he had made a commitment to his fellow members to represent the interests of Mexican restaurant industry. After this remark, and without any comments from the representatives of the different groups in the follow-up commission, the representative of the restaurant sector, strongly criticized tax policy in the country. He argued on the need to make restaurant consumption tax deductible for companies that were using restaurants to promote business, just like tax policy did in the USA and Canada. Mr. Delgado considered this a fair measure for the restaurant sector, since the slow economic growth had seriously affected the industry. Thus, it was necessary to modify the Mexican Tax Law on Income.<sup>63</sup>

Secretary of Treasure, Pedro Aspe confronted the demands of the business representative by holding that in the US tax on income was 40% and in Canada 42%, plus a 20% tax on profits. Contrary, in Mexico, income tax was 34% and there was no tax on profits. Aspe continued and argued that in the in the past, when consumption in restaurant was tax deductible, the business sector had abused the benefits of this policy, at that time 82% of the expenditures in restaurants were made during weekends and 90% corresponded to "AAA" type restaurants. Aspe put an end to discussion and to the demands of the restaurant sector by arguing that

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<sup>63</sup> Minute of the Comision de Seguimimiento y Evaluación del Pacto for September 30, 1994.

eroding the tax base would also mean the return of inflation.

Petitions from the business sector were taken seriously by the government. On January 18, 1994 the representative of the cattle industry demanded the need to promote a system of equitable access to credit for this sector. Pedro Aspe, together with the Secretary of Agriculture and Water Resources, Carlos Hank González, agreed with the business sector representative on this issue. They believed that the lack of credit from commercial banks to cattle breeders was due the non-existent profits in this industry, thus, it was necessary for both, the business sector and government, to sit and negotiate a matrix of compromises for the industry.<sup>64</sup>

For both the business sector and the government a major obstacle to productivity increases in firms and a reason for price rises, was excessive regulation and red tape. Thus, deregulation and administrative simplification were critical concerns. In different meetings of the commission we can see that both actors had a common purpose, which was to make the economy more efficient. This can be observed through the analysis of several meetings. In October 1994 the state government of Puebla presented to the members of the commission its strategy to deregulate the economy of the state. The idea behind the plan was to benefit business productivity and investment in the region.<sup>65</sup> In December 1994, the head of the CCE, Luis German Cárcoba García, demanded the continuation of the government's fiscal simplification and deregulation program. The new minister of



the treasury, Jaime Serra Puche, agreed and commented that the government was continuing the simplification of fiscal policy and the decentralization of fiscal resources. In that same reunion he announced the creation of the Fiscal Advisory Council, in which the business sector had representation<sup>65</sup>. Finally, discussions over problems related with the industry of glass, plastic, meat, among others, also involved agreements between government and the business representatives over government deregulation in transports, commercialization and trade barriers.<sup>67</sup>

### **6.3.2 Information Sharing:**

Trust and cooperation among the Pact actors was fostered through information sharing. By disseminating information, the government wanted to build a bridge of trust between the most important economics sectors of the Mexican economy.

The *Pacto* was the best mechanism to generate this confidence. There were more than 300 meetings in which the follow-up commission provided the representatives of labor and business with critical information on the behavior of the economy, policy proposals, policy implementation and information about prices.<sup>68</sup> The government presented the members with information about future prices in gasoline, gas, oil, and even parking meters and parking lots fees, and on

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<sup>64</sup> Minute of the Comision de Seguimimiento y Evaluación del Pacto for January 18, 1994.

<sup>65</sup> Minute of the Comision de Seguimimiento y Evaluación del Pacto for October 6, 1994

<sup>66</sup> Minute of the Comision de Seguimimiento y Evaluación del Pacto for December 15, 1994.

<sup>67</sup> Minutes of the Comision de Seguimimiento y Evaluación del Pacto for February 4, 1993; May 6, 1993 and January 18, 1994.

governmental programs of productivity, scholarships for workers or milk supply programs for the poor.<sup>68</sup> Providing information helped assure coordination. In a meeting held on April 1991, the government advanced the information about increase on parking lot fees in Mexico City. The members of the commission were, however, asked not to disclose such information until the city government did so.

The importance of the commission can be evaluated by the kind of information that it provided. In a meeting celebrated in April 1991 the director of the Mexican Petroleum Company (PEMEX) told the members of the commission that the government was planning a reduction on the prices of gas, oil and diesel for all industrial sectors. Members of the commission congratulated this effort from the government. The labor sector demanded that prices reductions should had a positive effect on basic products' prices and that this information had to be given to the general population. However, the most important representative of the business sector, the head of the CCE at that time, Rolando Vega Iñiguez, believed that the disclosure of this information had to be done in a coordinated form, preferably by the Technical Secretary of the Commission<sup>70</sup>. Energy prices were, without question, key for the stability of the economy because of their impact over production and consumer prices. Actors on the Pact needed substantial information in order to

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<sup>68</sup> Interview with labor leader, Mexico City, April 30, 1997

<sup>69</sup> Minutes of the Comision de Seguimimiento y Evaluación del Pacto for April 4, 1991 and December 15, 1994.

control the expectation of the general population generated over a decrease/increase of industry inputs, in this case energy prices.

Information also helped to lower uncertainty. The follow-up commission clarified concerns of the labor sector about price increases and the increase were always previously discussed.<sup>71</sup> There were no surprises in the follow-up commission meetings and no unilateral decisions.<sup>72</sup>

Yet, information was also controlled and its disclosure increased the power of the government. Information increased the government negotiating capacity and, at times, it was used to deceive. The Secretary of Commerce used information provided by ANTAD about future discounts in retail stores to mislead the labor sector. That is, Serra Puche used this information to negotiate with the labor sector by arguing that "after extended negotiations the government had been able to made a concertation agreement with retail store and establish a program of discounts". Though, this was not totally the truth because the reduction of certain prices was an all ready made policy of retail stores that was sold by Serra to the labor sector leaders as the result of complicated negotiations between the government and the big commerce.<sup>73</sup>

Although the government did provided the Pact members with enormous amount of information, it never provided information about monetary reserves other

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<sup>70</sup> Minute of the Comision de Seguimimiento y Evaluación del Pacto for April 4, 1991.

<sup>71</sup> Minute of the Comision de Seguimimiento y Evaluación del Pacto for March 6, 1990.

<sup>72</sup> Interview government official, Mexico City, March 2, 1998.

than those given twice a year by the Banco de México. This kind of information was clearly off the limits of the *Pactos*.

#### 6. 4. Positive Expectations<sup>74</sup>

The *Pactos* provided an arena in which the sectors of the economy could engage in a process of negotiation with the government, and press for changes in economic policy (or, at least, minimize the cost of the economic adjustment). They also helped establish a benchmark system for all the members of the *Pacto*.

Although at the beginning there was much distrust about the efficacy of the *Pact*, once the *Pactos* started to provide clear benefits for the economy in general, positive expectation began to grow, and were reinforced by time. Trust and credibility were fueled. Labor realized that the stop of inflation had positive results on the wages of workers and the concertation approach had proved beneficial to the relationship between employment and wage contention.

**Table 6.2 Comparison of Monthly Inflation**

	1987	1988
<b>January</b>	8.1	15.5
<b>February</b>	7.2	8.3
<b>March</b>	6.6	5.1
<b>April</b>	8.7	3.1
<b>May</b>	7.5	1.9
<b>June</b>	7.2	2

<sup>73</sup> Interview with government official, Mexico City, July 9, 1997.

<sup>74</sup> For an in depth analysis on attitudes towards economic reform in Mexico, see Buendia (1996) and Kaufman and Zuckerman (1998). This section tries to provide a very general sketch of public opinion.

<b>July</b>	8.1	1.7
<b>August</b>	8.2	0.9
<b>September</b>	6.6	0.6
<b>October</b>	8.3	0.8
<b>November</b>	7.9	1.3
<b>December</b>	14.8	2.1

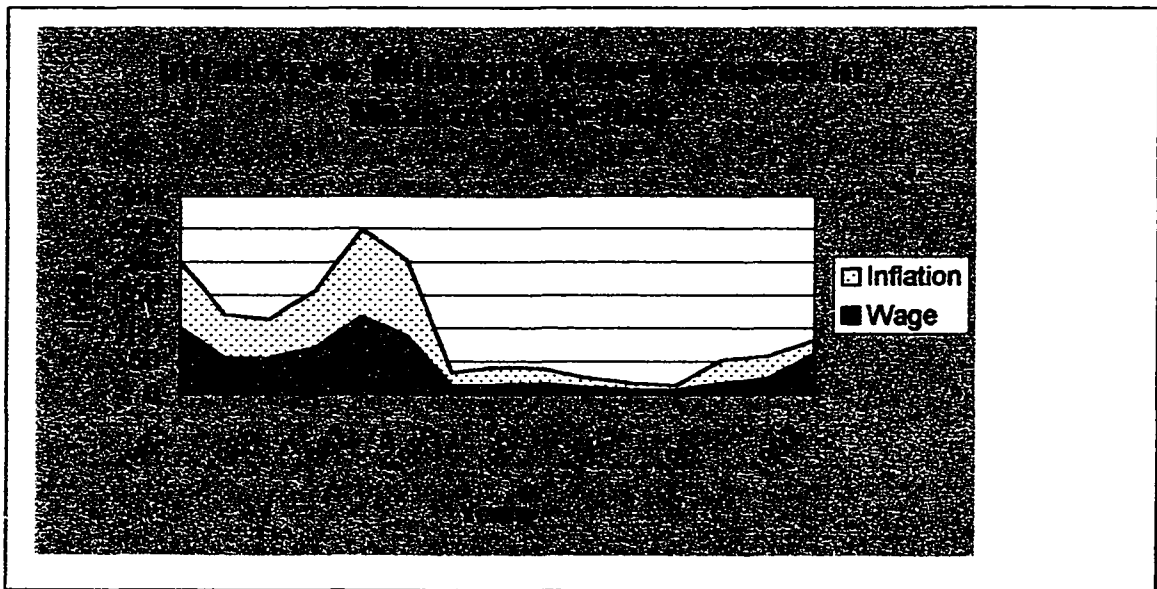
Source: Jarque, Carlos M. and Luis Tellez K, (1993), *El Combate a la Inflación*, México D.F., Grijalbo, p.138.

**Table 6.3 Gross Domestic Product and Fiscal Deficit**

<b>Year</b>	<b>GDP</b>	<b>Fiscal Deficit As a Percentage of GDP</b>
<b>82</b>	-0.6	16.9
<b>83</b>	-4.2	8.6
<b>84</b>	3.6	8.5
<b>85</b>	2.6	9.6
<b>86</b>	-2.5	16
<b>87</b>	0.6	16
<b>88</b>	1.2	13
<b>89</b>	3.3	5.6
<b>90</b>	4.4	3.9
<b>91</b>	3.6	1.5
<b>992</b>	2.8	0.5
<b>93</b>	0.6	2.5
<b>94</b>	3.6	0.1
<b>95</b>	-6.9	0
<b>96</b>	5.1	0.7
<b>97</b>	7.0	1.3

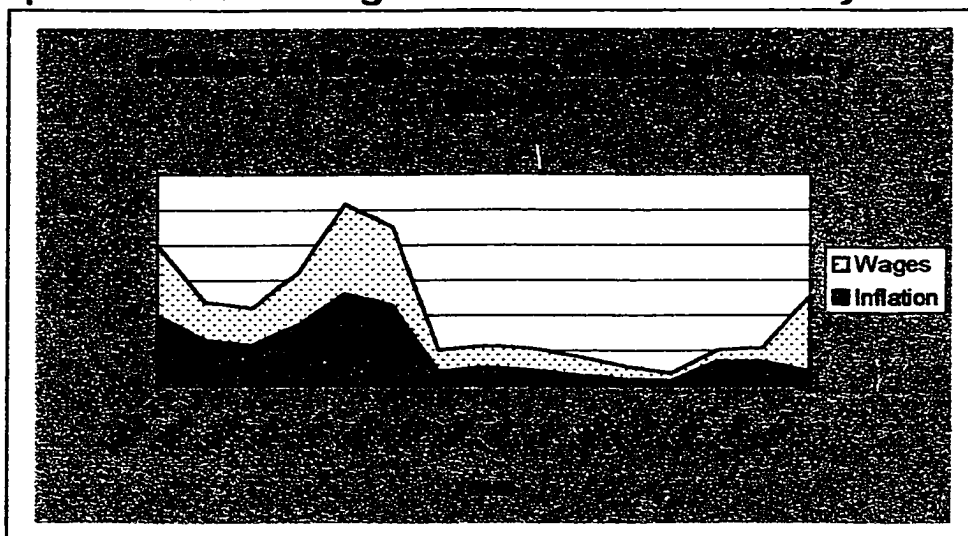
Source: Banco de México <http://www.banxico.org.mx> April 4, 2000, 11:48 am..  
[http://www.banamex.com/essem/pdf\\_re/essemfeb99.pdf](http://www.banamex.com/essem/pdf_re/essemfeb99.pdf).

**Graph 6.1 Inflation vs. Minimum Wage Increases in Mexico**



Source: Banco de México <http://www.banxico.org.mx> April, 4, 2000, 11:48 am. Weighted mean of three regions. 1997 is a an estimate. Taken from Review of the Economic Situation of Mexico, Banamex-Accival, Economic and Social Research, February 2000, Number 890, Vol. LXXVI, p.79. Inflation: Based on the Consumer Price Index Average (%).

**Graph 6.2 Inflation vs. Wage Increases in Mexican Industry**



Source: Banco de México <http://www.banxico.org.mx> April, 4, 2000, 11:48 am.

As the economy got under control and the path to growth was established, the once fragile agreements became rooted in the policy-making system of the Salinas de Gortari's era. The Pacts were strongly supported by the sectors, yet, both business and labor always believed that the costs of the adjustment were high. Labor felt particularly hit by the economic policy. Although it saw an improvement in the downward speed of wages, the process was still far away from a real recovery. In fact, for more than six years the Pacts became the depository of the government, business and labor's confidence in economic policy and the best mechanism to peacefully transform the Mexican economy and the regime alliance.

Opinion polls and surveys show the levels of trust and confidence the

Pacts acquired during the period 1989-1994 among Mexicans and the business community. **(See Appendix G).**

By 1994 the benefits of Pact in terms of the stabilization of the economy and the developing of a smooth process of economic transformation were evident to many sectors of the business community and the general population. In a period of seven years the government had been able to transform the economy and managed to develop a system through which economic actors could negotiate and lowered transaction costs. The longevity of this system of political negotiation was the result of the creation of a complex device for coordination, benchmarking, and free-riding control, and flexible enough to adapt itself to variations of the economy. By solving two generally confronting problems, adaptation, and monitoring the Pact was able to bring political and economic cooperation in the pathway toward free-market. However, as the next chapter will analyze, the rapid deterioration of the political and economic context in 1994 and the increasing “lock in” effects of the process of institutionalization, seriously limited the government’s capacity to provide sound economic solutions to the problems of the country.



## CHAPTER 7

### CHANGING POLITICAL AND ECONOMIC CONDITIONS AND INSTITUTIONAL PERSISTENCE

By the end of November 1994, the Economic Pacts had lasted a period of 7 years as the key economic policy configuration in a decade. The pacts had been able to create a system of cooperation that helped to smoothly transform the Mexican economy and reinforce the power of the new regime alliance. During this time, the *Pacto* established practices and rules that eventually developed into routines, shaping actors' policy preferences, strategies, and calculations. The persistence of rules and routines had an important effect on the choices of actors because the institutionalization of concertation reduced uncertainty and increased economic and political stability. However, contrary to most expectations at the end of 1994 and with the *Pacto* functioning, Mexico experienced one of the worst economic crises of its history.

Why was the Pact inadequate for avoiding the 1994 economic crisis? What was its role during the 1994 economic crisis? How did the established set of rules and routines of the Pacts affect the capacity of the government to confront the economic crisis? Nevertheless, why did the Pacts recover and continue functioning after the 1994 crisis until 1997?

In this chapter I argue first that as routines were institutionalized, the Pacto became “lock-in” into the organizational structure of the regime, thus constraining the present and future choices of political and economic actors. Second, the Pact set a path that eventually created rigidities that limited the government’s capacity to act promptly in the context of rapid economic and political change. And third, the severity of the 1994 crisis and the positive results of tripartite arrangements in previous years convinced economic actors to follow a path they already knew as the only route toward the stability of the economy. Economic and political actors believed that it was only through the development of a tripartite consulting mechanism that the economy could be brought back on track.

The first section of this chapter will analyze changing political and economic conditions of the country in 1994. The second part of the chapter will explain the effects that institutionalized rules and routines had on the capacity of the government to halt the unfolding of the economic crisis. Pact inertia limited the policy choices the government had on the control of the economic downturn. The third and final section will briefly explain the renewal of the Pacts in 1995 and 1996 and the conditions that led to their demise in 1997.

### **7.1 1994: Changing Economic Conditions**

By the end of 1993, Mexico was experiencing a transition from a once inward-oriented economic model to a free-market economy in a rather peaceful manner.

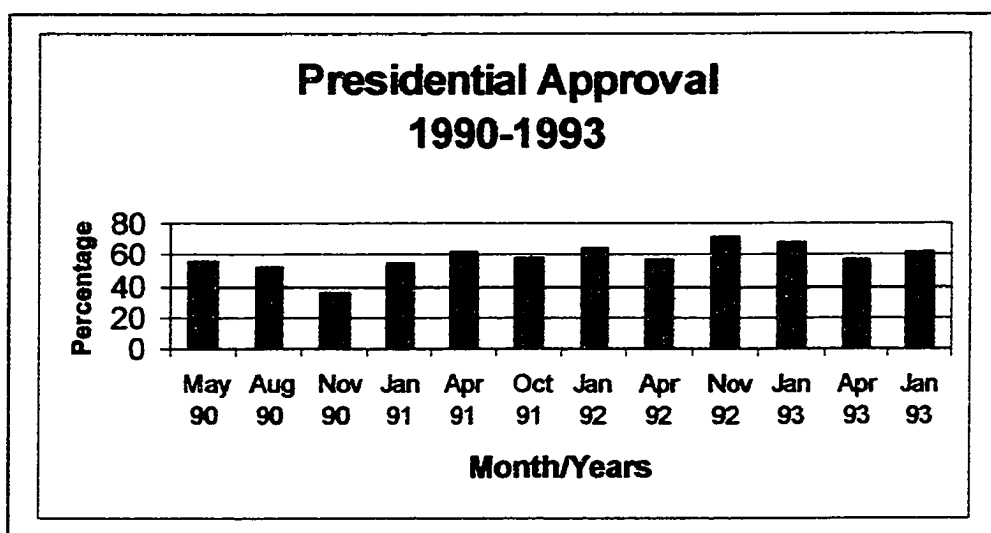
The new regime alliance formed by government technocrats, large export business and the financial sector together with sectors of the labor movement had been able to tighten its control on the political system. The smoothness of this transition was principally achieved thanks to the Economic Pacts as mechanisms for concertation. The series of concerted agreements since 1987 had been able to solve distribution problems in a changing economic and political environment. Cooperation, trust, and credibility had been the key ingredients of this recipe of success.

The dramatic change of the Mexican economy was seen by many around the world as a miracle. In 1990, when Presidents Bush and Salinas de Gortari stated their intentions to pursue a free-trade agreement between Mexico and the U.S., the idea that Mexico could engage in free trade with the most powerful economy in the world seemed to many not just naive but insane. However, only a few years later by fall 1993 the governments of the U.S., Mexico, and Canada had to successfully conclude a series of difficult negotiations to establish a free trade zone among Mexico, the U.S., and Canada, to begin in January 1, 1994. Later, in May of 1994 Mexico had become a member of the Organization for Economic Cooperation and Development (OECD). The incredible changes in the Mexican economy, from strong depression and price instability to economic reform and free-trade in the context of political stability made Mexican President Salinas de Gortari the champion of free market reforms. In 1993, the Economist

magazine considered the Salinas de Gortari cabinet “perhaps the most economically literate government in the world”<sup>1</sup>. In the 1990s, Time magazine voted the Mexican President “Man of the Year”.

Although many believed that Mexico needed to further open the political arena (See Heredia, 1994), Salinas de Gortari’s presidential approval rates were impressive (See Graph 7.1).

**Graph 7.1 Presidential Approval**



Source: Buendía, Jorge, (1996), “Economic Reform, Public Opinion and Presidential Approval in Mexico, 1988-1993”, Comparative Political Studies, Vol. 29, Num. 5, (October), pp.566-591.

Yet, the celebration on economic stability lasted only a few years. Political

<sup>1</sup> The Economists, “Respected Restored” 1993:4

trouble together with international financial pressures exposed the fragility of the supposedly “buoyant” economy. The pressures to negotiate a North American free trade agreement and the concerns on maintenance of a stable economy put an enormous burden on price stability.

The Pacts certainly played a key role in sustaining price stability. The *Pactos* generated an incredible sense of trust and certainty on the economy and government’s policies. However, the pressures to lower inflation to the levels of Mexico’s economic partners without a strong fiscal adjustment increased the need to use the exchange rate and salaries containment as the two fundamental policies to maintain price stability.

The consequences of these set of policies was a continuous real appreciation of the peso with serious effects on export revenues (Ros, 1994). As the peso slowly became overvalued the trade deficit appeared as a serious problem by 1992 (See Table 7.1).

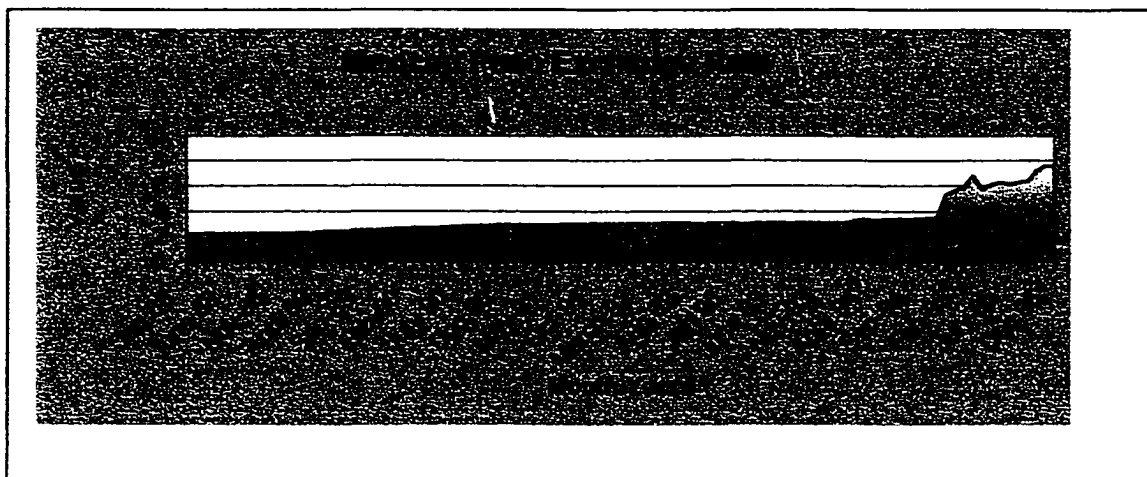
**Table t.1**

**Mexico’s Trade Balance\***

1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
8.8	2.6	0.4	-0.9	-7.3	-15.9	-13.5	-18.5	7.1	6.5

Source: OECD Economic Outlook, No. 67, France, June 1997, p. A50.

\*Billions of Dollars

**Graph 7.2 Mexican Peso Exchange Rate**

Source: INEGI Data Book 1994

According to Minister Pedro Aspe, trade deficit was not a problem for the Mexican economy, in his words: "The trade balance and the current account have moved from a surplus before the Pact to a sizeable deficit at present. However, in contrast with what had happened in the years before the crisis, this is not a reflection of an overheated economy driven by government spending and external borrowing. It is a rapid expansion of investment automatically financed with capital repatriation, direct flows from foreign companies, and voluntary international lending to the private sector (...) the figures confirm the notion that the deterioration of trade balance is linked to a much healthier economy" (Aspe, 1993: 44-45).

Evidently, the promise the economic recovery had attracted an important flow of foreign capital in the form of portfolio investment. Nevertheless, these

portfolio flows of resources masked the gravity of the country's current account deficit (Naím, 1995:113). Domestic and international factors account for this problem.

On the one hand, Mexico's conservative fiscal policy for much of the 1990s led to raise in short term capital. When capital inflows were flooding into Mexico, the central bank, Banco de México, issued short-term peso denominated debt, CETES, to soak-up the liquidity capital inflows that were injecting into the economy. CETES were sold only to Mexicans, however, much of this paper found its way to foreigners. On the other hand, low interest rates in the US, until 1994, pressured International Mutual Funds' managers to invest in short term debt in developing countries.<sup>2</sup> (See Table 7.2) High expectations of a stable economy moving toward free-market made Mexico, after China, the world's largest recipient of foreign private investment between 1990 and 1994 (Naím, 1995:116)

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<sup>2</sup> The Financial Times, Friday, January 27, 1995, p.16.

**Table 7.2 Foreign Investment**

<b>Year</b>	<b>Amount*</b>	<b>Growth</b>
1987	3877.20	59.94
1988	3157.10	-18.57
1989a	2913.70	-7.71
1990	4978.40	70.86
1991	9897.00	98.80
1992	8334.80	-15.78
1993	15617.00	87.37
1994	12110.10	-22.46

Source: Nacional Financiera, La Economía Mexicana en Cifras, 1995, México D.F., 1995.

a: Since 1989 includes investment in portfolio.

\*Millions of Dollars

Inside the country, price stability and the continuing decrease of interest rates had created a context of confidence in which corporations and households increased their levels of indebtedness vis-à-vis the domestic and the external financial system.

However, in 1994 the country experienced a dramatic turn due to major changes in the political and economic context. Although the government of



Salinas de Gortari was able to sign a free trade agreement with the U.S. and Canada, the very day NAFTA was enacted, a guerrilla army, the Zapatista Army for National Liberation, in the mountains of Southeast Mexico, declared the war against the government. Mexico, its government, its people, and the rest of the world were evidently stunned by this event.

Later, in February of that year, the U.S. Federal Reserve began increasing interest rates to curb inflationary pressures in the U. S. (Naím, 1995). (See Table 7.3) To avoid a serious hike in Mexican interest rates and capital flight as a result of these two important events, the Mexican central bank, Banco de México, determined to expand the short-term dollars-indexed central bank bills, TESOBONO, in order to replace the debt bonds in pesos, CETES.<sup>3</sup> (See Table 7.3).

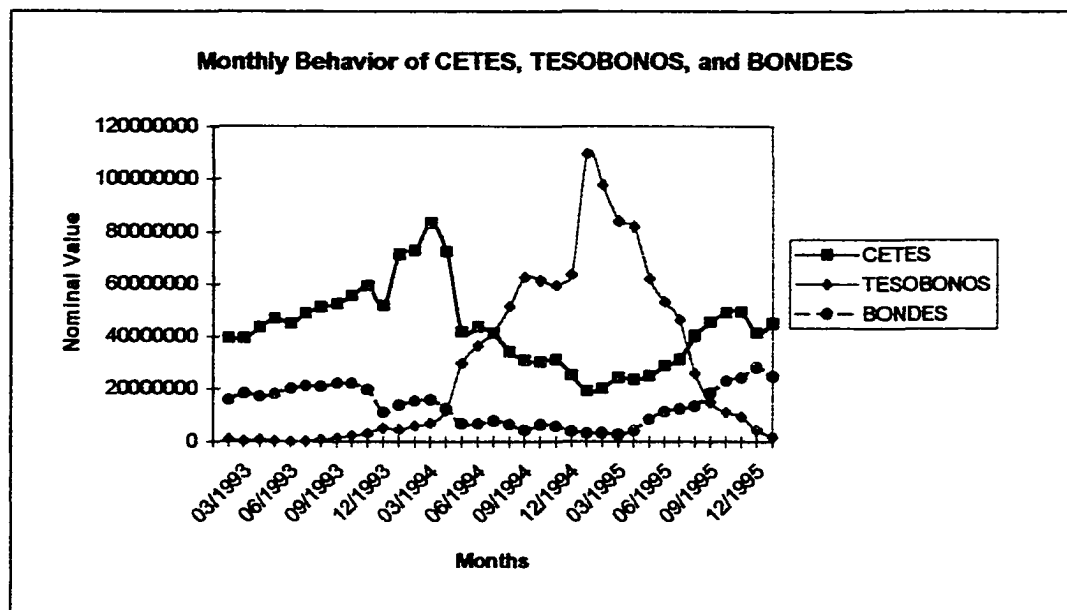
**Table 7.3 U.S. Prime Rate**

1993	6 %
1994	7.15 %
1995	8.83 %
1996	8.27 %

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<sup>3</sup> The Financial Times, Friday, January 27, 1995, p.16

**Graph 7.3 Monthly Behavior of CETES, TESOBONOS, And BONDES**



Gradually, the smoothness in which the political transition toward a new regime alliance and a new economic model had been taken place was moving to an end.

Concerns on the 1994 presidential election also constraint the capacity of the government to act either by devaluating the peso or by tightening monetary policy. Yet, major political trouble continued. A few months after the Zapatista uprising and the increase on US interests rates, on March 23<sup>rd</sup>, the PRI's presidential candidate Luis Donaldo Colosio was shot and killed in the northern town of Tijuana. Later that year, May 21<sup>st</sup>, Roman Catholic Cardinal Jesus

Posadas Ocampo was killed in the city of Guadalajara. Finally, the spree of murders ended with the assassination of the General Secretary of the PRI, José Francisco Ruíz Massieu, on the September 28<sup>th</sup>

As the political environment deteriorated, the government's policy options were becoming even narrower and the government preferred to stabilize the political situation rather than adjusting the monetary, fiscal and exchange rate policies (Naím: 1995; 119).

### **7.1.1 Institutional Persistence**

The negotiations in the *Pacto* certainly help lowered uncertainty. On January 12, 1994, a few days after the Zapatista rebellion, the administration of Salinas de Gortari and the business and labor sectors ratified the Pact accords of October 3, 1993. In this particular Pact renewal the different sectors remarked the need to continue a process of social concertation in order to resolve the challenges of economic development, with justice. The government committed itself to increase in 10% the promotion of employment, social development. However, all this was within the fiscal discipline characterized by the Salinas de Gortari administration (**See Appendix C**)

Once again, on the day after the murder of the PRI's presidential candidate, Luis Donaldo Colosio, the government and the Pact members ratified the October 3, 1993 agreement. Gathered around the *Pacto*, the productive sectors

of the country condemned the violence and any attempt to destabilize the institutions of the country. (See Appendix C)

Although transparency on information was an important element for the building of confidence and trust inside the Pacts, confidence turned out to be the most important concern in a decomposing political and economic environment. However, paradoxically, in order to keep the confidence of investors the government started limiting the flow of information to the Pact members. During the 1994 meetings of the follow-up commission the government acted as if business was as usual and government officials did not disclose information regarding the precarious state of international reserves, monetary aggregates capital flows or outstanding short-term debt.<sup>4</sup> Yet, the members of the follow-up commission never questioned or expressed concerns on the state of the economy.

Only once, during the follow-up commission of August 12, 1994 labor representatives Francisco Hernández Juárez and Alfonso Reyes Medrano expressed their worries about foreign investors' behavior and rumors about a probable devaluation of the currency. In this regard Treasury Minister, Pedro Aspe's answered argued that:

"(...) the accumulated year inflation until the month of June, has been 3.3%,

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<sup>4</sup> Minutes of the Comisión de Seguimiento y Evaluación del Pacto for April 4, 1991, April 18, 1991; August 1, 1991, February 4, 1993; March 19, 1993; May 6, 1993; May 21, 1993; December

in line with the forecasts, despite a crawling peg of 10% in the same period. In the past, when strong economic impacts hit the country, like the one caused by the death of Luis Donald Colosio Murrieta, international reserves were used to control the situation. In the past, while interest rates and the exchange rates were controlled, fiscal deficit was kept, and an excessive monetary policy was practiced. Today, on the contrary, in a context of public sector finances surplus, of an autonomous central bank, and of a concerted Pact of stabilization, interest rates have been left to the forces of the market, and the peso to move freely, within the agreed by all sectors band. The composition of the public sector debt has changed in such a way that in the last seven months of the year the internal debt went from a 3% to a 4% (with financial instruments indexed to the dollar). The latter has been very useful to avoid uncertainty, and modify the attitude of those economic agents that were afraid of a possible devaluation.

Furthermore (Aspe continued), lines of credit with Canada and the US were reactivated, updated and extended. On the other hand, within the political situation the country has been experiencing, the expectations on the economy were normal in the context of a process of political opening, and the move toward an open society. At times investors follow confusing behavior, but the uncertainty had been managed by following a cautious strategy (...).<sup>5</sup>

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16, 1993; January 18, 1994; February 22, 1994; March 1, 1994, August 12<sup>th</sup>, 1994; November 24, 1994; December 14, 1994. Also see Naím, 1995:120.

<sup>5</sup> Minute of the Comisión de Seguimiento y Evaluación del Pacto for August 12<sup>th</sup>, 1994.

On July 1994 the substitute PRI candidate, Ernesto Zedillo, a Yale trained Ph.D. economist, won a contested presidential election. The PRI candidate obtained 48.8 of the votes, the PAN (National Action Party) 25.9 and the PRD (Party of the Democratic Revolution) 16.6. (Mexico Social, 1998:7).

As the president elected, Ernesto Zedillo supported the Pact for the Welfare, the Stability and Growth (Pacto para el Bienestar, la Estabilidad y el Crecimiento). He ratified the negotiations that had taken place days before his inauguration, on November 20, 1994. On December 1, 1994 Ernesto Zedillo was sworn into office.

Zedillo's cabinet was assembled with members of Salinas de Gortari's cabinet, this was a clear signal to financial markets on the continuity of the new regime alliance, the free trade strategy with fiscal and monetary conservatism. However, there were two very important changes in the cabinet that shaped the course of the Pacts and the confidence of investors, in the Ministry of Treasure, Zedillo substituted Pedro Aspe for former SECOFI Secretary, José Serra Puche, and in the Secretary of Labor, where a PRI politician, Santiago Oñate, substituted Arsenio Farrell. Both, Aspe and Farrell had been an essential part in the building and institutionalization of the Economic Pacts since their creation in 1987. Still, it was clear that technocrats had a complete hold on the government.

The *Pacto* accords continued and so did the meetings of the follow-up commission every Thursday. Inside the follow-up commission everything

appeared as normal, yet the pressures against the Mexican peso and the stock market were increasing by the day. The Mexican stock market was slowly moving downwards due to the concern on the increasing short-term debt (Tesobonos) and doubts on the government's capacity to fulfill its debt obligations by the beginning of 1995. Financial obligations for 1995 were the amortization of: a) Tesobonos for 11,696 million dollars, b) public sector's external debt for 4,329 million dollars; c) bank liabilities for 4,018 million dollars, and d) non-banking private companies debt for 1,443 million dollars (1994 Banco de México Report).

Although the Mexican economy was suffering from increase pressures from national and international investors the governments of Salinas and, later, Zedillo were reluctant to devaluate. The reluctance of the regime to modify the exchange rate policy can be explained not only as an obsession for the control of inflation but a result of the political and economic costs of modifying the previous political accords established in the Pact. It was the result of a "lock-in" effect. On the one hand, there was a strong link between the crawling peg system and income policies. The exchange rate policy was a critical anchor for the control of inflation as income policies were link to the exchange rate. Members of the Pact accepted prices and salary controls for different reason but mainly because of exchange rate stability. Breaking the exchange rate policy would have meant shattering the economic anchors that had defined economic policy for more than

six years, thus, letting the economy go loose. On the other hand, breaking the exchange rate policy would have meant the end of the political accords between labor and business that had sustained the regime during the long process of economic reform. Redefining the Pact during a time of an escalating political and economic uncertainty was probably seen as a political suicide that would have only fueled uncertainty. Thus, the costs going unilaterally were extremely high for a new regime alliance that knew about the benefits of a concerted agreement, especially at times of uncertainty. It was better to keep the agreement and hope that the system of cooperation and credibility could buy time so that the peso could slowly adjust to its real value.

Therefore it is not strange to find that during a follow up commission meeting, a week before the peso crisis (Thursday December 14, 1994), neither the government nor the representatives of the business and labor sectors expressed any views about the Mexican peso or worries regarding capital flight, devaluation, trade deficit or international reserves.<sup>6</sup>

The faith that the Pact could help avoid a harsh devaluation against the Mexican peso soon vanished. On Wednesday December 13, 1994, the newly inaugurated President Ernesto Zedillo proposed a high level plural commission to negotiate a peace process with the EZLN.<sup>7</sup> However, Zedillo minimized the depth and extent of the conflict in the state of Chiapas.

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<sup>6</sup> See Minute of the Comisión de Seguimiento y Evaluación del Pacto for December 14, 1994.



In a clear response to the government attempts to control the conflict, on the morning of Monday 19<sup>th</sup>, the EZLN peacefully began taking new positions in the region. According to a Zapatista Army *communiqué* on Monday 19<sup>th</sup>, the guerrilla army had been able to peacefully control 38 municipalities (*Municipios*) in the state of Chiapas during the early morning and afternoon of that day.<sup>8</sup> The news had a serious effect on investors, suddenly there was a heavy demand for dollars that pressured international reserves and the stock market fell 4.15%.<sup>9</sup>

On that Monday evening, in order to lower the increasing levels of uncertainty, the government decided to use the Pact as its device to increase confidence. Ministers' Santiago Oñante and José Serra Puche gathered the members of the Pact to ease the concern of the business and labor sectors on the economy. The Pact meeting was also a signal to show the general public, as well as investors, that cooperation between the economic sectors of the country was healthy and that the worries about the economy were merely speculative.

During the gathering with the Pact members the new Treasury Secretary, Jaime Serra Puche talked to the members of the Pact and made what seemed an unfortunate mistake that disrupted years of cooperative behavior between the sectors and the government. On that evening Secretary Serra Puche confessed the serious difficulties of the economy and told the Pact members that the

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<sup>7</sup> El Financiero, Thursday December 13, 1994, p. 1 and 45.

<sup>8</sup> La Jornada, Tuesday December 20, 1994, p.1 and Perfil de la Jornada, p.1,2,3 and 4.

<sup>9</sup> La Jornada, Tuesday December 20, 1994, p.36.

government was inclined to establish a free floating exchange rate policy (which meant devaluation) and argued about the need to act in coordination with the labor and business sector. Business and labor representatives in the Pact rejected the idea of a free-floating exchange rate and argued for the increase in the crawling peg. In the end the government also supported this posture. The final resolution between the members of the Pact was to the increase of the crawling peg by 15%, in other words, to widen the band to an upper ceiling of 0.53 cents<sup>10</sup>. The meeting ended around five in the morning of the following day, Tuesday the 20<sup>th</sup>.

Yet, during the next two days (Tuesday the 20<sup>th</sup> and Wednesday 21<sup>st</sup>), the situation got out of hand. A major speculative attack against the peso took place. The attempts of the Banco de México to control the drastic decrease in the value of the peso had an extremely negative effect on the central bank international reserves, which dropped to an historical low of six million dollars.<sup>11</sup> The situation was so critical that the government put a stop to all efforts to sustain the semi-fixed exchange rate regime, moved to a freely floating exchange rate scheme and saved what was left of the international reserves of the country (1994 Banco de México Report).

Suddenly, the *Pacto*, the very same mechanism that helped solve

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<sup>10</sup> Interviews with government officials and labor and business representatives, Mexico City, July 9, 1997; August 3, 1997; March 12, 1998

<sup>11</sup> La Jornada, Thursday December 22, 1994, p. 1.

distributional conflicts through cooperation, had become an enormous liability. There are two hypotheses that can explain the "error" of Serra Puche. The first hypothesis is that it seems that the new Treasury Secretary Serra Puche believed that the Pact could still act as a cooperative mechanism at the doorsteps of a major economic crisis. The Pact was a considerably better option than breaking the agreement and going unilaterally. It appears that government officials also believed that by providing the sectors in the Pact with critical economic information during the reunion of December 19<sup>th</sup> trust and cooperation could be maintained. However, the government officials made two critical miscalculations.

On the one hand, members of the Zedillo cabinet never realized that the government had already broken a fundamental element of trust by surprising the members of the Pact with information about an economy in disarray. Just one week before the devaluation Serra Puche and the new Zedillo administration had acted as if the Mexican economy was healthy. When Serra Puche presented the members of the Pact with information of a country in crisis, most business people and labor leaders believed that the government had acted maliciously all along. These actors believed that the government had hidden critical economic information from their own partners in the Pacts.<sup>12</sup> Thus, trust, the fundamental element of cooperation was in shattered in pieces.

On the other hand, the government could not confront the inertia that the institutionalization of the Pact had created. The government had suddenly become a prisoner of its own creation. First, the crawling peg, accepted in the Pacts, had fostered an overvalued coin, and had increased the trade deficit to a level that was difficult to maintain. Second, the process of transparency and information that had become an instrument for fostering cooperation, had abruptly become a double edged sword. In order to keep the cooperative behavior the new Treasury Secretary José Serra Puche found itself pressured to provide actors with information. Yet, the type of information provided to the Pact members on the night of December 19<sup>th</sup> eventually destroyed the cooperative behavior and encouraged a further run against the Mexican peso.

When Serra Puche revealed the *Pacto* members the possibility to establish a free floating exchange rate due to the unbearable pressures against the Mexican peso, liquid assets holders inside the Pact saw an opportunity to saved themselves from a possible devaluation and take advantage of a situation that was moving toward chaos. Yet, by providing the Pacts members with this critical information Serra Puche created the situation he was trying to avoid, a further peso devaluation. Serra Puche's miscalculations further contributed to the deterioration the country's finances and destroyed cooperation.

The second hypothesis can be argued as follows. It was evident for top

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<sup>12</sup> Interview with labor and business leaders, Mexico City, March 15, 1996; October 22, 1996;

government officials that by providing the Pact members with information about the likelihood of a peso devaluation liquid asset holders would withdrawal their asset from the country or exchange them for dollars. Yet, the government of Zedillo decided to go ahead and provided business with this information as a mechanism to sustain the government alliance with the private sector in the midst of an economic situation that had gotten out of hand. The government clearly made a choice between the maintenance of the political alliance with business by providing the sector with information that could help them shelter from the imminent economic chaos and controlling the peso devaluation. By providing liquid asset holders with privilege information the government hoped to limit the costs of its mistakes over the political and economic alliance with the business sector.<sup>13</sup>

The years of cooperation built around the Pact through the establishment of a framework of cooperation showed a double edge. As political and economic conditions rapidly changed the standard operating procedures yielded catastrophic outcomes. The Pact became a liability, an arena in which actors acted against cooperation with the use of critical and valuable information provided by the government. Thus, the Pact contributed to the further erosion of the peso and the deepening of the economic crisis.

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October 29, 1996; May 14, 1997; March 12, 1998.

## **7. 2 The Pacts after the 1994 Crisis**

By the end of 1994, the country was experiencing a major economic crisis. During the first semester of 1995 real GDP decreased by 5.8 percent with respect to the same period of the previous year (**See Table 6.3**). Also during the first semester the total of consumer spending and public and private investment had decreased by 14.7 percent with respect to the level recorded for the same period in 1994 (1994 Banco de México Report).

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<sup>13</sup> I have to thank Gabriela Nava for helping me elucidate this hypothesis.

**Table 7.4****Average Interest Rate on One Moth CETES**

<b>Year</b>	<b>CETES</b>
1985	71.72
1986	99.47
1987	122.45
1988	52.31
1989	40.43
1990	25.94
1991	16.64
1992	16.64
1993	<b>11.78</b>
1994	<b>20.07</b>
1995	<b>48.65</b>
1996/p	27.23

Source: INEGI, Anuario Estadístico de los Estado Unidos Mexicanos, 1997.

The Central Bank directed monetary policy toward the stability of the general price level. The immediate task was to reestablish the stability of the economy, thus monetary policy became the anchor for the evolution of general

price levels (1994 Banco de México Report).

The substantial increases in both real and nominal interest rates, the decline in economic activity and the exchange rate adjustment at the end of 1994 and beginning of 1995, caused a significant increase in the private sector's debt burden in relation to its income. Debt burdens gave rise to an important increase in non-performing loans and induced a strong contraction in investment spending by companies and in household consumption levels (1994 Banco de México Report).

The crisis reduced the capitalization of banks below the 8 percent minimum set by international standards. The government helped the newly privatized banks inject fresh money through a Central Bank fund, FOBAPROA<sup>14</sup>. During the first half of 1995, Mexico received financial support from the International Monetary Fund and from the United States and Canada for 40 billion U.S. dollars.<sup>15</sup>

Pressures from the IMF, the World Bank, international private investors and the US government, demanded from the Zedillo administration a new policy on the disclosure of information. The government acceded to the demands. Since 1995 the Banco de México publishes on a daily basis, the balances of the current accounts that banks hold in the Central Bank, the stock of bills and coins in circulation and the programmed open market operations to be conducted for that

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<sup>14</sup> The Economists, January 14<sup>th</sup>, 1995, p.63.



day. It releases, weekly and monthly the figures of the main items of the Bank's balance sheet, including the monetary base, net domestic credit and international reserves. The Bank now generates a database available through the Internet (1994 Banco de México Report).

After the economic disaster of December and January the government of Zedillo was shocked and motionless. It was not until January 2, 1995 that, the government, once again, attempted to develop a new tripartite agreement.

Negotiations were extremely difficult. It was not easy for the government to regain confidence. Contrary to what happened in 1988 where there were no clear identifiable actors responsible for the economic slowdown. In 1995 all parties believed that the government was to blame for its terrible mismanagement of the economy.<sup>16</sup> The labor movement complained to the government that "(...) during the crisis of 1994 we (labor) did not receive all the information. We have been fooled."<sup>17</sup>

However, the crisis was so severe that labor and business leaders believed that the only way to overcome the crisis was through the establishment of a new accord,<sup>18</sup> "...(T)he (business) support for the new 1995 *Pacto* is a support for Mexico".<sup>19</sup> According to a labor leader "Not to have signed the *Pactos* would

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<sup>15</sup> The Economists, January 21<sup>st</sup> 1995, p.18.

<sup>16</sup> Interview with government official, Mexico City, March 18, 1998.

<sup>17</sup> Interview with labor leader, Mexico City, March 12, 1998.

<sup>18</sup> Interview with labor leaders, Mexico City, November 30, 1996 and October 29, 1996 and a business representative April 8, 1997. .

<sup>19</sup> Interview with business representative, Mexico City, April 8, 1997

have brought bad signals to the markets". In other words, members of the business and labor sectors believed that the crisis had left them without options: it was either a new accord or total economic chaos. According to a former CCE president, the business sector supported the new accord, among other things, because the business sector always tries to find elements of negotiation<sup>20</sup>.

Thus, after 20 hours of negotiations, the labor and the business sectors signed a new Pact, the Accord of Unity to Overcome the Economic Emergency (Acuerdo de Unidad para Superar la Emergencia, AUSSE)).<sup>21</sup>

The January 3, 1995 accord had several objectives: a) to limit the effect of the devaluation on prices, b) to find a quick and orderly adjustment for the trade balance, c) benefit from the devaluation by creating more jobs and increase production, d) to reestablish confidence in the financial markets, and e) to continue the efforts of the economic reform to make the economy competitive in the world markets.<sup>22</sup>

This accord was very different from previous ones. Negotiations were more difficult because confidence had been broken, yet, because there were no electoral pressures at the beginning of his administration, President Zedillo had more leverage to implement a tight monetary policy.

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<sup>20</sup> Interview with business leader, Mexico City, March 19, 1998.

<sup>21</sup> *Reforma*, Wednesday January 4, 1995, p.1

<sup>22</sup> See the Acuerdo de Concertacion que Suscriben, la Secretaria de Comercio y Fomento Industrial (SECOFI), la Procuraduria Federal del Consumidor (PROFECOT), la Camara Nacional de la Industria de Restaurantes y Alimentos Condimentados (CANIRA), la Asociacion Mexicana

The business sector played an important role in creating a mechanism to limit the effects of the devaluation on prices. The ANTAD and the national and regional chambers allied with the government played an important role by controlling the prices of their suppliers. This strategy was divided in three parts. 1) SECOFI negotiated with ANTAD a slow change in the prices of imported goods, the control of prices of goods produced in the country, and broad discount programs. The ANTAD played a meaningful role in price controls. One of the concerns of the large commercial sector was that the crisis could tempt the government to establish price controls once again. Price controls were seen by business only as a momentary solution during the Pacts of the 1980s. However, now that there was a free market economy, price controls meant a major threat against profits.<sup>23</sup> 2) SECOFI negotiated prices with the National and Regional Chambers of industry and commerce. SECOFI negotiated with the business chambers so that the increases on prices were only those products that were directly affected by the devaluation of the peso. In all other cases the chambers committed themselves to restrain from any price increase. 3) The members of the business community accepted the monitoring of prices by PROFECO.<sup>24</sup>

The accords with the business sector were extremely loose and general. The firms agreed to modify prices only when the costs of products were affected

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de Restaurantes (AMR), el Grupo de Directores de Cadenas de Restaurantes (DICARES) y la Asociacion Nacional de Servicios de Comida Rapida (ANSCOR), February 10, 1995.

<sup>23</sup> Interview with business leader, México City, August 3, 1997.

by a new exchange rate. The change in prices would be accepted by the government only if the increases were key to maintain the levels of employment and productivity. The business community committed to the normal supply of products and agreed that PROFECO could monitor and sanction business that did comply with the price accords.

The labor sector's compromises were severe. Labor promised to lower its demands on wage increases and to increase productivity. A trade-off between wage increase and employment was, again, at the heart of labor leaders rationale for supporting the agreement.<sup>25</sup> The government, in turn, committed to provide workers with training and scholarships, to create the National Commission for Productivity, strengthen programs on basic goods supply and to support the agricultural sector through PROCAMPO (**See Appendix C**). In sum, the AUSSE was basically an orthodox economic program that had the support of the business and the labor sector. In the words of a business leader: "(...) the AUSSE was a consulted shock plan (...)"<sup>26</sup>

As a result of the deep economic crisis the labor sectors was also experiencing major changes. At the end of January 1995, 21 unions, members of the FESEBES, organized a forum (called the "Sindicalismo ante la Nación"), to discuss the government's economic policy and the possibility to create a new

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<sup>24</sup> Minute of the Comision de Seguimimiento y Evaluación del Pacto for January 17, 1995.

<sup>25</sup> Interview with labor leader, México City, October 30, 1996.

<sup>26</sup> Interview with business leader, México City, March 19, 1998.

umbrella organization independent from the Workers Congress. (The forum's organization was lead by the SNTE, the COR and the SME).<sup>27</sup>

During the forum debates, union leaders strongly criticized *Pacto* policies. They all agreed that the workers compromises in the Pacts had been based on the government's promises for better wages and employment. Yet, according to a labor representative, the government did not keep its word and the living standards of workers had constantly dropped since 1987.<sup>28</sup>

Union leaders at the Forum argued that the *Pacto* polices did not have any validity "(...) since its effects did not reach its initial objectives, and had serious costs for workers, given its impact on unemployment, growth, and the drastic drop of wages".<sup>29</sup> However, and contrary to what one may think, labor did not demand the end of concertation. Unions claimed the need for a new National Accord between the "true" representatives of the different economic sectors. They demanded negotiations within deliberative, and inclusive frameworks, negotiations in which the gains and looses were distributed in equally.<sup>30</sup>

On the issue of the creation of a new umbrella organization, no consensus was reached within the Forum and two positions developed. On the one hand,

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<sup>27</sup> Cano, Arturo "Los Sindicatos en Juego" *Reforma*, suplemento Enfoque, México D.F., February 16, 1997, pp.3-7

<sup>28</sup> Instituto de Estudios Sindicales de América, *El Sindicalismo frente a la crisis y ante la Nación*, Memoir, México D.F., 1995

<sup>29</sup> Instituto de Estudios Sindicales de América, *El Sindicalismo frente a la crisis y ante la Nación*, Memoir, México D.F., 1995 p.226.

<sup>30</sup> Instituto de Estudios Sindicales de América, *El Sindicalismo frente a la crisis y ante la Nación*, Memoir, México D.F., 1995., p.19-21.

the COR, SNTE and SME did not support the idea of erecting a new organization that would override the CT. On the other hand, guided by Hernández Juárez, a number of unions saw the need to create a new organization parallel to the CT.

As the independent labor movement grew stronger, the old guard of the official labor movement gathered around the CT having increasing difficulties to control the rank and file and to engage in collective action efforts with the government. According to a labor leader it was difficult to convince workers to sign new accords with the government.<sup>31</sup>

Although a new accord was signed during the first week of January, short term-debt commitments were still a concern for most investors. It was not until the 11<sup>th</sup> of January, when the IMF and the White House announced their official support to the Mexican government with a major line of credit, that the fears of the continued downwards spiral of the Mexican economy vanished. The US government, together with the IMF's extended fund facility created a 40 billion dollars package of loan guarantees to shore up Mexico's troubled financial markets.<sup>32</sup>

However, by March of 1995 the efforts to stabilize the economy were disappointing, which demanded a further endeavor from the part of the government. The government tried to establish a new accord on the March 9<sup>th</sup>, the Program of Action to Reinforce the Accord of Unity to Overcome the Economic

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<sup>31</sup> Interview with labor leader, Mexico City, March 12, 1998.

*Emergency (Programa de Acción para Reforzar el Acuerdo de Unidad para Superar la Emergencia, PARAUSEE)*. The PARAUSEE was a comprehensive economic program designed to address the roots of financial instability. The measures proposed were geared at strengthening the AUSEE, but also toward emphasizing immediate stabilization in order to minimize any damage that financial disequilibria could cause to the real sector of the economy and set the grounds for resuming vigorous, sustained economic growth.

The PARAUSEE included fiscal adjustments to deal with higher interest rates, a more depreciated exchange rate, larger foreign payments and a more depressed economic activity than expected. The program reinforced the social benefit of programs; ratified monetary policy as the nominal anchor of the economy within a context of a floating exchange rate regime, and proposed special attention to the problems faced by debtors.<sup>33</sup>

The PARAUSEE included increases in gasoline and domestic gas prices, in electricity tariffs, and adjustments in fees charged on services provided by *Ferrocarriles Nacionales de México* (railways), *Aeropuertos y Servicios Auxiliares* (airports), and *Caminos y Puentes Federales* (highways). The prices of some items included in the basic goods basket were adjusted upwards as well, in order to avoid increases in subsidies or price lags, which may cause scarcity of goods. The products included in such price adjustments were white bread, corn tortilla,

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<sup>32</sup> Reforma, p.1 Thursday January 12, 1995.

milk, vegetal oil, soaps, detergents, bus and cab fares.<sup>34</sup>

The two most important measures of the PARAUSEE were: a) the reduction of public spending by 4.7 per cent more than what had been accorded in the January 1995 AUSEE, and b) the increase of the VAT general rate from 10 to 15 percent (with the exception of free zones and border areas, where the 10 percent rate was maintained). The effect of such measures was disastrous in the framing of a new accord. Members of both business and labor sectors refused to support and sign the proposal.

The increase of the VAT and the drop on government spending exacerbated the unwillingness to support the agreement from the COPARMEX, from the business sector, and unions like the Commercial Pilots Unions (ASPA), the Mexican Energy Workers Unions (SME), and the Education Workers Union (SNTE). Yet, the government, unilaterally, established the new program.<sup>35</sup>

By October 1995, the Mexican economy was still operating under a context of uncertainty, and the peso kept stumbling day after day. The government desperately needed a mechanism to reinforce confidence on its economic program. On the October 29, the government decided to build a new accord, and obtained the support of all sectors.

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<sup>33</sup> <http://www.banxico.org.mx> June 5, 2000, 8:00pm.

<sup>34</sup> <http://www.banxico.org.mx> June 5, 2000, 8:00pm.

<sup>35</sup> Interview with a business leader, Mexico City, March 19, 1998.



A much more complicated negotiation took place. In the words of a government official: "The work was done in 24 hrs, from 11 AM to 11 PM. We talked to every sector, in the case of labor there were about 45 unions, in the case of business about 13, and in the case of peasants about 3 or 5. The agenda was the economic program of 1996 and we tried to accommodate demands".<sup>36</sup>

The new accord, the Economic Recovery Alliance (ARE), was based on the 1996 economic program. It was supported and signed by the entire sector that had been supporting the Pact since 1987.

The accords in the ARE were very general and it was clear that there were serious collective action problems with the labor sector. It was also clear that the government tried to ease pressures on workers by freeing collective bargain negotiations. The ARE established that the labor sector *would recommend* its representatives in the Minimum Wage Commission to accept the wage revision proposal defined by the Labor Secretary. Collective contracts would be negotiated under complete freedom and in conformity to the capacity of every firm.

For its part, the agricultural sector committed to increase productivity and production. The government continued to support the agricultural sector through PROCAMPO. The business sector made 200 investment compromises and to

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<sup>36</sup> Interview with government officials, Mexico City, March 19, 1998.

increase prices only in justified cases. Big companies with investment plans compromised to adopt programs to integrate consumption goods produced in the country and develop alliances with small and medium companies (**See Appendix C**).

The ARE was ratified March 22, 1996, and in October 26, 1996, a new accord was signed under the name of Alliance for Growth (APC), which sustained the same compromises made in the ARE. This accord lasted until December of 1997.

Later on February 24, 1998, a new accord was established, which still operates today: the Cooperation and Consulting Accord of the Productive Sector: (*Acuerdo de Cooperación y Consulta de la Sectores Productivos*). This accord is basically an arena where the government provides economic information, and where concerns and problems are submitted by the labor or business sector. However, there are no binding commitments on the part of any actor, nor policy-making capacities or concrete action programs.

In this new accord the agreements dealt only with general points related to training, education, and productivity. There are no commitments on any price on behalf of the public sector, and the Minimum Wage National Commission (*Comision Nacional de Salarios Mínimos*) defines minimum wage increases. Following the *Pacto* experience this accord was signed by those members of the

labor and private sector that were interested in continuing a dialogue between the government, work and capital.<sup>37</sup> (See Appendix C)

As the objectives of the Economic Pacts had been accomplished, and a whole new economic and political context appeared in the eyes of the Mexicans after the 1995 crisis, the Pact generation came to an end in 1997.

For a decade, a new regime alliance in Mexican politics had been able to control inflation, and mediate the shift of the economy toward free market, without losing the controlled the state apparatus. The protectionist coalition that wanted to maintain an inward-oriented and import-substitution development model was defeated. Yet, since the 1995 economic crisis, the set of macro variables that had defined the context under which the Economic Pacts had been established were undergoing a significant transformation. Making, thus, the political arrangements defined by the Pacts no longer suitable for the new context.

After the economic crisis of 1995, Mexican politics experienced important changes, which in turn affected the institutions developed with the Economic Pacts. An important change was related with the objectives of the Pacts themselves. In 1997 the goals of inflationary control, and economic reform had been accomplished. Controls on prices, wages and the exchange rate had disappeared. The Pacts had lost its main motive to stay alive.

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<sup>37</sup> Interview with government officials, Mexico City, March 19, 1998.

Second, labor politics had changed significantly. In August of 1997 a number of unions created a new all encompassing organization, the National Union of Workers (UNT). The UNT membership was calculated in 1.5 million workers and defied the CTM and the CT's hegemonic control on the labor movement (Jones Tamayo, 2000:6,7). This phenomenon showed the slow but constant lost of power and constraining capacities of the old labor organizations. Together with the creation of these new peak-level organizations, the death of Fidel Velázquez, a strong charismatic labor leader, eroded the regime's capacity to reach centralized and binding agreements with the labor movement.

Third, electoral politics had become more competitive. For the first time in contemporary Mexican history, in 1997 the PRI lost its hegemonic dominion on the Congress, and the political control of Mexico City. The effect of competitive electoral politics was important, as it started to limit the power of the bureaucracy, and increase the power of political parties on the process of economic policy making. The raising power of political parties slowly diminished the negotiating capabilities of traditional corporatist institutions.

Finally, business politics started experiencing an important transformation. A new Chamber of Commerce and Industry Law was introduced in December 1996. This new law abrogated the compulsory system introduced in 1936. This radical change came as a result of strong pressures from business sectors on problems of representation, quality of services and, most importantly, the unconstitutional

stance of the compulsory system defined by the 1936 Chamber Law. The new context had changed so drastically that the economic and political bases for the survival of the *Pactos* had ceased to exist.

## **CHAPTER 8**

### **CONCLUSIONS AND DIRECTIONS FOR FUTURE RESEARCH**

This research has indicated that the use of institutional variables can be a useful theoretical approach for understanding the development of actors' policy preferences for concertation in Mexican politics.

In general, studies on Mexican corporatism have been unable to fully explain the development of policy choices, in that these studies have failed to bring political institutions into the analysis. Traditionally, scholars have explained the processes of political incorporation, negotiation, and the development of mechanisms for social partnership from a broad macro-structural view, based on the assumption that actors' policy preferences are determined by their material interests. This approach has prevented scholars from understanding the elaboration of actors' choices by assuming that material interests are the only variables affecting actors' strategies. Broad-macro interest base perspectives have also failed to explain the complex dynamics of tripartite arrangements by assuming negotiations as a natural outcome of material interests. This view of political processes has limited the capacity of students of Mexican politics to understand the micro-foundations of political action that account for factors such as timing, content, and variance of policies, institution building, and institutional legacies.

This study has stressed the importance of historical institutional analysis in the organization of the Mexican political economy. It has showed that institutions throughout history create paths along which political action takes place. Political actors maximize utilities, yet choices and benefits are context-dependent, and as such determined by existing institutions. Institutions create processes that channel policy, structure conflict and define interest and objectives (Thelen, 1998:10).

Consequently, explaining the development of actors' political choices in history and the role of context in the influence of individual interests and strategies was the central challenge of this research, as it should be for institutional studies in the field of comparative political economy.

This work has also shown the empirical significance of answering broad relevant questions based on solid micro-foundations. Linking macro-micro analysis helps to build bridges between theoretically and empirically base-oriented work. Microanalysis facilitates understanding of the processes and mechanisms through which outcomes are generated. It brings to light the set of inducement and constraints that shape the complex set of dynamics of the relationship between political actors. I presume that aggregate outcomes need to be understood in terms of the actions and behavior of individuals and the ways in which the strategic choices of individuals figure into the aggregation process (Thelen, 1998:19).

In sum, this approach to Mexican political economy reveals that analysis that link, on the one hand, historic institutional processes with interests and ideas and on the other hand connect the aspects of both macro-and-micro-analysis, can be theoretically as well as empirically fruitful.

The general objectives of this project were, first, to penetrate the analysis of the political mechanisms that enabled a new regime coalition to radically transform the economy of Mexico by creating a political device that fostered cooperation and mediated political conflict among economic actors; second, to bring light to the understanding of the factors that fashioned state actors, business, and union's policy preferences for concertation in the context of economic uncertainty; third, to show that a process of effective consultation took place during the life of the Economic Pacts from 1987 to 1997, finally and hopefully, this work will help us appreciate the importance of the development of tripartite political mechanisms and their role in favoring cooperation and mediating political conflict in the context of economic reform and uncertainty. This study highlights the significance of political arrangements among the state, labor, and capital that minimize uncertainty and free-riding through the generation of credible commitments and an accepted system of rules that monitors, coordinates, and sanctions political actors. Compared to the cases of Argentina and Brazil and their difficulty of bringing inflation under control as well as economic stability, Mexico is an interesting case about the capacity of a regime to stabilize and reform the economy under political stability.



To understand the capacity of the Mexican regime to transform the economy and regulate political conflict this research analyzes the role of institutions and its relation with interests in the development of economic actors' policy preferences for the Economic Pacts between 1987 and 1997.

The concerns about economic stability and market reform induced a new governing coalition to use and modify existing political institutions to develop a political arrangement that would build cooperation to control political and economic conflict for reform. Yet, what factors explain labor and business sector cooperation in light of increasing inflation and a process of economic restructuring? Why was it necessary to develop a concerted Economic Pact? What were the political reasons for creating a cooperative mechanism? According to the findings in this research institutions, interests, and ideas shaped the preferences of state actors, unions, and business organizations toward a system of cooperation, that permitted control of the inflationary process, reform of the Mexican economy, and the strengthening of a new regime coalition.

This case study was inspired by the following questions: 1) what accounts for the shift in the preferences of economic actors from non-cooperation to cooperation within the context of an inflationary process in Mexico?, 2) what explains labor and business sectors support for the Economic Pacts?, and 3) what elements account for labor and business sector preference for corporatist negotiation?

It was my contention that the development of a concerted agreement that moved actors' behavior to cooperation depended on a set of institutional variables rather than only on the material interests of the players or the authoritarian control mechanisms of the state, as many theories on Mexican corporatism have argued. This study shows that: 1) State capacities (technocrats, ideas and knowledge); 2) Corporatist institutions, and 3) the *Pacto* institutions (See definition of these variables in Chapter 2), had an important effect in shaping actors preferences toward the Pacts. As the subsequent summary demonstrates, these variables helped shape economic actors' strategies for negotiation.

In 1982, Mexico faced one of the deepest most severe economic crises in its history, which threatened the economic and political subsistence of the post-revolutionary regime. The survival of the regime depended on finding new financial and political resources. Hence, the crisis became a critical juncture that entailed a window of opportunity for the large industrial, commercial, and financial sectors as well as sectors of the bureaucracy to shift development strategy from an inward-looking to a free-trade, export-led model. The 1982 economic crisis also provided a chance to establish a new set of political arrangements that would provide the political base for the economic regime.

The new strategy suggested a different role for the state, the unions, and the private sector in the economy. In this free-trade, export-led model, the state had a more limited role, the private sector was the new fundamental economic

actor, and the labor sector was a key political ally. Thus, 1982 begins with the making of a financial-big business-technocrat governing coalition. In 1982, three crucial factors were key in reorienting the nation's economic and political project: 1) the failure of the closed economic model with public-deficit spending; 2) the international and domestic financial constraint, and 3) the increasing control of the state apparatus by a new technocratic team.

The government confronted the economic crisis with policies that controlled deficit spending and launched the economy toward a free market. However, the programs implemented from 1982 to 1987 failed to control inflation and recover economic growth.

In December 1987, the acute economic slowdown, threat of hyperinflation, and increased political opposition toward the regime and its policies pressed the Mexican government to find a suitable solution to economic problems. It was critical for the government to develop an economic program that would stabilize the inflationary process and launch the economy into a cycle of stability that would allow for a smooth economic modernization.

The solution to the problem of stability and reform was a heterodox economic program known as the Economic Solidarity Pact (PSE). The appeal of the heterodox solution was related to two issues: first, the excessive political costs of an orthodox or "shock plan" approach in times of a presidential election and in the midst of a process of economic reform, and second, based on their knowledge in economics, technocrats in decision-making positions were certain

that the aggregate demand growth and government deficit were not the only factors upsetting the exchange rate and price stability. Economists believed that there were also inertial components in the inflationary spiral that could only be controlled by breaking the forward-looking expectations for inflation.

Hence, the Economic Pacts were built on fiscal austerity, trade policy, and income policies. Income policies were the heterodox component and meant a coordinated effort to link the exchange rate, wages, and prices to future inflation. Coordinating income policies and the exchange rate would break the negative expectations and the maladjustment of real wages and relative prices, which set off a vicious wage-price-wage cycle.

The first institutional factor in importance is state capacities. The ability of state actors to control prices and wages was the result of institutional legacies that provided the executive branch with an extraordinary discretionary power on most economic issues, the system of information developed by the government, and the insulation of government top decision-makers from electoral pressures.

The Law on the Executive Attributions on Economic Matters of 1950, granted the presidency with powers on: monetary policy (until 1993, when the Banco de México acquired autonomy); international loans; foreign investment; fiscal policy; the budget; industrial policy; labor policy, and control on government organisms and state owned enterprises. Thus, the PRI governments found themselves in a privileged position, as they were able to define budget, fiscal and monetary objectives insulated from constitutional and electoral pressures.

The legislation that established the capacity of the President to intervene in economic issues provided the regulatory framework that allowed the executive branch to control and determine the prices of goods and services in the Mexican economy. Thus, policy legacies were a critical factor for developing the necessary skills and information to make up an efficient system of flexible price controls, taking into consideration that since the 1950s the Mexican government had developed schemes of price controls of goods and services.

The second significant institutional factor, the nature of the corporatist system and the historic alliance between state, labor was also a critical factor that allowed the government to build this mechanism of concertation with labor and business. Labor loyalty toward the regime and the links between the PRI and labor confederations were fundamental pieces for the support of the Pacts. Yet the institutional mechanism that limited the number of actors in the negotiating process minimized free-riding among unions, and provided benefits to those involved in the negotiation, were critical in building a consensus around the Pacts. This system helped the government to coordinate and control income policies and afforded the possibility for aligning prices and wages.

The corporatist structures provided the rules that helped adjust business organizations' interests with those of the government. Business sector organizations provided the institutional features for the development of concerted accords between the government, the private, and the labor sectors. The control of peak-level organizations by the big industrial, commercial, and financial

interests limited the scope of actors who resisted the Pacts, as well as the possibility of free-riding.

The established institutions that had governed the behavior of both capital and labor throughout the history of the regime guaranteed collective action by a) limiting the number of actors in the bargaining game; b) the recognition of all organizations as legitimate bargaining partners by their counterparts, and c) by controlling opportunism.

Interests certainly played a key role in the forging of cooperation concerning the Pact accords. Labor and business organizations were eager to find a way to increase economic certainty, yet they were unable to develop a coherent alternative strategy due to deficient information on the economy and their own low institutional skills.

The different players of the Pacts accepted the agreement because the costs of communication, monitoring, and enforcement were low compared to the harm of uncertainty and the benefits derived from stabilization and the reform of the Mexican economy. The agreements created a context in which actors possessed the certainty that their current sacrifices entitled them to future gains.

For small and medium business firms, labor unrest, hyperinflation, and economic recession were matters of deep concern. For big business, economic and political instability were an obstacle for the long-awaited free-market reform. For labor unions, although production flexibility and economic reform were issues of great concern, participating in the negotiations was a mechanism through

which they could prevent or at least minimize the cost of the free-market reform. For both labor and business the Pact meant provided the possibility to check on the government, on each other, control unilateral decisions, and distribute the costs of the economic adjustment.

The third institutional component was the development of institutional mechanisms. In particular, the Pacts created the Follow-up Commission. Pact institutions helped diminish distributional conflicts and assured cooperation by creating a system that monitored, coordinated, sanctioned and rewarded. The Pacts helped the business and labor sectors in checking government actions and commitments.

The Follow-up Commission became a key mechanism for building trust among all actors involved in the concertation. The Follow-up Commission constituted itself as the system that benchmarked and coordinated players, revised and defined economic policy, distributed gains and enforced sanctions. As the Pact unfolded, the process of negotiation became institutionalized, creating a path that reinforced concertation itself, and the organization of the political economy around the Pacts.

The tripartite accords worked because they turned out to be the best of the worst solutions for all partners in times of economic crisis. It is important to mention that uncertainty was a key variable in this process of institution building. During the times of economic instability in the late 1980s, actors lived in a context of indeterminacy that questioned their present and future institutional and

strategic alternatives, as well as the consequences of their present choices. The Pacts controlled uncertainty by defining a set of rules that channeled distributional conflicts and provided the framework that defined the strategies. As an institutional mechanism, the Pacts reduced the cost of cooperation and constrain the participants' future choices (Lange1987:8). Yet the Economic Solidarity Pact and the subsequent agreements were also a political design conceived by an internationally linked regime alliance as a product to constrain the actions of a disorganized number of inward-oriented political and economic actors.

The political institutions of Mexican corporatism were created to isolate national politics from internal competition, the economy from international competition, and to bring legitimacy and governing capacity to an authoritarian regime. Paradoxically, in the 1980s and 1990s the *Pactos*, as a corporatist negotiation mechanism, were the key political configuration that helped lower the political costs of dismantling the ISI model of development, thus opening the economy, reforming the state, and making the business sector the motor of development.

A new regime alliance used the established institutions to reform the politics and economics of the country. However, what seemed like "new wine in old bottles" was not so. The shape of the tripartite mechanism developed between 1987 and 1997 and the negotiation schemes that emanated from the Pacts evolved very differently from traditional corporatist arrangements.



In the battle against inflation and in the urgency to establish a relationship in harmony with the business sector, the political regime was forced to slowly moved from a system of coordination based on the centrality and authoritarian control of the state to a system that increasingly relied on networks, commitments, trust, and transparency. The success of this system of social partnership developed in the uncertainty of a context of economic reform, a fragile credibility, was sustained in the development of strong allies, the sharing of resources and information, and the establishment of credible commitments.

The new system of coordination created an entirely new mechanism of checks and balances the traditional non-democratic control of the state, where social actors could never make the government accountable for its acts. As a new institutional device, the *Pactos* generated the necessary trust to make over the inertia of distrust that had permeated Mexican politics and managed to successfully control inflation and transform the economy, all in a context of stability. The Pacts were a political arrangement that reduced the uncertainty of institutional actors as it shared information and privileges. It was a mechanism that helped govern the economy and polity of Mexico in a process of profound change.

### **8. 1 Governance and Globalization: Future Research**

At the beginning of the XXI century, Mexican politics again faces new challenges. Since 1997 the politics in the country have radically changed. For

the first time in modern Mexican history the PRI lost in 1997 its hegemony in the Congress and political control over the capital Mexico City. In 2001, no party has a majority in Congress; nevertheless, over one third of all state governments are under the control of the PRI. Thus, whatever new agreement is made among labor, business, or any other sector of society has to be supported by the new congressional configuration and the different interests of the states. Furthermore, Mexican politics has radically changed, the center-right opposition party, PAN candidate Vicente Fox won the 2000 presidential elections and has become the President of the country.

In light of these events, it is clear that the transition toward a democratic regime will provide a unique opportunity to establish a new set of democratic political and economic institutions. The survival and consolidation of the new regime is linked to the benefits of a superior economic performance, which is in turn subjected to the capacity of the state to develop new accords with society and the political parties.

However populism and authoritarianism still appears as a shadow over democratic consolidation. As popular expectation cannot be fulfilled and disenchantment with the constitutional government rises, political leaders are likely to use non-institutional mechanisms to pursue their political objectives. The frustration of political leaders derived from gridlock and ungovernability and the fascination with bypassing Congress is a constant peril of the Executive power in Latin America and Mexico.

The development of new political accords to shape the economic agenda of the country faces serious obstacles. The inherent tensions derived from a divided government in a context of democratic transition with no-reelection strongly diminish the incentives for cooperation between the Executive branch and the Congress. In a context of fierce political competition political parties are more interested in winning election than in developing political accords. In addition to the problem of party cooperation it will also be difficult to develop new accords with the old organized actors. The historic links of labor and business organizations with the old regime question the credibility and legitimacy of these very organizations. Furthermore, as the democratic transition turn political parties as the only legitimate democratic actor political and economic pacts between state and society can not be created without the presence political parties. Yet, political parties are more interested in electoral politics. Hence, the incapacity to bring stable economic development govern appears today a major political menace for the newborn democracy.

Mexican political leaders must be aware that as the country faces the XXI century, survival of the new democracy is related to the capacity of the Mexican economy to insert itself into the world markets and distribute wealth to the Mexican people in a more equitable manner.

However, globalization implies new risks and challenges. More intense international competition is exerting fierce pressure on the traditional domestic political institutions and working class social benefits. Globalization has increased

the inequality among and within nations because it disrupts traditional economies and weakens the ability to assist workers. The new global economy increases wealth but it also brings with it a major risk of social polarization, thus breaking social cohesion.

According to Dani Rodrik, there are three basic sources of tension between global markets and social stability. First, free trade and liberalized financial markets “accentuate the asymmetry between groups that can cross international borders and those that cannot”. Capital and skilled workers are in the first category, unskilled and semiskilled workers are in the second. The effect is that workers can be easily substituted by other workers in other countries. This phenomenon has important consequences for labor because workers have to pay a larger share of the costs of improvements in work conditions and benefits; there is a greater instability in earnings and the bargaining power of labor erodes (1997:5). The second is that “globalization engenders conflicts within and between nations over domestic norms and the social institutions that embody them ” (1997:5). As technology and products become standardized throughout the world, nations with different values, social and political institutions, and levels of development compete for the same markets. This generates asymmetrical competition among countries with redistributive consequences (1997:6). Third, globalization tends to impede governments from continuing to provide traditional social benefits. For a long time, governments used their fiscal powers to insulate domestic groups from outside competition. However, as capital mobility nullifies the capacity of governments to

tax on capital, tax increases are applied to those who do not have the capacity to cross international borders, that is, the working classes (Rodrik, 1997:6). "Policies that undercut the confidence of business will reduce investment and growth" (Royo, 1998:53). The process has reduced the state's ability to control the economic borders, as well as control and provision of public goods (Rhodes, 1998:178).

Consequently, global markets and capital mobility are increasing pressures for greater flexibility, decentralization, and deregulation in the industrial relations system. There are different views on the effects of globalization on the political economy of industrialized countries.

For a number of scholars on corporatism, the long-standing political arrangement between labor and capital that defined much of XX century domestic politics has become a thing of the past as it appears in contradiction to the process of change and flexibility ingrained in globalization. Authors such as Garret and Way (1995), Iversen (1996), Lange, Wallerstein and Golden (1995), Pontusson and Swenson (1996), Streeck (1984), Streeck and Schmitter (1991) have noted the way in which three sources of change can affect corporatist arrangements. These authors have argued that 1) flexible specialization has important decentralizing effects. Greater differentiation of pay and a stronger connection between work productivity and economic rewards are more compatible with the flexibility needed in firms. The centralized bargaining system has incredible rigidities that limit the firm's capacities to adapt in a changing environment (Wallerstein and Golden (1997:701); 2) changes in the composition in union membership have reduced the

ability of unions for collective action. Furthermore, shifts in the industrial and occupational structure have weakened the capacity of labor to organize (Traxler, 1995:4), and 3) Increased economic integration has lowered the capacity of government to use discretionary policies to maintain price stability and employment (Wallersten and Golden, 1997:701). For these authors tripartite macro-corporatism has created a number of rigidities in labor markets that seriously challenge the flexibility required by globalization.

Still, other studies on industrial relations systems in industrial European democracies have challenged this convergence theory, as well as the assumption that there is a determined trend toward disorganization (Traxler, 1995:3). Many of these studies have given attention to the distinctive trajectories of policies and the economic performance of different industrial countries, and the role that institutional structures play in the organization of the economy (Berger and Dore, 1996; Hall 1997; Iversen, Pontusson and Soskice, 2000). These studies have shown that it is not possible to "mechanically derive propositions on the development of labour market institutions from changes in their economic context" (Traxler, 1995:9).

Within this line of argument, recent scholarship has shown that a new concertation or social partnership based on the institutional legacies of the welfare state and corporatist institutions is being in used in the industrially developed western Europe and, increasingly, in Eastern Europe (Perez, 1998, Royo, 2000<sup>a</sup> and 2000<sup>b</sup>; Iankova and Turner, 2000; Regini, 1999; Sable, 2000; Soskice, 1991, 1994, Soskice and Hall, 1999; Bluhm, 2000; Stephens, 2000; Culpepper, 2000;

Heinisch, 2000). These mechanisms have provided government, firms, and workers with new institutional forms for better governance under rapid change by attempting to simultaneously make labor markets and product markets more efficient and flexible while preserving trust and social benefits (Rhodes, 1998:179). Concertation might help lower the costs of globalization and labor uncertainty. Countries such as Austria, Denmark, Germany, Ireland, Portugal and Spain have established Social Pacts to help foster cooperation between labor and capital.

This dissertation demonstrates that the case of the Mexican Economic Pacts is a vivid example that confronts the basis of most convergence theories which state that modernization of advanced economies and societies must follow an established path and reinforces the institutional argument about the role that pre-existing institutions have in shaping policy preferences. In Mexico economic reform did not lead to the end of tripartite concertation, on the contrary it was through a process of negotiation between the government, labor, and business that the regime was able to bring inflation down and radically reform the economy.

The economic pacts illustrate that institutional legacies can help the development of concertation, dialogue and negotiation. Concertation is an outstanding policy-making tool that can help a political regime to lower uncertainty and redistribute the economic and political benefits and costs not only during a process of economic reform but also in the context of world economic competition.

In this sense competitive corporatism or supply side corporatism (Rhodes, 1998; Traxler 1995) can help advance mechanisms of economic governance as a

suitable solution for economic growth in the context of vulnerability to external forces (Rhodes, 1998:195). In the era of globalization it is possible that partners can be willing to trade off material gains for greater certainty.

Therefore, study of the organization of the Mexican political economy and the understanding of the role that institutions play in shaping actors' choices and its effects on economic development, democracy, and governance should become an exciting line of research for all Latin American political scientists. For Latin American policy-makers, the study of social partnership mechanisms can help elucidate the benefits of consultation in a context of increasing economic competition.

Globalization and fierce economic competition obliges national economies to rapidly adjust prices, products, technologies, and labor forces. The intensification of international competition implies entering a realm of uncertainty for both business and labor. Thus, it is crucial to create sustainable economic improvement while not sacrificing social benefits. As Ralph Dahrendorf argues, countries have to develop a "globalization plus", that is "accepting the needs for global markets but adding key elements of social well-being" (1999:14). Social partnership mechanisms can be beneficial and promote a better formula than the invisible hand of the market to achieve flexibility, increase wealth and maintain social cohesion and peace in times of rapid economic, social, and political change.



## APPENDIX A

Table I

### Mexico: Some Privatization's of Non Financial Public Owned Companies, 1989 –1990.

Firm	Date of Sell	Buyer	Sector	Auction/millions of dollars
Telmex	13-Dec-1990	Grupo Carso,/S.W. Bell/France Cable and Radio	Telecommunications	1,760.0
Cananea Mining Co.	28-Sept-1990	Mexicana de Cananea	Mining	475.0
Aeronaves de Mexico	12-Jun-1989	Icaro Aerotransportes	Airline	268.0
Co. Mexicana de Aviación	22-Aug-1989	Grupo Xabre	Airline	140.0
Fomento azucarero	13-Jan-1989	Grupo Beta San Miguel	Sugar Processing	89.0
Conasupo, planta Tultitlán	23-Feb-1990	Uniliver	Vegetable Oil, Seeds	74.5
Grupo Diana	27-Oct-1989	Consorcio "g" (Cummins)	Autoparts	56.0
Refinerías de azúcar	1°-Oct-1990	Corp.Indus.Sucrum	Sugar Processing	54.5
Mexinox	23-March-1990	Ahorrinox	Iron and Steel	47.6
Sugar Procering Ind	19-June-1990	Anermmex	Sugar Processing	42.6

Source: Garido, Celso, (1994) "Grupos privados nacionales en México, 1987-1993" *Revista de la Cepal*, No. 53, August, p. 171.

Table II

**Mexico: Private Banks**

Name		Buyer	Chairman of the Board	Financial Origins of Buyer	Region	Date of Buy	Amount Paid (millions of dollars)	Price/book value	Stock Bought %
Nationals	Banamex	Accival/Gpos . regionales	R. Hernández /A. Harp	Brokerage House	DF	08/26/91	3 189.23	2.63	70.72
	Bancomer	Vamsa/Gpos. Regionales	Eugenio Garza Laguera	Visa (Industry)	Nuevo León	10/28/91	2 791.28	2.99	56.00
	Serfin	Obsa/Gpos. Regionales	Adrián Sada	Vitro (Industry)	Nuevo León y DF	06/27/91	936.92	2.69	51.00
	Banco Internaciona l	Prime	Antonio del Valle/ Sánchez Navarro	Industry	DF	06/28/92	475.19	2.95	51.00
	Multibanco Comermex	Inverlat	Agustín Legorreta	Brokerage House	DF	02/10/92	883.26	3.73	66.54
	Banca Cremi	Emp. De Jalisco	Raymundo Gómez Flores	Dina-Camiones	Guadalajara	06/29/91	247.93	3.40	66.73
	Unión (Ex BCH)	Emp. Del Suroeste	Carlos Cabal Peniche	Agroindustry	Sureste	11/11/91	285.84	2.68	100.00
	Banco Mexicano Somex	Invermexico	Carlos Gómez y Gómez	Grupo Desc	DF	03/05/92	611.96	3.31	81.62
Multiregiona l	Multibanco Mercantil	Probursa	J.M. Madariaga	Brokerage House	DF	06/10/91	202.44	2.66	77.89
	Banpaís	Mexival	Angel Rodríguez	Transporty	Df y Noreste	06/17/91	180.57	3.03	100.00

	Bancrecer	Emp. De D.F. y Guanajuato	Roberto Alcántara	Transporty	Edo. De Mex. Guanajuato, etc.	08/19/91	139.68	2.53	100.00
	Banco del Atlántico	GBM		Brokerage House	DF	03/29/92	479.13	5.30	68.85
	Banoro	Estrategia Bursatil		Brokerage House	Sinaloa	07/ /92	365.09	3.95	66.03
Regional	Banca Confía	Abaco	Jorge Lankenau	Brokerage House	Nuevo León	08/05/91	293.19	3.73	78.68
	Banco de Oriente	Grupo Margen	Marcelo Margain	Brokerage House	North and y Center	06/12/91	73.95	4.04	66.00
	Banco Promex	Finamex		Brokerage House	Jalisco	05/04/92	346.84	4.23	66.34
	Banco del Centro	Multivalores		Brokerage House	DF, Jalisco	06/07/92	278.79	4.65	66.31
	Banorte	Maseca/ Gamesa	Roberto Glz. Barrera/Alberto Santos de Hoyos	Agroindustry	Nuevo León	06/14/92	569.44	4.25	66.00
Total							12 350.73	3.5	72.2

Source: Garrido, Celso, (1994) "Grupos Privados Nacionales en México, 1987-1993", Revista de la CEPAL, No. 53, August., p. 171.

Table III

**Mexico: Typology of Traditional and New National Private Groups**

Type of Group	Financial Institution	Industry	Commerce/Services
	<b>Economic Financial Groups</b>		
<b>Traditional</b>			
Visa	Bancomer	Cervecería cuauhtémoc	
Vitro	Serfin-Obsa	Vitro	
Desc	Mexicano-Invermático	Varios	
<b>New</b>			
Carso	Inbursa	Condumex/Telmex	Sanborns
Hermes	Interacciones	Transpor	
Cabal Peniche	BCH	Del Monte	Food/Hotels
Maseca	Banorte	Maseca	
Alcántara	Bancrecer	Transport	
Creml	Creml	Dina	
Rodríguez	Banpaís	Transport	
Pulsar	Seguros la República		
Prime	Internacional-Prime	Cervecería modelo	

	<b>Financial Groups</b>		
<b>Financial origin</b>			
New			
Banamex-Accival	Banamex-Accival		
MM-Probursa	MM-Probursa		
<b>Bank Origin</b>			
Tradicional			
Comermex-Inverlat	Comermex-Inverlat		
	<b>Industrial Groups</b>		
<b>Traditional</b>			
Alfa		Iron and Steel/Food/others	
Cemex		Cement	
Peñoles		Mining	
Televisa		TV. /radio/press	
Ica		Construction	
Comercial Mexicana		Retail	
Cifra		Retail	
Gigante		Retail	
<b>New</b>			
Salinas		Elektra/TV. Azteca	Commerce/movies
Gemex/Escoipón		Pepsicola/Sugar industry	

Source: Garrido, Celso, (1994) "Grupos Privados Nacionales en México, 1987-1993", Revista de la CEPAL, núm. 53, August., p. 171.

## Opinion Polls and Business Community Surveys

### Opinion Polls

Table A.4 Do you think that the Pact is helping to lower inflation?

Month/year	Yes	No	Don't Know
6/89	47.9	42.9	9.2
12/89	53.5	39	7.5
01/90	46.9	43.9	9.2
06/90	35.5	53.7	10.8
11/90	38.8	51	10.1
04/91	46.9	45.4	7.7
09/91	42.4	46.9	10.7
11/91	44.4	46.2	9.5
02/92	50.4	37.3	11.9
10/92	34.1	53	12.7
07/93	53.5	34.5	11.4
10/93	45.4	33.3	9
09/94	45	42.1	12

**Table A5 Do you think that the Government should keep the Pacto?  
Do you think that the Pacto should or should not continue?**

	10/93	09/94
<b>Yes</b>	72.9	66.1
<b>No</b>	13.9	20.5
<b>I don't know</b>	12.4	12.1

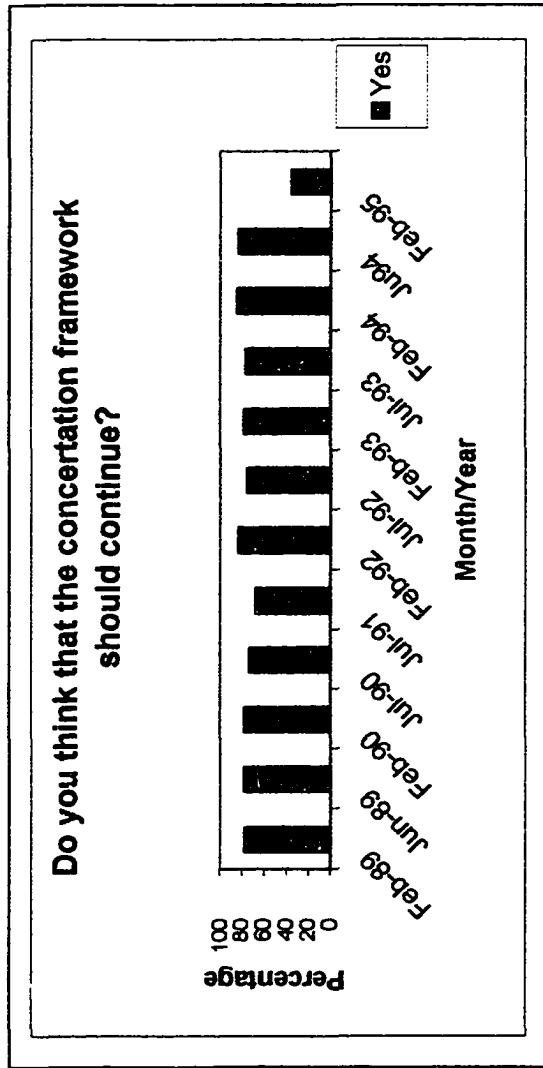
**Table A6 Do you think that the new Pact would bring you any kind of benefit?**

	09/94
<b>Yes</b>	43.5
<b>No</b>	45.8
<b>I don't know</b>	9.4
<b>Did not answer</b>	1.4

Sources: Technical Advisory, Presidency of the Republic (the data can be obtained from Centro de Investigación y Docencia Económica (CIDE), México City. Polls, No Persons interviewed, No of cities: 06/88, 2,000, 3; 12/88, 2,000, 3; 09/90, 2,500, 4; 01/90, 2,500, 4; 1/90, 3,500, 6; 04/91, 1,000, mcma\*; 09/91, 1,000, mcma; 04/91, 3,000, 6 & mcma; 1/91, 3,000, 6; 02, 3,500, 6; 03, 3,500, 6; 04, 3,000, 6. mcma\*= Mexico city metropolitan area.

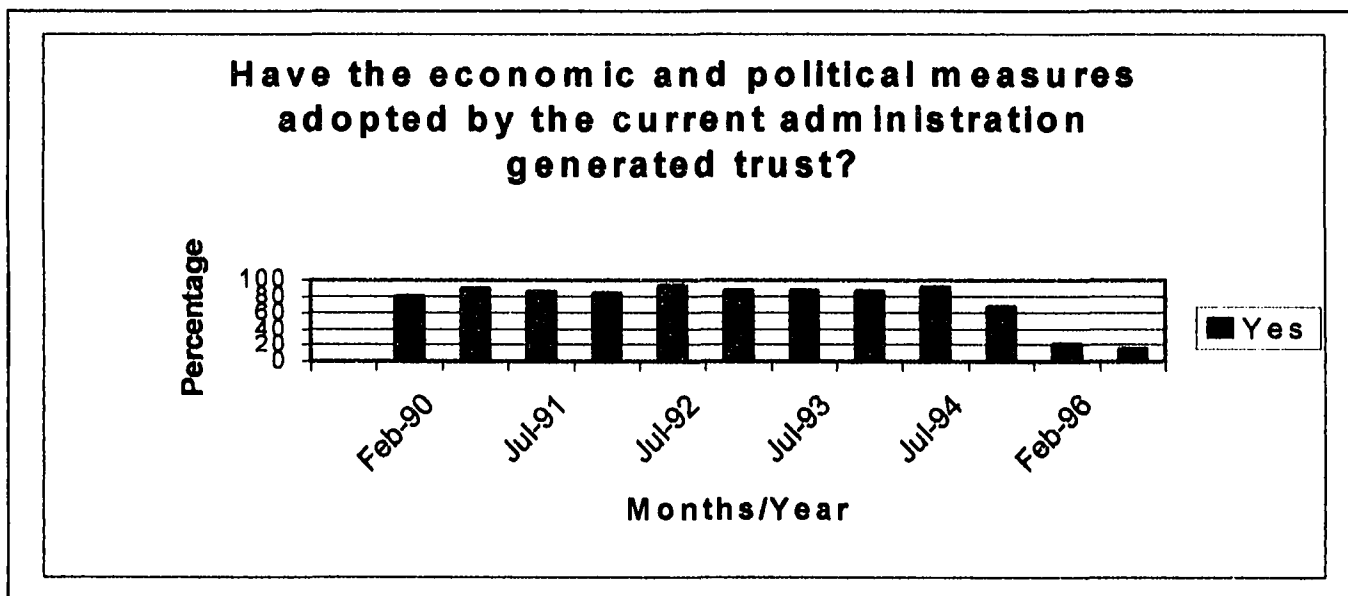
**Business Community Surveys**

**Graph A1**

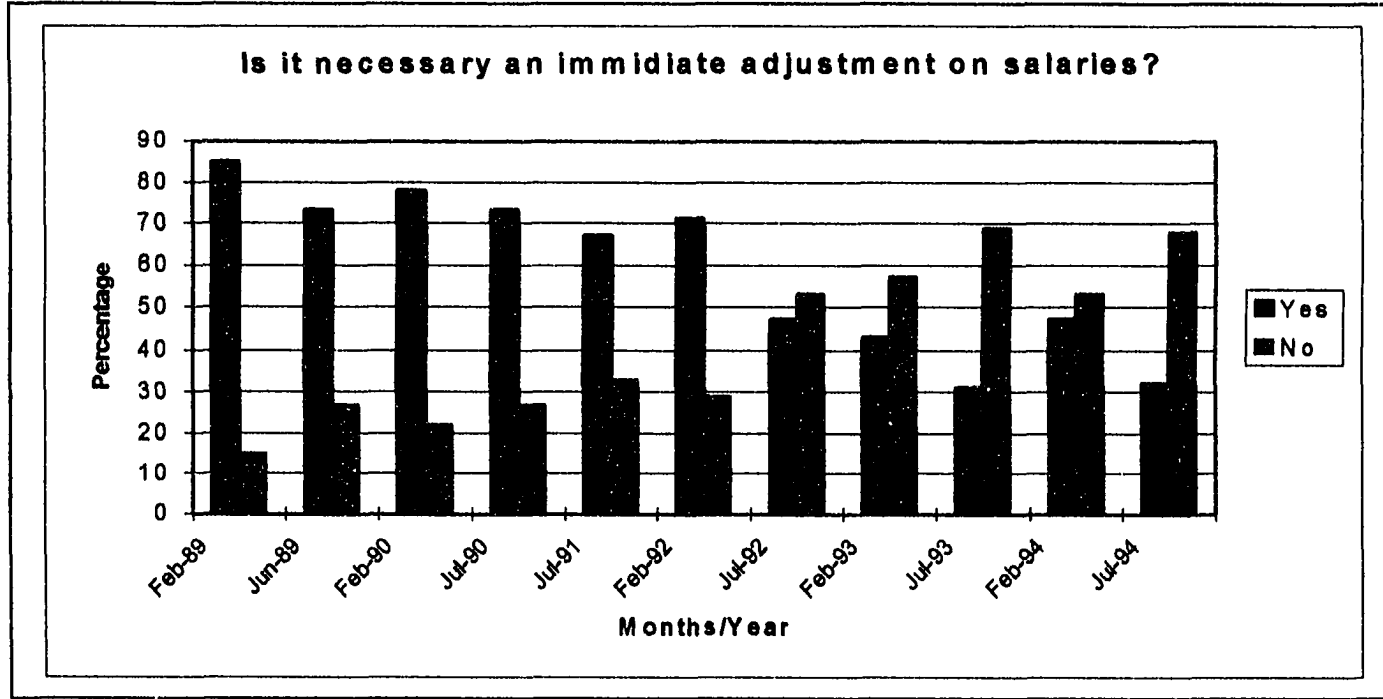




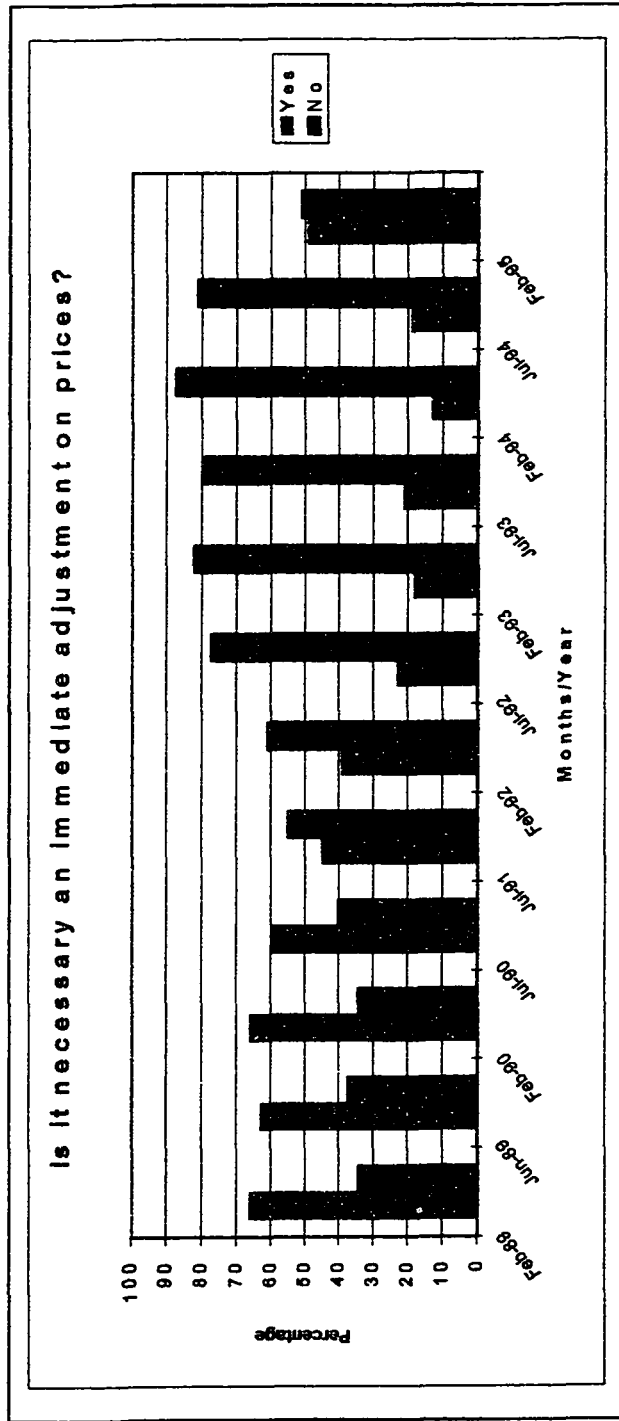
Graph A2



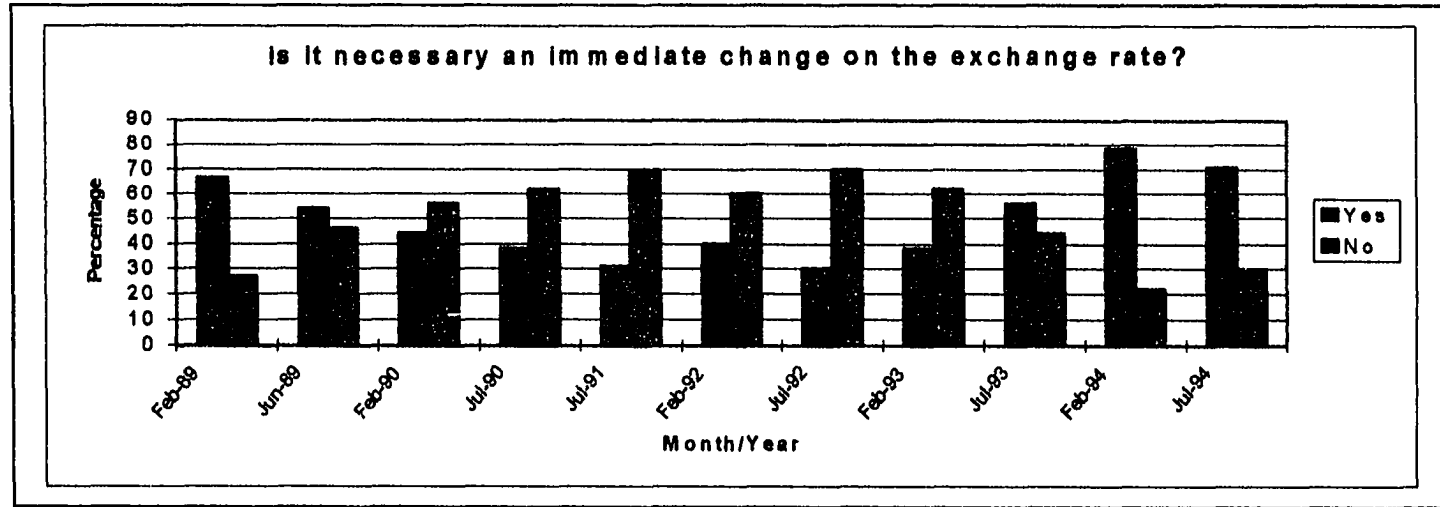
Graph A3



Graph A4



Graph A5



Sources: Indicador Empresarial, Expansión. Twice a year transversal survey made with the information provided by 200 to 310 businessmen from big, medium, small and micro enterprises. Feb 15 1989, Jul191989, Jul18 1990, Jul24 1991, Feb 1992, Jul 22 1992, Feb17 1993, Jul 21 1993.

## **Appendix B**

### **Concertation Agreements (Spanish)**

**ACUERDO DE CONCERTACION QUE SUSCRIBEN, POR UNA PARTE, LA SECRETARIA DE COMERCIO Y FOMENTO INDUSTRIAL (SECOFI), LA PROCURADURIA FEDERAL DEL CONSUMIDOR (PROFECO) Y LA CAMARA NACIONAL DE COMERCIO (CANACO).**

#### **CONSIDERANDO**

1. Que el pasado 21 de diciembre, los sectores firmantes del Pacto acordaron:

Que durante los próximos sesenta días, no haya alteraciones de precios de bienes y servicios públicos y privados, y, por tanto, en relación a la política salarial se estará a lo establecido en la recomendación del 24 de septiembre y a lo aprobado el 20 de diciembre de 1994 por la Comisión Nacional de Salarios Mínimos.

Dentro de este período, las partes se reunirán para analizar las condiciones que registren los mercados y determinar los ajustes pertinentes a los acuerdos del 24 de septiembre, con el propósito invariable de consolidar la estabilidad y el crecimiento, y elevar el bienestar de las familias.

Igualmente, en este período se propondrán mecanismos que propicien el desarrollo de las empresas. Asimismo, se dinamicen los programas y acciones que atienden al sector social, obrero y campesino.

Las partes coinciden en la necesidad de que la sociedad toda, participe en el esfuerzo necesario para asegurar que durante los próximos sesenta días, continúe la estabilidad. Hoy el país exige de la unidad, serenidad y corresponsabilidad de todos para superar esta coyuntura.

2. Que para asegurar el cabal cumplimiento de estos acuerdos las partes firmantes se reunieron para suscribir los siguientes:

## **ACUERDOS**

- Primero:** La CANACO ratifica su adhesión a los términos del Pacto para el Bienestar, la Estabilidad y el Crecimiento.
- Segundo:** Los afiliados a la CANACO se comprometen a continuar atendiendo sus segmentos de mercado y a garantizar un adecuado abasto de los bienes y servicios que comercializan.
- Tercero:** La CANACO se coordinará con la PROFECO para supervisar que sus afiliados cumplan cabalmente con los acuerdos adoptados por el Pacto para el Bienestar, la Estabilidad y el Crecimiento.

El presente acuerdo se firma en la Ciudad de México, Distrito Federal a los 22 días del mes de diciembre de 1994.

**POR LA SECRETARIA DE COMERCIO Y FOMENTO INDUSTRIAL**

**Dr. Herminio Blanco Mendoza**  
Secretario

**POR LA PROCURADURIA FEDERAL DEL CONSUMIDOR**

**Lic. Fernando Lerdo de Tejada**  
Procurador

**POR LA CAMARA NACIONAL DE COMERCIO**

**Ing. Salvador López Negrete**  
Presidente

**ACUERDO DE CONCERTACION QUE SUSCRIBEN, LA SECRETARIA DE COMERCIO Y FOMENTO INDUSTRIAL (SECOFI), LA PROCURADURIA FEDERAL DEL CONSUMIDOR (PROFECO) Y LA CAMARA NACIONAL DEL MAIZ INDUSTRIALIZADO (LA CAMARA).**

**CONSIDERANDO**

1. Que el pasado 21 de diciembre, los sectores firmantes del Pacto acordaron:

Que durante los próximos sesenta días, no haya alteraciones de precios de bienes y servicios públicos y privados, y, por tanto, en relación a la política salarial se estará a lo establecido en la recomendación del 24 de septiembre y a lo aprobado el 20 de diciembre de 1994 por la Comisión Nacional de Salarios Mínimos.

Dentro de este período, las partes se reunirán para analizar las condiciones que registren los mercados y determinar los ajustes pertinentes a los acuerdos del 24 de septiembre, con el propósito invariable de consolidar la estabilidad y el crecimiento, y elevar el bienestar de las familias.

Igualmente, en este período se propondrán mecanismos que propicien el desarrollo de las empresas. Asimismo, se dinamicen los programas y acciones que atienden al sector social, obrero y campesino.

Las partes coinciden en la necesidad de que la sociedad toda, participe en el esfuerzo necesario para asegurar que durante los próximos sesenta días, continúe la estabilidad. Hoy el país exige de la unidad, serenidad y corresponsabilidad de todos para superar esta coyuntura.

2. Que para asegurar el cabal cumplimiento de estos acuerdos las partes firmantes se reunieron para suscribir los siguientes:

**ACUERDOS**

- Primero: La Cámara ratifica su adhesión a los términos del Pacto para el Bienestar, la Estabilidad y el Crecimiento.

- Segundo:** Durante los próximos sesenta días las empresas afiliadas a la Cámara no incrementarán los precios de los bienes y servicios que comercializan.
- Tercero:** Los afiliados a la Cámara se comprometen a continuar atendiendo sus segmentos de mercado y a garantizar un adecuado abasto de los bienes y servicios que comercializan.
- Cuarto:** La Cámara se coordinará con la PROFECO para supervisar que sus afiliados cumplan cabalmente con los acuerdos adoptados por el Pacto para el Bienestar, la Estabilidad y el Crecimiento.

El presente acuerdo se firma en la Ciudad de México, Distrito Federal a los 23 días del mes de diciembre de 1994.

**POR LA SECRETARIA DE COMERCIO Y FOMENTO INDUSTRIAL**

Lic. Eugenio Carrión R.  
Subsecretario de Comercio Interior

**POR LA PROCURADURIA FEDERAL DEL CONSUMIDOR**

Lic. Fernando Lerdo de Tejada  
Procurador

**POR LA CAMARA NACIONAL DEL MAIZ INDUSTRIALIZADO**

Lic. Alfonso Cebreros Murillo  
Presidente



**Appendix C**  
**1987-1997 Mexican Economic Pacts**

<b>Economic Solidarity Pact</b> <b>Concertation for December 15, 1987 to February 27, 1988</b>						
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Trade Policy</b>	<b>Others</b>
Exchange rate policy to support deflation without sacrificing competitiveness	Reduction in Gov. spending by 22% of GDP in 1987 and a 20.5% in 1988.  Primary surplus (does not include interests) of 8.3% of GDP by 1988.  Elimination of subsidies except in agriculture.  Elimination of accelerated depreciation incentive.	Free adjustment of Public prices  *Starting March 1, 1988, public prices and tariffs will adjust according to the anticipated inflation.	Guaranteed prices for agricultural products to be kept at their real levels of 1987.  Price agreements for basic products	Minimum wage rise of 15%. (from Dec. 16 to Dec. 31 1987)  A 20% rise in minimum wages in January 1, 1987.  *Starting February 1, 1988, minimum wages will rise according to the evolution of basic products.  A 15% increase in contractual wages.	Reduction of the maximum import tariff from 40% to 20%.  Trade tariff structured from 0 to 20%  Elimination of the additional import tax of 5%.	The Commission for the Follow-up and Evaluation of the Pact is created.

\* With the new January 27, 1988 pact these measures were not applied.

Sources:

- Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987-1994, México D.F.

- Aspe, Pedro, (1993), Economic Transformation the Mexican Way, Cambridge: MIT Press.

<b>Economic Solidarity Pact Concertation for March, 1988</b>					
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Trade Policy</b>
Exchange rate fixed at the level of February 29, 1988.	<p>Cruzade versus Tax evasion</p> <p>Government compromises to keep primary surplus.</p> <p>Government compromise to sell public enterprises.</p>	Constant Public sector goods prices and tariffs.	<p>No price tariff or controlled price rise.</p> <p>Business sector agreement to freeze leader prices.</p> <p>Corresponding adjustments to agricultural guaranteed prices.</p>	3% increase in minimum wage and contractual wages.	

Sources:

- Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987-1994, México D.F.
- Aspe, Pedro, (1993), Economic Transformation the Mexican Way, Cambridge: MIT Press

<b>Economic Solidarity Pact Concertation for April and May, 1988</b>					
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Trade Policy</b>
Exchange rate at the level of February 29, 1988.	Government compromise to healthy public finances.	Constant Public sector goods prices and tariffs for April and May.	<p>No price tariff or controlled price rises.</p> <p>Business sector will not increase prices.</p> <p>Adjustments to agricultural guaranteed prices.</p>	Minimum wage will not increase.	Free imports for agricultural machinery.

Sources:

- Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987-1994, México D.F.

<b>Economic Solidarity Pact Concertation for June, July and August, 1988</b>						
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Trade Policy</b>	<b>Others</b>
Exchange rate fixed at the level of February 29, 1988.	Former commitment ratified	Constant public sector prices of goods and tariffs.	No price tariff or controlled price increase.  Price lowering recommended due to reduction in costs.	Wages will not increase	Gov. continues its compromise of providing credit.	Gov. credits to agriculture.

Sources:

- Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987-1994, México D.F.

<b>Economic Solidarity Pact Concertation for September, October and November, 1988</b>						
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Trade Policy</b>	<b>Others</b>
Exchange rate fixed at the level of February 29, 1988.	VAT reduced from 6.0% to 0% on processed foods and medicines  Income tax (ISR) reduced 30% for incomes equivalent to 4 minimum wages  More resources for the Fondo Nacional de Fomento y Garantía para el Consumo de los Trabajadores	Constant public sector goods and tariffs prices	Government recommends the business sector to reduce their sale prices by 3%, between July 7 and August 7, especially in clothes and foods	Minimum wage will not increase	.	In agriculture a fixed specified criteria is defined for guaranteed prices

Sources:

-Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987 - 1994, México D.F.

<b>Economic Solidarity Pact Concertation for December, 1988</b>						
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Trade Policy</b>	<b>Others</b>
Exchange rate fixed at the level of February 29, 1988.	New adjustment to Public Finances, savings for more than 500 billion pesos  The process of privatization of State enterprises continues.	Previous Agreement Extended	Previous agreement extended	Previous agreement extended	Previous agreement extended	Previous agreement extended

## Sources:

-Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987 - 1994, México D.F.

<b>Pact for Stability and Economic Growth Concentration for the period between January and July, 1989</b>					
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Trade Policy</b>
Crawling peg set at one peso daily, starting January 1.	Government Continues commitments	Industry And commerce Prices and Tariffs adjustments.	Recommendation that the business sector Absorbs wage and Tariff increases	Previous agreement extended  Firm by firm collective agreements are revised.	The Government agrees to modify custom duties to diminish actual dispersion and contribute to the elimination of distortions created by current differentials  The Federal Government agrees to initiate a program of deregulation.  Signing parts agree in creating the Comisión de Seguimiento y Evaluación del Pacto.

## Sources:

-Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987 - 1994, México D.F.

<b>Pact for Stability and Economic Growth Concertation for the period between August 1<sup>st</sup> and December 3<sup>rd</sup>, 1989</b>					
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Trade Policy</b>
Crawling pet at 1 peso daily.	Previous commitment extended	Previous commitment extended	Previous commitment extended	Previous commitment extended	Reinforcement of the previous agreement  Support the development and modernization of agriculture to increase its productivity  Promote the concertation between producers and consumers for the commercialization of agricultural products.

## Sources:

-Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987 - 1994, México D.F.

<b>Pact for Stability and Economic Growth</b>					
<b>Concertation for the period between December 3<sup>rd</sup>, 1989 and May 27<sup>th</sup>, 1990</b>					
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Trade Policy</b>
Crawling peg at 1 peso daily	Commitment of strict discipline on public finances to objectives of the government budget (Ley de Ingresos y del Presupuesto de Egresos para 1990)	prices and tariffs will not be modified	Private Sector commits No to increase prices	10% raise on minimum wages starting on December 4  Business and labor will favor a climate of freedom in contractual wage negotiations.	Previous agreements ratified

## Sources:

-Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987 - 1994, México D.F.

<b>Renovation of the Pact for Stability and Economic Growth Concertation for the period between May 27<sup>th</sup> and November 11<sup>th</sup>, 1990</b>					
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Others</b>
The exchange Rate will be Adjusted to 80 cents daily starting on May 28 to Improve the Payments Balance	Strict discipline on Gov. expenses to strengthen public finances	Moderated increases in some energy prices, to strengthen public finances and correct demand.	Pact members agree to examine the prices of goods and services applications for adjustments  Taking Into account Decreases in costs, the private sector, commits to lower prices on goods and services.	In case that prices corrections affect worker's real income a socio-economic study will be carried out by an special commission.	Labor and business agree to support a productivity accord (Acuerdo para el Elevación de la Productividad y la Calidad (ANEP)  The Federal Government suggests PEMEX to Adopt specific agreements that contribute to solve environmental problems

## Sources:

-Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987 - 1994, México D.F.



<b>Renovation of the Pact for Stability and Economic Growth</b>					
<b>Concertation for the period between November 11<sup>th</sup>, 1990 and November 10<sup>th</sup>, 1991</b>					
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Trade Policy</b>
Crawling peg Adjusted to 40 cents daily starting on November 12 1990	Previous commitment extended	The prices of some energetic are adjusted with the purpose of eliminating unjustified subsidies that weaken public finances and the balance of payments	Previous Commitment extended  The National Consumers Institute will provide information to consumers	The labor and business sector advise their representatives in the Minimum Wage Comition To increase minimum wages 18%, starting on November 16  Will not apply to contractual agreements.  All the previous agreements ratified	A 40% reduction of income tax to all emers o less than 4 minimum wages.  CONASUPO offers corn and flour at subsidize prices  A program to promote exports is agreed  The deregulation process is reinforced.

Sources:

-Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987 - 1994, México D.F.

<b>Renovation of the Pact for Stability and Economic Growth Concertation for the period between November 10<sup>th</sup>, 1991 and October 20<sup>th</sup>, 1992</b>					
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Others</b>
Crawling peg at 20 cents daily starting on November 11	The VAT Decreases From 15% and 20% to 10%, starting on November 11, Except on borders.  VAT at 0% in food and medicine.	Energy prices adjusted. Diesel fuel 9.7% and in 1992 will increase 10 pesos monthly. Gas prices will rise 2.4%, starting December 1 and will rise 2.5% monthly  Other goods and public services prices and tariffs that have not changed since the last Concertation, will have moderated increases.	The private Sector commits to make the VAT reduction effective.	The labor and business sector Advise their Representatives in the Minimum Wage National Commission to increase minimum wages a 12% starting November 11  Not apply to contractual agreements	The economic disregulation process continues. It is agreed to establish programs for the capital goods industries, specially steels and other industries that generate jobs

## Sources:

-Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987 - 1994, México D.F.

<b>Renovation of the Pact for Stability and Economic Growth Concertation for the period between October 20<sup>th</sup> 1992 and October 3<sup>rd</sup> , 1993</b>					
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Others</b>
Crawling peg at 40 cents a day.	Strict Fiscal Discipline is maintained	Gradual adjustments less than a digit.	The business sector agrees to absorb the increases of public goods and services.	Minimum Wage National Commission will consider the proposals of this Pact to fix the general and professional Minimum Wages that will enter in duty on January 1st 1993.  Business and labor will favor a climate of freedom in contractual wage negotiations Taking into account Inflationary the objectives.	The labor and business sector agrees to promote the productivity increases.  The Federal Government agrees to increase social expenditure and carry out the Programa de capacitacion para la Solidaridad Obrera  The government continues to foster Foreign trade, the development of the micro. small and medium enterprise and sectorial adjustment programs, before NAFTA.

## Sources:

-Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987 - 1994, México D.F.

<b>Renovation of the Pact for Stability, Competitiveness and Employment Concertation for the period between October 3<sup>rd</sup> 1993 and December 31<sup>st</sup>, 1994</b>					
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Trade Policy and others</b>
Government keeps the exchange rate policy.	<p>Strict discipline in public finances.</p> <p>Use the budgetary margins to induce to the economy's reactivation.</p> <p>To grant all the contributors, starting October 1<sup>st</sup> 1993, the possibility to carry out payment in terms of their indebted federal taxes including the Asset Tax.</p>	<p>Fixed prices and tariffs of the public sector.</p> <p>Alignment of public prices and tariffs according to international referenced.</p> <p>The monthly crawling rhythm of the electricity of domestic and commercial use tariffs will diminish, so that day accumulated increase will not exceed 5%</p>	<p>The business sector compromises to:</p> <p>Reflect in their prices the reduction in the costs of their main inputs and the income tax to business.</p>	<p>Starting on October 1<sup>st</sup>, 1993 reduction of income tax to all workers that earn less than 4 minimum wages.</p> <p>The workers with less than 1 minimum wage will receive an increase on their available income, that will not be less than 7.5% and not more of 10.8% according to the proportion represented by the social loans on their total income</p>	<p>The Federal Government compromises to:</p> <p>to create the conditions to reach an inflation of 5% and a gradual and sustainable recovery of the economic activity.</p>

## Sources:

-Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987 - 1994, México D.F.

<b>Renovation for the Pact for Stability, Competitiveness and Employment Concertation for the period between January 12<sup>th</sup> and December 31<sup>st</sup>, 1994</b>					
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Trade Policy and others</b>
Current agreement ratified	The Federal Government commits to establish a calendar that gives priority to the exercise of the corresponding money staked to public investment expenses for the promotion of the economic activity and employment in 10%, as well as the expense for social development in 10.5%	Current agreement ratified	Current agreement ratified	The business and labor sector commit to themselves to increase productivity and quality	The Follow up commission will have sessions twice a week starting from this date

Sources:

-Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987 - 1994, México D.F.

<b>Renovation for the Pact for Stability, Competitiveness and Employment Concertation for the period between March 24<sup>th</sup> and December 31<sup>st</sup>, 1994</b>					
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Trade Policy and others</b>
Current agreement ratified		Current agreement ratified	Current agreement ratified	Current agreement ratified	Violence and destabilization attempts are condemned

Sources:

-Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987 - 1994, México D.F.

<b>Renovation for the Pact for Stability, Competitiveness and Employment Concertation until December 31<sup>st</sup>, 1995</b>					
<b>Exchange Rate</b>	<b>Public Finances</b>	<b>Public Prices</b>	<b>Private Prices</b>	<b>Income Policy</b>	<b>Trade Policy and others</b>
The Pact members propose to keep the current formula started on October 20 <sup>th</sup> 1992	Balanced budget to obtained a 4% inflation for 1995 and a GDP that doubles population growth	Fixed prices and tariffs	The business sector agrees to: Reflect in retail sale prices the fiscal incentives foreseen in this pact.  Keep the full supply levels in all the goods and services it generates.	It is proposed to the next Government Administration to consider an additional fiscal credit, that would increase in a 3% the workers available income of those who earn up to 2 minimum wages according to the proportion represented by the social loans on their total income	The Banco de México will carry out its operations in such a way that it will help to the attainment of the minor inflation aim agreed in this Concertation.  The sectors will propose:  Budgetary increases for technical studies, work training, to the program of scholarship training and to the adult economic support.

## Sources:

-Comisión de Seguimiento y Evaluación del Pacto para el Bienestar, la Estabilidad y el Crecimiento, (1994), Pacto para el Bienestar, la Estabilidad y el Crecimiento y sus Antecedentes 1987 - 1994, México D.F.

<b>Pact for the Welfare, Stability and Growth</b>
<p><b>Concertation for November 20 1994 to December 31, 1995</b></p> <p><b>Accords</b></p> <ol style="list-style-type: none"> <li>1) This accord ratifies all the previous compromises subscribed the 24 of September 1994.</li> <li>2) The elected president will be informed on the nature of this accord so that they are taken into consideration by the next administration</li> </ol>
<p><b>Concertation December 20, 1994</b></p> <p><b>Accords:</b></p> <ol style="list-style-type: none"> <li>1) This accord ratifies all the previous compromises subscribed the 20 of November 1994</li> <li>2) The signing parts of the pact propose to maintain the crawling peg and rise \$0.53 the ceiling of the exchange rate band</li> <li>3) The signing parts ask the EZLN to accept the dialogue with the government.</li> </ol>
<p><b>Concertation December 21, 1994</b></p> <p><b>Accords:</b></p> <ol style="list-style-type: none"> <li>1) Within the next 60 days there will be no alterations to prices of public and private goods and services. In terms of wage policy it will follow the 24 of November and 20 of December 1994 accords.</li> <li>2) Within this period the signing parts will get together in order to analyze the status of markets and determine the necessary adjustments.</li> </ol>

### **Unity Accord to Overcome the Economic Emergency**

#### **Concertation for January 3, 1995**

##### **Accords:**

- 1) The labor and business sector ratify the wage policy defined in December 20 1994 accords.
- 2) Productivity bonus will be taken into account in contractual agreements by firm.
- 3) The federal government will advice and support productive sectors according to their productivity, it will create the National Commission on Productivity (Comisión Nacional de Productividad).
- 4) The federal government will increase in 200 thousand the number of scholarship for workers training.
- 5) The business sector will do its best effort not to increase prices without a reasonable justification. The Procuraduria Federal del Consumidor will monitor the business sector.
- 6) The business sector will promote the adoption of production and distribution strategies of basic goods in order to help the part f the population with scare resources.
- 7) The government and the productive sectors will launch a campaign to convince consumers to buy Mexican products.
- 8) The federal government will maintain its support to the agricultural sector. The government will increase the support of PROCAMPO to 400 new pesos hectare for the agricultural cycle autumn-spring 1994-1995 a to 440 new pesos for the spring-summer cycle of 1995.
- 9) The federal government will adjust the current deficit to 1.3 % of the GDP.
- 10) The government will simplify the tax system. The governments Comité Asesor Fiscal will have nclude the participation experts form the Workers Congress, the agricultural and business sector.
- 11) The agricultural sector will promote the Concertation in the development of production and commercialization strategies all along the production chain.
- 12) The Banco de México will take all the measures necessary to control the possibility of an inflationary spiral.
- 13) The government will speed up the deregulation process, eliminating obstacles for economic development. And will foster free trade agreements.
- 14) The Consejo Nacional de Pequeña y Mediana Empresa will be constituted by the public and business sector. The Council will promote mechanism (technology, legal counseling, product design, financing, distribution, and marketing) to foster the development of small and medium enterprises.



## Appendix D

### Government, Business and Labor Representatives that signed the Pacts from 1987 to 1997.

Table I

<b>Economic Solidarity Pact (Pacto de Solidaridad Económica), December 15, 1987</b>
<b><u>Government:</u></b>
<ul style="list-style-type: none"> <li>- Lic. Miguel de la Madrid, Presidente Constitucional.</li> <li>- Dr. Pedro Aspe Arnetta, Secretario de Programación y Presupuesto.</li> <li>- Lic. Gustavo Petricoli I., Secretario de Hacienda y Crédito Público.</li> <li>- Lic. Arsenio Farell Cubillas, Secretario del Trabajo y Previsión Social.</li> <li>- Lic. Héctor Hernández C., Secretario de Comercio y Fomento Industrial.</li> </ul>
<b><u>Labor Sector:</u></b>
<ul style="list-style-type: none"> <li>- Sr. Fidel Velásquez S., Presidente del Congreso del Trabajo.</li> <li>- Lic. Héctor Hugo Olivares V., Secretario General de la Confederación Nacional Campesina.</li> <li>- Sen. Alfonso Garzón Santibañez, Secretario de la Central Campesina Independiente.</li> <li>- Ing. Alfredo J. Ahumada, Presidente de la Confederación Campesina Independiente.</li> </ul>
<b><u>Business Sector</u></b>
<ul style="list-style-type: none"> <li>- Consejo Coordinador Empresarial</li> <li>- Confederación de Cámaras Industriales de los Estados Unidos Mexicanos.</li> <li>- Asociación Mexicana de Instituciones de Seguros.</li> <li>- Consejo Nacional Agropecuario.</li> <li>- Cámara Nacional de Comercio de la Ciudad de México.</li> <li>- Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo.</li> <li>- Confederación Patronal de la República Mexicana.</li> <li>- Consejo Mexicano de Hombres de Negocios.</li> <li>- Asociación Mexicana de Casas de Bolsa.</li> <li>- Cámara Nacional de la Industria de la Transformación.</li> </ul>

Table 2

<b>Economic Solidarity Pact (Pacto de Solidaridad Económica ), February 28, 1988.</b>
<b>Government:</b>
<ul style="list-style-type: none"> <li>- Lic. Miguel de la Madrid, Presidente Constitucional.</li> <li>- Dr. Pedro Aspe Armella, Secretario de Programación y Presupuesto.</li> <li>- Lic. Gustavo Petricoli I., Secretario de Hacienda y Crédito Público.</li> <li>- Lic. Arsenio Farell Cubillas, Secretario del Trabajo y Previsión Social.</li> <li>- Lic. Héctor Hernández C., Secretario de Comercio y Fomento Industrial.</li> <li>- Lic. Manuel Bartlett, Secretario de Gobernación.</li> <li>- Lic. Eduardo Pesqueira, Secretario de Agricultura y Recursos Hidráulicos.</li> </ul>
<b>Labor sector:</b>
<ul style="list-style-type: none"> <li>- Sr. Fidel Velázquez, Secretario General de la CTM.</li> <li>- Lic. Guillermo Fonseca Álvarez, Secretario General de la CNOP.</li> <li>- Lic. Héctor Hugo Olivares V., Secretario General de la Confederación Nacional Campesina.</li> </ul>
<b>Business sector:</b>
<ul style="list-style-type: none"> <li>- Lic. Agustín F. Legorreta, Presidente del CCE.</li> </ul>

Table 3

<b>Pact for the Stability and Economic Growth (Pacto para la Estabilidad y el Crecimiento Económico (November 1990 a December 1991))</b>
<b>Government:</b>
<ul style="list-style-type: none"> <li>- Lic. Carlos Salinas de Gortari, Presidente Constitucional</li> <li>- Dr. Ernesto Zedillo, Secretario de Programación y Presupuesto.</li> <li>- Dr. Pedro Aspe Armella, Secretario de Hacienda y Crédito Público.</li> <li>- Lic. Arsenio Farrell Cubillas, Secretario del Trabajo y Previsión Social.</li> <li>- Dr. Jaime Serra Puche, Secretario de Comercio y Fomento Industrial.</li> <li>- Sr. Fernando Gutiérrez Barrios, Secretario de Gobernación.</li> <li>- Prof. Carlos Hank González, Secretario de Agricultura y Recursos Hidráulicos.</li> </ul>
<b>Labor sector:</b>
<ul style="list-style-type: none"> <li>- Sr. Fidel Velásquez, Secretario General de la CTM.</li> <li>- Arq. Rafael Rivapalacio Pontones, Presidente del Congreso del Trabajo.</li> <li>- Sr. Roberto Castellanos Tovar, Secretario General de la Confederación Revolucionaria de Obreros y Campesinos del Distrito Federal y Área Metropolitana.</li> <li>- Dip. y Lic. Ignacio Cuauhtemoc Paleta, Secretario General de la Confederación Regional Obrera Mexicana.</li> <li>- Sr. Francisco Hernández Juárez, Secretario General del Sindicato de Telefonistas de la República Mexicana.</li> <li>- Lic. Rafael de Jesús Lozano, Secretario General de la Federación de Sindicatos de Trabajadores al Servicio del Estado.</li> <li>- Sr. Jorge Sánchez García, Secretario del Sindicato Mexicano de Electricistas.</li> </ul>
<b>Peasant sector:</b>
<ul style="list-style-type: none"> <li>- Sen. Maximiliano Silerio Esparza, Secretario General de la Confederación Nacional Campesina.</li> <li>- Dip. y Lic. Jesús González Gortazar, Presidente de la Confederación Nacional de la Pequeña Propiedad Agrícola, Ganadera y Forestal.</li> <li>- Ing. Cesar González Quiroga, Presidente de la Confederación Nacional Ganadera.</li> </ul>
<b>Business sector:</b>
<ul style="list-style-type: none"> <li>- C.P. Rolando Vega Iñiguez, Presidente del Consejo Coordinador Empresarial.</li> <li>- Ing. Hugo Villalobos González, Presidente de la Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo.</li> <li>- C.P. Luis German Cárcoba García, Presidente de la Confederación de Cámaras Industriales de los Estados Unidos Mexicanos.</li> <li>- Ing. Jorge Ocejo Moreno, Presidente de la Confederación Patronal de la República Mexicana.</li> <li>- Sr. Rolando Vega Sáenz, Presidente de la Asociación Mexicana de Instituciones de Seguros.</li> <li>- Sr. Antonio Madero Bracho, Presidente del Consejo Mexicano de Hombres de Negocios.</li> <li>- Sr. Alonso de Garay, Presidente en Funciones de la Asociación Mexicana de Casas de Bolsa.</li> <li>- Sr. Benito Alvarez Ordoñez, Presidente en Funciones de la Cámara Nacional de Comercio de la Ciudad de México.</li> <li>- Lic. Roberto Sánchez de la Vara, Presidente de la Cámara Nacional de la Industria de la Transformación.</li> <li>- Sr. Javier Garza de la Cabada, Presidente del Consejo Nacional Agropecuario.</li> </ul>

Table 4

<b>Pact for the Stability and Economic Growth (Pacto para la Estabilidad y el Crecimiento Económico), November 10, 1991-January 1993.</b>
<b>Government:</b>
<ul style="list-style-type: none"> <li>- Lic. Carlos Salinas de Gortari, Presidente Constitucional</li> <li>- Dr. Ernesto Zedillo, Secretario de Programación y Presupuesto.</li> <li>- Dr. Pedro Aspe Armella, Secretario de Hacienda y Crédito Público.</li> <li>- Lic. Arsenio Farrell Cubillas, Secretario del Trabajo y Previsión Social.</li> <li>- Dr. Jaime Serra Puche, Secretario de Comercio y Fomento Industrial.</li> <li>- Sr. Fernando Gutiérrez Barrios, Secretario de Gobernación.</li> <li>- Prof. Carlos Hank González, Secretario de Agricultura y Recursos Hidráulicos.</li> </ul>
<b>Labor sector:</b>
<ul style="list-style-type: none"> <li>- Sr. Fidel Velásquez, Secretario General de la CTM.</li> <li>- Sr. Roberto Castellanos Tovar, Secretario General de la Confederación Revolucionaria de Obreros y Campesinos del Distrito Federal y Área Metropolitana.</li> <li>- Dip. y Lic. Ignacio Cuauhtemoc Paleta, Secretario General de la Confederación Regional Obrera Mexicana.</li> <li>- Sr. Francisco Hernández Juárez, Secretario General del Sindicato de Telefonistas de la República Mexicana.</li> </ul>
<b>Peasant sector:</b>
<ul style="list-style-type: none"> <li>- Sen. y Lic. Maximiliano Silerio Esparza, Secretario General de la Confederación Nacional Campesina.</li> <li>- Dip. y Lic. Jesús González Gortazar, Presidente de la Confederación Nacional de la Pequeña Propiedad Agrícola, Ganadera y Forestal.</li> <li>- Lic. Hugo Andrés Araujo de la Torre, Secretario Coordinador de Uniones del Comité Ejecutivo Nacional de la CNC.</li> </ul>
<b>Business sector:</b>
<ul style="list-style-type: none"> <li>- Lic. Nicolás Madahuar Cámara, Presidente del Consejo Coordinador Empresarial.</li> <li>- Ing. Hugo Villalobos González, Presidente de la Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo.</li> <li>- C.P. Jesús Cevallos Gómez, Presidente de la Confederación de Cámaras Industriales de los Estados Unidos Mexicanos.</li> <li>- Ing. Héctor Larios Santillán, Presidente de la Confederación Patronal de la República Mexicana.</li> <li>- Sr. Rolando Vega Sáenz, Presidente de la Asociación Mexicana de Instituciones de Seguros.</li> <li>- Sr. Enrique Hernández Pons, Presidente del Consejo Mexicano de Hombres de Negocios.</li> <li>- Sr. Alonso de Garay, Vicepresidente de la Asociación Mexicana de Casas de Bolsa.</li> <li>- Sr. Vicente Mayo García, Presidente en Funciones de la Cámara Nacional de Comercio de la Ciudad de México.</li> <li>- Lic. Roberto Sánchez de la Vara, Presidente de la Cámara Nacional de la Industria de la Transformación.</li> <li>- Sr. Javier Garza de la Cabada, Presidente del Consejo Nacional Agropecuario.</li> </ul>

Table 5

<b>Pact for the Stability, Competitiveness and Employment (Pacto para la Estabilidad, la Competitividad y el Empleo), October 3, 1993–December 31, 1994.</b>
<b>Government:</b>
<ul style="list-style-type: none"> <li>- Lic. Carlos Salinas de Gortari, Presidente Constitucional.</li> <li>- Dr. Ernesto Zedillo, Secretario de Programación y Presupuesto.</li> <li>- Dr. Pedro Aspe Armella, Secretario de Hacienda y Crédito Público.</li> <li>- Lic. Arsenio Farell Cubillas, Secretario del Trabajo y Previsión Social.</li> <li>- Dr. Jaime Serra Puche, Secretario de Comercio y Fomento Industrial.</li> <li>- Lic. José Patrocinio González Blanco Garrido, Secretario de Gobernación.</li> <li>- Prof. Carlos Hank González, Secretario de Agricultura y Recursos Hidráulicos.</li> <li>- Lic. Luis Donaldo Colosio Murrieta, Secretario de Desarrollo Social.</li> </ul>
<b>Labor sector:</b>
<ul style="list-style-type: none"> <li>- C. Mario Suárez García, Presidente del Congreso del Trabajo.</li> <li>- C. Fidel Velázquez Sánchez, Secretario General de la CTM.</li> <li>- C. Sen. Alberto Juárez Blancas, Secretario General de la Confederación Revolucionaria de Obreros y Campesinos.</li> <li>- C. Sen. Lic. Carlos Jiménez Macias, Secretario General de la Federación de Sindicatos de Trabajadores al Servicio del Estado.</li> <li>- Lic. Ignacio Cuauhtemoc Paleta, Secretario General de la Confederación Regional Obrera Mexicana.</li> <li>- Lic. Joel López Mayren, Secretario General de la Confederación Obrera Revolucionaria.</li> <li>- Sr. Antonio Castellanos Tovar, Secretario Nacional del Sindicato de Trabajadores Ferrocarrileros de la República Mexicana.</li> <li>- Sr. Napoleón Gómez Sada, Secretario General del Sindicato Nacional de Trabajadores Mineros, Metalúrgicos y Similares de la República Mexicana.</li> <li>- Lic. Joaquín Gamboa Pascoe, Secretario General del la Federación de Trabajadores del Distrito Federal.</li> <li>- Sr. Pedro Bernardo Castillo Medellín, Secretario General del Sindicato Mexicano de Electricistas.</li> <li>- Sr. Carlos Romero Deschamps, Secretario General del Sindicato de Trabajadores Petroleros de la República Mexicana.</li> <li>- Sr. Carlos Rivas Ramírez, Secretario General de la Confederación General de Trabajadores.</li> <li>- Sr. Francisco Hernández Juárez, Secretario General del Sindicato de Telefonistas de la República Mexicana.</li> <li>- Profa. Elba Esther Gordillo Morales, Secretaria General del Sindicato Nacional de Trabajadores de la Educación.</li> <li>- Sr. José García Soria Almaguer, Secretario General de la Federación de Agrupaciones Obreras de la República Mexicana.</li> <li>- Dip. Dr. Miguel Angel Saéñz Garza, Secretario General del Sindicato Nacional de Trabajadores del Seguro Social.</li> <li>- Cap. P.A. Celso Domínguez Gálvez, Secretario General de la Asociación Sindical de Pilotos Aviadores.</li> <li>- Arq. Rafael Riva Palacio Pontones, Secretario General del Sindicato Nacional de Trabajadores del INFONAVIT.</li> <li>- Dip. Ing. Julio Méndez Alemán, Secretario General de la Asociación Nacional de Actores.</li> <li>- Lic. Arnulfo Mayorga Ortíz, Secretario General del Sindicato de Trabajadores de la Producción Cinematográfica de la República Mexicana.</li> </ul>

- Sr. José Luis Duval, Secretario General Interino de la Federación Nacional de Uniones Teatrales y Espectáculos Públicos.
- Lic. Amulfo Mayorga Ortiz, Secretario General del Sindicato de Trabajadores Técnicos y Manuales de Estudios y Laboratorios de la Producción Cinematográfica, Similares y Conexos de la República Mexicana.
- Sr. Gustavo Estrada Urbina, Secretario General de la Confederación Nacional "Martín Torres".
- Sr. Antonio Cruz Ordaz, Secretario General Interino de la Federación Revolucionaria de Obreros Textiles.
- Sr. Eduardo Alejandro Eguiza Salomon, Secretario General de la Asociación Sindical de Sobrecargos de Aviación.
- Sr. Vicente Andrade Meza, Secretario General de la Federación Nacional de Cañeros.
- Sr. Jesús Moreno Jiménez, Secretario General de la Confederación de Obreros y Campesinos del Estado de México.
- Sr. Luis Hoyos Aguilar, Secretario General de la Unión Linotipográfica de la República Mexicana.
- Sr. Francisco Munguía Alejos, Secretario General de la Alianza de Tranviarios de México.
- Sr. Rogelio Reyes Nuñez, Secretario General del Sindicato Nacional de Trabajadores del Ramo de Lana y Conexos.
- Sr. Alberto Serrano Serrano, Secretario General del Sindicato de Trabajadores de Novedades Editores.
- Juana Consuelo Méndez Vázquez, Secretaria General de la Federación de Sindicatos de Trabajadores al Servicio de los Gobiernos de los Estados, Municipios e Instituciones Descentralizadas de Carácter Estatal de la República Mexicana.
- Sr. Carlos Santa Ana Alavéz, Secretario General del Sindicato Nacional de Redactores de la Prensa y Trabajadores de Actividades Similares y Conexas.
- Lic. Agueda Galicia Jiménez, Secretaria General de la Federación de Sindicatos de Trabajadores al Servicio de los Gobiernos de los Estados, Municipios e Instituciones Descentralizadas de los Gobiernos Estatales y Municipales de la República Mexicana.
- Ing. Héctor Cuapio Ortiz, Secretario General del Sindicato Unico de Trabajadores de la Industria Nuclear.
- Sr. Antonio Reyes, Secretario General del Sindicato Nacional de Empleados de FONACOT.
- Lic. Enrique A. Aguilar Borrego, Secretario General de la Federación Nacional de Sindicatos Bancarios.
- Lic. Leonel Domínguez Rivero, Secretario General de la Confederación de Trabajadores y Campesinos.
- Lic. Netzahualcoyotl de la Vega García, Secretario General del Sindicato de Trabajadores de la Industria de la Radio Difusión, Televisión, Similares y Conexos de la República Mexicana.

**Peasant sector:**

- Lic. Hugo Andrés Araujo de la Torre, Secretario General de la Confederación Nacional Campesina.
- Ing. Cesar González Quiroga, Presidente de la Confederación Nacional Ganadera.
- Dip. Eduardo Domínguez Rodríguez, Coordinador del Consejo Nacional de Empresas Campesinas de la Confederación Nacional Campesina.
- Dip. Lic. Jesús González Gortazar, Presidente de la Confederación Nacional de Propietarios Rurales.

**Business sector:**

- C.P. Luis Germán Carcoba García, Presidente del Consejo Coordinador Empresarial.
- C.P. Ricardo Dajer Nahum, Presidente de la Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo.
- Lic. Fernando Cortina Legarreta, Presidente de la Confederación de Cámaras Industriales de los Estados Unidos Mexicanos.
- Lic. Antonio Sánchez Díaz de Rivera, Presidente de la Confederación Patronal de la República Mexicana.
- Lic. José Luis Llamosa, Presidente de la Asociación Mexicana de Instituciones de Seguros.
- C.P. Antonio del Valle Ruíz, Presidente del Consejo Mexicano de Hombres de Negocios.
- Lic. Manuel Robleda González de Castilla, Presidente de la Asociación Mexicana de Casas de Bolsa.
- Lic. Fernando Rius Abbud, Presidente de la Cámara Nacional de Comercio de la Ciudad de México.
- Lic. Vivente Gutiérrez Camposeco, Presidente de la Cámara Nacional de la Industria de la Transformación.
- Ing. Eduardo R. Bours Castelo, Presidente del Consejo Nacional Agropecuario.

Table 6

<b>Pact for the Stability, Competitiveness and Employment (Pacto para la Estabilidad, la Competitividad, y el Empleo) January 12, 1994).</b>
<b>Government:</b>
<ul style="list-style-type: none"> <li>- Lic. Carlos Salinas de Gortari</li> <li>- Dr. Ernesto Zedillo, Secretario de Programación y Presupuesto.</li> <li>- Dr. Pedro Aspe Armella, Secretario de Hacienda y Crédito Público.</li> <li>- Lic. Arsenio Farrell Cubillas, Secretario del Trabajo y Previsión Social.</li> <li>- Dr. Jaime Serra Puche, Secretario de Comercio y Fomento Industrial.</li> <li>- Dr. Jorge Carpizo Macgregor, Secretario de Gobernación.</li> <li>- Prof. Carlos Hank González, Secretario de Agricultura y Recursos Hidráulicos.</li> <li>- Ing. Carlos Rojas Gutiérrez, Secretario de Desarrollo Social.</li> <li>- Lic. Fernando Solana Morales, Secretario de Educación Pública.</li> </ul>
<b>Labor sector:</b>
<ul style="list-style-type: none"> <li>- C. Fidel Velázquez Sánchez, Presidente del Congreso del Trabajo y Secretario General de la CTM.</li> <li>- C. Sen. Alberto Juárez Blancas, Secretario General de la Confederación Revolucionaria de Obreros y Campesinos.</li> <li>- C. Sen. Lic. Carlos Jiménez Macias, Secretario General de la Federación de Sindicatos de Trabajadores al Servicio del Estado.</li> <li>- Lic. Ignacio Cuauhtemoc Paleta, Secretario General de la Confederación Regional Obrera Mexicana.</li> <li>- Lic. Joel López Mayren, Secretario General de la Confederación Obrera Revolucionaria.</li> <li>- Sr. Antonio Castellanos Tovar, Secretario Nacional del Sindicato de Trabajadores Ferrocarrileros de la República Mexicana.</li> <li>- Sr. Napoleón Gómez Sada, Secretario General del Sindicato Nacional de Trabajadores Mineros, Metalúrgicos y Similares de la República Mexicana.</li> <li>- Lic. Joaquín Gamboa Pascoe, Secretario General del la Federación de Trabajadores del Distrito Federal.</li> <li>- Sr. Pedro Bernardo Castillo Medellín, Secretario General del Sindicato Mexicano de Electricistas.</li> <li>- Sr. Carlos Romero Deschamps, Secretario General del Sindicato de Trabajadores Petroleros de la República Mexicana.</li> <li>- Sr. Carlos Rivas Ramírez, Secretario General de la Confederación General de Trabajadores.</li> <li>- Sr. Francisco Hernández Juárez, Secretario General del Sindicato de Telefonistas de la República Mexicana.</li> <li>- Mario Suárez García, Secretario General de la Confederación Revolucionaria de Trabajadores.</li> <li>- Profa. Elba Esther Gordillo Morales, Secretaria General del Sindicato Nacional de Trabajadores de la Educación.</li> <li>- Sr. José García Soria Almaguer, Secretario General de la Federación de Agrupaciones Obreras de la República Mexicana.</li> <li>- Dip. Dr. Miguel Angel Saéñz Garza, Secretario General del Sindicato Nacional de Trabajadores del Seguro Social.</li> <li>- Cap. P.A. Celso Domínguez Gálvez, Secretario General de la Asociación Sindical de Pilotos Aviadores.</li> </ul>



- Arq. Rafael Riva Palacio Pontones, Secretario General del Sindicato Nacional de Trabajadores del INFONAVIT.
  - Dip. Ing. Julio Méndez Alemán, Secretario General de la Asociación Nacional de Actores.
  - Lic. Amulfo Mayorga Ortiz, Secretario General del Sindicato de Trabajadores de la Producción Cinematográfica de la República Mexicana.
  - Sr. José Luis Duval, Secretario General Interino de la Federación Nacional de Uniones Teatrales y Espectáculos Públicos.
  - Lic. Amulfo Mayorga Ortiz, Secretario General del Sindicato de Trabajadores Técnicos y Manuales de Estudios y Laboratorios de la Producción Cinematográfica, Similares y Conexos de la República Mexicana.
  - Sr. Gustavo Estrada Urbina, Secretario General de la Confederación Nacional "Martín Torres".
  - Sr. Antonio Cruz Ordaz, Secretario General Interino de la Federación Revolucionaria de Obreros Textiles.
  - Sr. Eduardo Alejandro Eguiza Salomon, Secretario General de la Asociación Sindical de Sobrecargos de Aviación.
  - Sr. Vicente Andrade Meza, Secretario General de la Federación Nacional de Cañeros.
  - Sr. Jesús Moreno Jiménez, Secretario General de la Confederación de Obreros y Campesinos del Estado de México.
  - Sr. Luis Hoyos Aguilar, Secretario General de la Unión Linotipográfica de la República Mexicana.
  - Sr. Francisco Munguía Alejos, Secretario General de la Alianza de Tranviarios de México.
  - Sr. Rogelio Reyes Nuñez, Secretario General del Sindicato Nacional de Trabajadores del Ramo de Lana y Conexos.
  - Sr. Alberto Serrano Serrano, Secretario General del Sindicato de Trabajadores de Novedades Editores.
  - Juana Consuelo Méndez Vázquez, Secretaria General de la Federación de Sindicatos de Trabajadores al Servicio de los Gobiernos de los Estados, Municipios e Instituciones Descentralizadas de Carácter Estatal de la República Mexicana.
  - Sr. Carlos Santa Ana Alavéz, Secretario General del Sindicato Nacional de Redactores de la Prensa y Trabajadores de Actividades Similares y Conexas.
  - Lic. Agueda Galicia Jiménez, Secretaria General de la Federación de Sindicatos de Trabajadores al Servicio de los Gobiernos de los Estados, Municipios e Instituciones Descentralizadas de los Gobiernos Estatales y Municipales de la República Mexicana.
  - Ing. Héctor Cuapio Ortiz, Secretario General del Sindicato Unico de Trabajadores de la Industria Nuclear.
  - Sr. Antonio Reyes, Secretario General del Sindicato Nacional de Empleados de FONACOT.
  - Lic. Enrique A. Aguilar Borrego, Secretario General de la Federación Nacional de Sindicatos Bancarios.
  - Lic. Leonel Domínguez Rivero, Secretario General de la Confederación de Trabajadores y Campesinos.
  - Lic. Netzahualcoyotl de la Vega García, Secretario General del Sindicato de Trabajadores de la Industria de la Radio Difusión, Televisión, Similares y Conexos de la República Mexicana.
- Peasant sector:**
- Lic. Hugo Andrés Araujo de la Torre, Secretario General de la Confederación Nacional Campesina.
  - Dip. Lic. Jesús González Gortazar, Presidente de la Confederación Nacional de Proprietarios Rurales.
  - Ing. Cesar González Quiroga, Presidente de la Confederación Nacional Ganadera.

**Business sector:**

- C.P. Luis Germán Carcoba García, Presidente del Consejo Coordinador Empresarial.
- C.P. Ricardo Dajer Nahum, Presidente de la Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo.
- Lic. Fernando Cortina Legarreta, Presidente de la Confederación de Cámaras Industriales de los Estados Unidos Mexicanos.
- Lic. Antonio Sánchez Díaz de Rivera, Presidente de la Confederación Patronal de la República Mexicana.
- Lic. José Luis Llamosa, Presidente de la Asociación Mexicana de Instituciones de Seguros.
- C.P. Antonio del Valle Ruíz, Presidente del Consejo Mexicano de Hombres de Negocios.
- Lic. Manuel Robleda González de Castilla, Presidente de la Asociación Mexicana de Casas de Bolsa.
- Lic. Fernando Rius Abbud, Presidente de la Cámara Nacional de Comercio de la Ciudad de México.
- Lic. Vivente Gutiérrez Camposeco, Presidente de la Cámara Nacional de la Industria de la Transformación.
- Ing. Eduardo R. Bours Castelo, Presidente del Consejo Nacional Agropecuario.
- Lic. Roberto Hernández Ramírez, Presidente de la Asociación de Bancos.

Table 7

<b>Pact for the Welfare, Stability and Growth (Pacto para el Bienestar, la Estabilidad y el Crecimiento), September 24, 1994)</b>
<b>Government:</b>
<ul style="list-style-type: none"> <li>- Lic. Carlos Salinas de Gortari, Presidente Constitucional.</li> <li>- Dr. Pedro Aspe Armella, Secretario de Hacienda y Crédito Público.</li> <li>- Lic. Manuel Gomezperalta Damirón, Secretario del Trabajo y Previsión Social.</li> <li>- Dr. Jaime Serra Puche, Secretario de Comercio y Fomento Industrial.</li> <li>- Dr. Jorge Carpizo Macgregor, Secretario de Gobernación.</li> <li>- Prof. Carlos Hank González, Secretario de Agricultura y Recursos Hidráulicos.</li> <li>- Ing. Carlos Rojas Gutiérrez, Secretario de Desarrollo Social.</li> <li>- Lic. José Angel Pescador Osuna, Secretario de Educación Pública.</li> <li>- Lic. Miguel Mancera Aguayo, Gobernador del Banco de México.</li> </ul>
<b>Labor sector:</b>
<ul style="list-style-type: none"> <li>- C. Fidel Velázquez Sánchez, Presidente del Congreso del Trabajo y Secretario General de la CTM.</li> <li>- C. Sen. Alberto Juárez Blancas, Secretario General de la Confederación Revolucionaria de Obreros y Campesinos.</li> <li>- C. Sen. Lic. Carlos Jiménez Macias, Secretario General de la Federación de Sindicatos de Trabajadores al Servicio del Estado.</li> <li>- Lic. Ignacio Cuauhtemoc Paleta, Secretario General de la Confederación Regional Obrera Mexicana.</li> <li>- Lic. Joel López Mayren, Secretario General de la Confederación Obrera Revolucionaria.</li> <li>- Sr. Antonio Castellanos Tovar, Secretario Nacional del Sindicato de Trabajadores Ferrocarrileros de la República Mexicana.</li> <li>- Sr. Napoleón Gómez Sada, Secretario General del Sindicato Nacional de Trabajadores Mineros, Metalúrgicos y Similares de la República Mexicana.</li> <li>- Lic. Joaquín Gamboa Pascoe, Secretario General del la Federación de Trabajadores del Distrito Federal.</li> <li>- Sr. Pedro Bernardo Castillo Medellín, Secretario General del Sindicato Mexicano de Electricistas.</li> <li>- Sr. Carlos Romero Deschamps, Secretario General del Sindicato de Trabajadores Petroleros de la República Mexicana.</li> <li>- Sr. Carlos Rivas Ramírez, Secretario General de la Confederación General de Trabajadores.</li> <li>- Sr. Francisco Hernández Juárez, Secretario General del Sindicato de Telefonistas de la República Mexicana.</li> <li>- Mario Suárez García, Secretario General de la Confederación Revolucionaria de Trabajadores.</li> <li>- Profa. Elba Esther Gordillo Morales, Secretaria General del Sindicato Nacional de Trabajadores de la Educación.</li> <li>- Sr. José García Soria Almaguer, Secretario General de la Federación de Agrupaciones Obreras de la República Mexicana.</li> <li>- Dip. Dr. Miguel Angel Saéñz Garza, Secretario General del Sindicato Nacional de Trabajadores del Seguro Social.</li> <li>- Cap. P.A. Carlos Smith Picco, Secretario General de la Asociación Sindical de Pilotos Aviadores.</li> </ul>

<ul style="list-style-type: none"> <li>- Arq. Rafael Riva Palacio Pontones, Secretario General del Sindicato Nacional de Trabajadores del INFONAVIT.</li> <li>- Humberto Elizondo Kauffman, Secretario General de la Asociación Nacional de Actores.</li> <li>- Héctor Ortega Gómez, Secretario General del Sindicato de Trabajadores de la Producción Cinematográfica de la República Mexicana.</li> <li>- Sr. José Luis Duval, Secretario General Interino de la Federación Nacional de Uniones Teatrales y Espectáculos Públicos.</li> <li>- Isaac Tellez Guevara, Secretario General del Sindicato de Trabajadores Técnicos y Manuales de Estudios y Laboratorios de la Producción Cinematográfica, Similares y Conexos de la República Mexicana.</li> <li>- Sr. Gustavo Estrada Urbina, Secretario General de la Confederación Nacional "Martín Torres".</li> <li>- Sr. Antonio Cruz Ordaz, Secretario General Interino de la Federación Revolucionaria de Obreros Textiles.</li> <li>- Sr. Eduardo Alejandro Eguiza Salomon, Secretario General de la Asociación Sindical de Sobrecargos de Aviación.</li> <li>- Sr. Vicente Andrade Meza, Secretario General de la Federación Nacional de Cañeros.</li> <li>- Sr. Jesús Moreno Jiménez, Secretario General de la Confederación de Obreros y Campesinos del Estado de México.</li> <li>- Sr. Luis Hoyos Aguilar, Secretario General de la Unión Linotipográfica de la República Mexicana.</li> <li>- Sr. Francisco Munguía Alejos, Secretario General de la Alianza de Tranviarios de México.</li> <li>- Sr. Rogelio Reyes Nuñez, Secretario General del Sindicato Nacional de Trabajadores del Ramo de Lana y Conexos.</li> <li>- Sr. Alberto Serrano Serrano, Secretario General del Sindicato de Trabajadores de Novedades Editores.</li> <li>- Juana Consuelo Méndez Vázquez, Secretaria General de la Federación de Sindicatos de Trabajadores al Servicio de los Gobiernos de los Estados, Municipios e Instituciones Descentralizadas de Carácter Estatal de la República Mexicana. - Sr. Carlos Santa Ana Alavéz, Secretario General del Sindicato Nacional de Redactores de la Prensa y Trabajadores de Actividades Similares y Conexas.</li> <li>- Lic. Agueda Galicia Jiménez, Secretaria General de la Federación de Sindicatos de Trabajadores al Servicio de los Gobiernos de los Estados, Municipios e Instituciones Descentralizadas de los Gobiernos Estatales y Municipales de la República Mexicana.</li> <li>- Ing. Héctor Cuapio Ortiz, Secretario General del Sindicato Unico de Trabajadores de la Industria Nuclear.</li> <li>- Sr. Antonio Reyes, Secretario General del Sindicato Nacional de Empleados de FONACOT.</li> <li>- Lic. Enrique A. Aguilar Borrego, Secretario General de la Federación Nacional de Sindicatos Bancarios.</li> <li>- Lic. Leonel Domínguez Rivero, Secretario General de la Confederación de Trabajadores y Campesinos.</li> <li>- Lic. Netzahualcoyotl de la Vega García, Secretario General del Sindicato de Trabajadores de la Industria de la Radio Difusión, Televisión, Similares y Conexos de la República Mexicana.</li> </ul>
<p><b>Peasant sector:</b></p> <ul style="list-style-type: none"> <li>- Lic. Hugo Andrés Araujo de la Torre, Secretario General de la Confederación Nacional Campesina.</li> <li>- Dip. Lic. Jesús González Gortazar, Presidente de la Confederación Nacional de Propietarios Rurales.</li> <li>- Ing. Cesar González Quiroga, Presidente de la Confederación Nacional Ganadera.</li> </ul>

**Business sector:**

- C.P. Luis Germán Carcoba García, Presidente del Consejo Coordinador Empresarial.
- Lic. Germán Antonio González Quintero, Presidente de la Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo.
- Lic. Fernando Cortina Legarreta, Presidente de la Confederación de Cámaras Industriales de los Estados Unidos Mexicanos.
- Lic. Antonio Sánchez Díaz de Rivera, Presidente de la Confederación Patronal de la República Mexicana.
- Lic. José Luis Llamosa, Presidente de la Asociación Mexicana de Instituciones de Seguros.
- C.P. Antonio del Valle Ruíz, Presidente del Consejo Mexicano de Hombres de Negocios.
- Lic. Manuel Robleda González de Castilla, Presidente de la Asociación Mexicana de Intermediarios Bursátiles.
- Ing. Salvador López Negrete, Presidente de la Cámara Nacional de Comercio de la Ciudad de México.
- Lic. Vivente Gutiérrez Camposeco, Presidente de la Cámara Nacional de la Industria de la Transformación.
- Ing. Jorge Mazon Rubio, Presidente del Consejo Nacional Agropecuario.
- Lic. Roberto Hernández Ramírez, Presidente de la Asociación de Bancos.

Table 8

<b>Pact for the Welfare, Stability and Growth (Pacto para el Bienestar, la Estabilidad y el Crecimiento), December 21, 1994.</b>
<b>Government:</b>
- Santiago Oñate Laborde. Secretario del Trabajo y Previsión Social. - Herminio Blanco Mendoza. Secretario de Comercio y Fomento Industrial. - Fausto Alzati Araiza. Secretario de Educación Pública. - Jaime Serra Puche. Secretario de Hacienda y Crédito Público. - Arturo Warman Gryj. Secretario de Agricultura y Recursos Hidráulicos. - Ing. Carlos Rojas Gutiérrez. Secretario de Desarrollo Social

Table 9

<b>Accord of Unity to Overcome the Economic Emergency ( Acuerdo de Unidad para Superar la Emergencia Económica) January 3, 1995.</b>
<b>Government:</b>
Dr. Ernesto Zedillo Ponce de León Presidente Constitucional de los Estados Unidos Mexicanos.

Table 10

<b>Alliance for the Economic Recovery (Alianza para la Recuperación Económica) March 22, 1996.</b>
<b>Government:</b>
- Lic. Javier Bonilla García. Secretario del Trabajo y Previsión Social - Dr. Guillermo Ortiz Martínez Srío.de H.y C.P.Dr. Herminio Blanco, Comercio y Fomento Industrial
<b>Labor Sector:</b>
- Arq. Rafael Riva Palacio Pontones Presidente del Congreso del Trabajo - Sen. Manuel Cadena Morales Representante de la Confederación. De Trabajadores de México
<b>Business sector:</b>
- Ing. Héctor Larios Santillán. Presidente del Consejo Coordinador Empresarial - Lic. Carlos Abascal Carranza. Presidente de Confederación Patronal de la República Mexicana.

Table 11

<b>Accord of Cooperation and Consultation Among Productive Sectors (Acuerdo de Cooperación y Consulta de los Sectores Productivos) February 24, 1998.</b>
<b>Government:</b>
Dr. Guillermo Ortiz Martínez Gobernador del Banco de México. Lic. Javier Bonilla García. Secretario del Trabajo y Previsión Social.
<b>Labor sector:</b>
Lic. Héctor Valdés Romo Presidente del Congreso del Trabajo
<b>Peasant sector:</b>
Lic. Beatriz Paredes. Secretaria General. Nacional Campesina
<b>Business sector:</b>
Ing. Eduardo Bours Castelo. Presidente Consejo Coordinador Empresarial.

## Appendix E

### Methods

This research work is based on an extensive review of secondary literature, documents and record and the results of a series of confidential, semi-structured interviews held by the author.

#### Interviews:

This author interviewed 41 high ranking government officials, and influential members of the labor and business community in Mexico. The interviews were confidential, and held in Mexico City between January 1996 and December of 1998. The complete roster of interviews is contained in appendix F.

The author applied 41 individual semi-structured interviews. The average duration of the interviews was 1 ½ hrs. Semi-structured interviews were an extremely useful tool to gain in-depth knowledge of the Mexican economic players preferences to participate or not in the process of *concertation* in the pacts. It provided the author with a good understanding of the strategies of the labor and business sector leaders for engaging in a cooperative process.

This author believes that the use of highly structured interviews would had

impede a frank and open discussion. Thus, semi-structured interviews are the best choice for achieving the desired substantive depth without sacrificing validity. Furthermore, this author believed that there was no contradiction between this empirical method and the aim of the dissertation, since “case study” objectives are hypothesis generating and not hypothesis testing. Thus, this dissertation do not attempts to assess rival explanations through statistical control.

In order to limiting selection bias in the observations, a number of the interviews were applied to non-participants of the pacts. Thus, creating a control group was an important part of this research.

The sample was obtained through a non probabilistic “snow ball sampling”. The reason for using “snow ball sampling” and not to engage in probabilistic surveying, was the high level of rejection to interviews that this author found at the beginning of his field research from both the labor and business community. “Snow-ball sampling” is a useful method to overcome serious rejection problems and achieving the desired substantive in-depth knowledge..

Records:

This author analyzed 17 minutes of the meetings held by the Follow-up



Commission of the Pact (Reuniones Ordinarias de la Comisión de Seguimiento y Evaluación del Pacto para la Estabilidad y el Crecimiento Económico, Pacto para la Estabilidad la Competitividad y el Empleo y el Pacto para el Bienestar, la Estabilidad y el Crecimiento) between April of 1991 and December of 1994. Fourteen of these minutes were chosen randomly and three were chosen because these meeting took place in dates close to important political events in Mexico: the Zapatista rebellion in January 1993; the assassination of the PRI's candidate Luis Donaldo Colosio in March 1993, and the economic crisis of December 1994.

### **Interview Instrument**

#### **Business Sector:**

##### Organization:

- To which business organization do you belong to?
- How often do you participate in you association meetings?
- Are you an active member of your business association?
- How successful do you think your organization has been in influencing government economic policy? / Has it always been like that?
- Are the interest of your sector well represented by the leaders of your association?
- Does your association/chamber effectively represents the interest of your sector as a whole? or are some interests within you organization that are better represented?

- Do you think that the business sector had an important influence in the creation of the PSE/PECE?
- On your opinion which of these groups have had the most influence on government economic policy and which the least:
  - a) bankers
  - b) merchants
  - c) multinational corporations
  - d) large industrialists
  - e) small industrialists
  - f) workers
  - g) peasants
- Were you or your company consulted in some form about the formation and implementation of the PSE in 1987?
- Has your participation in the policy-making process of you organizations change since 1987? How?
- Do you think that the business sector acts as a unified political force?

Capacity:

- Were you part of the consultation that took place every month (Comisión del Seguimiento del Pacto)?
- Do you believe that the government has a good understanding of the problems of the companies?
- Do you think that the governments of Miguel de la Madrid, Carlos Salinas, and Ernesto Zedillo had/has the capacity to develop coherent economic policy? Has it always been like that, has it changed?
- Do you believe that governments of Miguel de la Madrid and Salinas de Gortari had skillful government officials that were capable of designing coherent economic policy?
- Do you trust technocrats from the government?
- How would you rate the relationship between the workers and the administration of your company?

- How would you rate your relationship with officials of the government and labor leaders?
- How would you rate government expertise on economic issue?
- Has your association developed a policy-making capacities?
- Was it important to negotiate with labor in the agreements of the PSE/PECE?

Legacies:

- Do you support the idea that government should mediate labor-capital conflict?
- Was concertation a key element in the success of the PSE/PECE?
- Should the government continue support concerted action among business for the success of economic policies?

Alternative Hypotheses:

Economic:

- What were the economic benefits achieved by the PSE and subsequent pacts for your firm?
- How would you rate the performance of your company in the last year, five years and since 1987?
- Did price controls affect the profits of your firm, in which way?
- Was inflation hurting the profits of your firm, in which way?
- In what manner did foreign competition affect your sales and the utilities of your company?
- Do you think that the economic policies of the governments of Miguel de la Madrid and Salinas de Gortari have had a positive impact in the economic development of Mexico?
- Do you think that the economic policies of the governments of Miguel de la Madrid and Salinas de Gortari have had a positive impact on your business?

- Do you think that the PSE/PECE has been an effective economic tool to control inflation (even though it tries to control prices)?
- Did large firms control pricing policy?
- Did large-retailers control the behavior of their supplier in pricing policy?

**Authoritarianism:**

- In what manner was your company able to comply with price controls in 1987, and further reduce prices by 3% in 1990?
- Was your company forced in some way to accept price controls within the PSE/PECE?
- Did you had the choice of not joining the PSE/PECE?
- What are the differences between the pacts?
- Which business groups, do you believe, obtained most of the economic and political inducement from the governments of Miguel de la Madrid, and Carlos Salinas de Gortari?
- What are the successes and failures of the pacts?

**Labor Sector**

**Organization:**

- To which labor organization does your unions belong to?
- How often do you participate in your confederation meetings?
- Are you an active member of your labor confederation?
- How successful do you think your organization has been in influencing government economic policy? / Has it always been like that?
- Are the interest of your sector well represented by the leaders of your association?

- Does your confederation effectively represents the interest of your sector as a whole? or are some interests within you organization that are better represented?
- Do you think that the labor sector had an important influence in the creation of the PSE/PECE?
- On your opinion which of these groups have had the most influence on government economic policy and which the least:
  - a) bankers
  - b) merchants
  - c) multinational corporations
  - d) large industrialists
  - e) small industrialists
  - f) workers
  - g) peasants
- Were you or your union consulted in some form about the formation and implementation of the PSE in 1987?
- Has your participation in the policy-making process of you organizations change since 1987? How?
- Do you think that the labor sector acts as a unified political force?

Capacity:

- Were you part of the consultation that took place every month (Comisión del Seguimiento del Pacto)?
- Do you believe that the government has a good understanding of the problems of the workers?
- Do you think that the governments of Miguel de la Madrid, Carlos Salinas, and Ernesto Zedillo had/has the capacity to develop coherent economic policy? Has it always been like that, has it change?
- Do you believe that governments of Miguel de la Madrid and Salinas de Gortari had skillful government officials that were capable of designing coherent economic policy?

- Do you trust technocrats from the government?
- How would you rate the relationship between the workers and the administration the company?
- How would you rate your relationship with officials of the government?
- How would you rate your relationship with the managers of the company?
- How would you rate government expertise on economic issue?
- Has you confederation developed a policy-making capacities?
- Was it important to negotiate with the business sector in the agreements of the PSE/PECE?

Legacies:

- Do you support the idea that government should mediate labor-capital conflict?
- Was concertation a key element in the success of the PSE/PECE?
- Should the government continue support concerted action among business and labor for the success of economic policies?

Alternative Hypotheses:

Economic:

- What were the economic benefits achieve by the PSE and subsequent pacts for the workers? Why?
- How would you rate the economic well being of your workers in the last year, five years and since 1987?
- Did wage controls affect the well being the workers in your union? How?
- Was inflation hurting the real wages of the workers in your union?
- In what manner did foreign competition affected the utilities of the industry, and the company?

- Do you think that the economic policies of the governments of Miguel de la Madrid and Salinas de Gortari have had a positive impact in the economic development of Mexico?
- Do you think that the economic policies of the governments of Miguel de la Madrid and Salinas de Gortari have had a positive impact on the workers standards of living?
- Do you think that the PSE/PECE has been an effective economic tool to control inflation (even though it control wages)?
- Did large unions and confederations control wage setting policies?
- Did large firms control controlled pricing policy?
- Did large-retailers control the behavior of their supplier in pricing policy?

Authoritarianism:

- In what manner was your union able to comply with wages in 1987, and 1990?
- Was your union forced in some way to accept wages controls within the PSE/PECE?
- Did you had the choice of not joining the PSE/PECE?
- Which business groups, do you believe, obtained most of the economic and political inducement from the governments of Miguel de la Madrid, and Carlos Salinas de Gortari?
- Was the Cardenista movement a factor for joining the pacts?
- How has the relationship between labor and the state changed?
- What are the successes and failures of the pacts?

## Appendix F Interviews

Table 1

<b>Labor Sector:</b>
1) Asociación Sindical de Pilotos Aviadores de México (ASPA)
2) Confederación Regional Obrera Mexicana (CROM)
3) Federación Revolucionaria de Trabajadores (FRT)
4) Federación Nacional de Uniones Teatrales y Espectáculos Públicos (FNUTEP)
5) Sindicato de Trabajadores de las Industrias Papelera, Cartonera, Maderera, Celulosas, sus materias primas, similares y conexos de la República Mexicana.
6) Confederación Obrera de la República Mexicana (COR)
7) Frente Auténtico del Trabajo (FAT)
8) Sindicato Nacional de Trabajadores del INFONAVIT
9) Instituto de Estudios Educativos y Sindicales de América Latina
10) Centro de Investigación de Estudios Económicos, Políticos y Sindicales. Sindicato de Trabajadores Petroleros de la República Mexicana, (STPRM)



Table 2

<b>Firms and Business Chambers:</b>
11) Cervecería Modelo.
12) ATG SA de CV
13) Dataproducts de México SA de CV
14) Delemac de México SA de CV.
15) Manufacturas GARGO SA de CV.
16) Instituto Harmon Hall de México SA de CV.
17) Distribuidora Kay SA de CV
18) Rapistan Demag SA de CV.
19) Constructora WIDISA, S.A.
20) Aceros Ahuehuetes, S.A.
21) Doyca S. A de C.V.
22) GEC ALSTHOM
23) BBV-Probursa.
24) Banamex, Social Studies
25) Banamex, Economic Studies
26) Asociación Mexicana de Bancos (AMB)
27) Asociación Mexicana de Bancos, (AMB)
28) Cámara de la Industria Nacional del Vestido (National Apparel Chamber)
29) CONCAMIN-FUNTEC

30) CONCAMIN, External Commerce and International Affairs.
31) CONCAMIN
32) COPARMEX
33) COPARMEX
34) COPARMEX
35) Consejo Coordinador Empresarial (CCE)
36) Consejo Coordinador Empresarial (CCE)
37) Camara Nacional de Empacadores de Carne
38) Asociación Nacional de Tiendas de Autoservicio y Departamentales (ANTAD)

Table 3

<b>Government</b>
39) Executive Power
40) Comisionado, Comisión Nacional de Competencia
41) Former Undersecretary of SECOFI
42) Undersecretary "B", Secretaria del Trabajo y Previsión Social
43) President of the Comisión Nacional de Salarios Mínimos
44) Former Presidential Advisor. Partner of Analítica Consultora S.A.

45) Secretary of the Secretaría de la Contraloría y Desarrollo Administrativo and former Secretary of Labor.
46) Secretaría Técnica del Gabinete, Presidencia de la República.
47) Unidad de Desregulación, SECOFI.
48) Banco de México, Economic Studies.
49) SECOFI, advisor of the undersecretary.

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2) Proyecto de Acta de la Sesión Ordinaria de la Comisión de Seguimiento y Evaluación del Pacto para la Estabilidad y el Crecimiento Económico, celebrada el día 4 de abril de 1991, a las 8:30.

3) Proyecto de Acta de la Sesión Ordinaria de la Comisión de Seguimiento y Evaluación del Pacto para la Estabilidad y el Crecimiento Económico, celebrada el día 18 de abril de 1991, a las 8:30 horas.

4) Proyecto de Acta de la Sesión Ordinaria de la Comisión de Seguimiento y Evaluación del Pacto para la Estabilidad y el Crecimiento Económico, celebrada el día 1º de agosto de 1991, a las 8:30 horas.



- 5) Proyecto de Acta de la Sesión Ordinaria de la Comisión de Seguimiento y Evaluación. Pacto para la Estabilidad, la Competitividad y el Empleo, celebrada 4 de febrero de 1993.
- 6) Proyecto de Acta de la Sesión Ordinaria de la Comisión de Seguimiento y Evaluación del Pacto para la Estabilidad, la Competitividad y el Empleo, celebrada 27 de mayo de 1993.
- 7) Proyecto de Acta de la Sesión Ordinaria de la Comisión de Seguimiento y Evaluación. Pacto para la Estabilidad. La competitividad y el Empleo, celebrada el 19 de marzo de 1993.
- 8) Proyecto de Acta de la Sesión Ordinaria de la Comisión de Seguimiento y Evaluación. Pacto para la Estabilidad. La competitividad y el Empleo, celebrada el 6 de mayo de 1993.
- 9) Proyecto de Acta de la reunión Ordinaria de la Comisión de Seguimiento y Evaluación. Pacto para la Estabilidad. La competitividad y el Empleo, celebrada el 16 de diciembre de 1993.
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- 11) Proyecto de Acta de la reunión Ordinaria de la Comisión de Seguimiento y Evaluación. Pacto para la estabilidad. La Competitividad y el Empleo, celebrada el 22 de febrero de 1994.
- 12) Proyecto de Acta de la reunión Ordinaria de la Comisión de Seguimiento y Evaluación. Pacto para la Estabilidad. La competitividad y el Empleo, celebrada el 1º de marzo de 1994.
- 13) Proyecto de Acta de la reunión Ordinaria de la Comisión de Seguimiento y Evaluación. Pacto para la Estabilidad, la Competitividad y el Empleo, celebrada el 12 de agosto de 1994.
- 14) Proyecto de Acta de la reunión Ordinaria de la Comisión de Seguimiento y Evaluación del Pacto para la Estabilidad, la Competitividad y el Empleo, celebrada el día 25 de agosto de 1994.

15) Proyecto de Acta de la reunión Ordinaria de la Comisión de Seguimiento y Evaluación del Pacto para el bienestar, la Estabilidad y el Crecimiento, celebrada el 6 de octubre de 1994..

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- *El Universal*, from the 21<sup>st</sup> to the 28<sup>th</sup> of December of 1994.
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#### PUBLICATIONS. CHAPTERS IN BOOKS

Ortega Riquelme, Juan Manuel, "De la inflación a la cooperación: el caso de México, 1987-1994" in Julio Labastida, Antonio Camu y Noemí Luján, eds., , Gobernabilidad y democracia en México y América Latina. Problemas y desafíos, a publicarse por FLACSO-IIS-UNAM.

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Ortega Riquelme, Juan Manuel, Carlos Lugo, Rodolfo Vergara, eds., Segundo Congreso Nacional de Ciencia Política. Legalidad, Legitimidad y Gobernabilidad. Reforma de las Instituciones, Economía Política, Colegio Nacional de Ciencia política y Administración Pública A.C., Universidad Autónoma Metropolitana, Instituto de Investigaciones Sociales, FCPYS-UNAM, 1999.

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