CHAPTER 6

Technocracy under Threat

Mexico's Democratic Awakening

The previous chapter presented the Chilean central bank reform of 1989 as a strong case of institutional insulation in the transition from authoritarian rule. Faced with an impending regime change under the helm of the center left, conservative authoritarian elites insulated monetary policy against the threat of an interventionist future. By creating a central bank with considerable authority across a series of policy domains, they attempted to bind successor governments to a neoliberal policy agenda.

The Mexican case illustrates a different dynamic. Like Pinochet's Chile (1988–89), Mexico under Carlos Salinas de Gortari (1988–93) can also be classified as a conservative authoritarian regime confronting a democratic opposition with populist overtones. As in Chile, the ruling elite would respond to this challenge by safeguarding its preference for macroeconomic stability in the form of an autonomous central bank. But while a transition to democracy was virtually a given in the Chilean case, in Mexico this threat was considerably more tenuous. While the authoritarians in Chile thus had incentives to create a fully autonomous central bank, the autonomy afforded the Mexican central bank was only partial.

Chapters 6 and 7 elaborate upon this comparison. While chapter 6 establishes the similarities between the Mexican and Chilean cases, chapter 7 underscores their differences. The present chapter thus examines the origin of the democratic threat prompting Mexico's authoritarians to insulate, while the following chapter looks at its magnitude and corresponding consequences for the 1993 central bank reform.

This chapter unfolds as follows. The first section, "Reform Background: Mexico's Neoliberal Revolution," offers an overview of the economic project enacted under the Salinas administration and the capitalist constituency underlying it. After a vested interest in macroeconomic stability on the part of the ruling elite has been demonstrated, the second section, "Reform Timing: Challenging the Conventional Wisdom," considers the timing of the 1993 central bank reform in light of these policy preferences. While many have attributed the timing of the reform to the government's need to demonstrate its credibility both domestically and internationally, I show why a straight

credibility story would have argued for implementing the reform much earlier. Having thus cast doubt on the singular ability of various economic arguments to explain the reform's timing, in the third section, "Reform Motive: The Onset of the Democratic Threat," I attribute its motive to more decidedly political factors. I argue that after the extraordinary political events surrounding the Mexican presidential elections of 1988, the Salinas government realized that it was only a matter of time before democracy made its way to Mexico. Recognizing that its days in power were numbered, the Salinas clique began to worry about how an eventual transition to democracy might compromise its neoliberal economic project in the future.

As noted in chapter 1, any depiction of a partial insulation outcome is inherently murky, as—by definition—partial insulation only occurs at that "in-between" stage where a democratic threat is present but not yet overwhelming. While the 1993 Mexican central bank reform thus represents a much messier case than that in Chile, the ways in which it deviates from the full autonomy baseline are both interesting and important—particularly for a more complete understanding of the political and economic events that ensued in Mexico throughout 1994. A closer look at this case thus allows us to explore some interesting permutations on the central insulation theme advanced in this book without abandoning its fundamental logic.

Reform Background: Mexico's Neoliberal Revolution

Before entering into a detailed analysis of the events surrounding the Mexican central bank reform of 1993, it is important to begin by identifying the authoritarians in question and those interests they sought to protect. Accordingly, this section will establish the profoundly market-oriented nature of Mexico's authoritarian regime and the capitalist support base underlying it.

The Economic Model: The Origins of Salinastroika

Most analysts date the current era of Mexican economic policy to the financial crisis of 1982. Like so many of its Latin American counterparts, the Mexican government took full advantage of the flush international economic environment of the 1970s to finance large fiscal deficits at home. But as was also the case for so many other developing country governments, the unsustainability of this situation eventually came home to roost. In the early 1980s, high world interest rates together with a sharp decline in the price of oil combined to create much less hospitable external conditions. No longer able to count on cheap and abundant credit or its principal export to generate much needed foreign

exchange, the government responded in 1982 with a large-scale devaluation. When this also failed to stem the tide of falling foreign reserves, the government resorted to more draconian measures. In August 1982, the government declared an involuntary moratorium on its foreign debt payments, which was followed by the nationalization of its entire banking industry.[1]

The 1982 crisis had a daunting effect on the Mexican economy as inflation soared, production halted, and growth rates turned negative (see table 6.1). For our purposes, however, the crisis was significant because it marked the advent of a new era of policymakers—and policy-making—within Mexico. Upon assuming office in 1982, incoming president Miguel De la Madrid expunged advocates of expansionary policies from positions of leadership within the ruling Institutional Revolutionary Party (Partido Revolucionario Institucional [PRI]) (Hernandez Rodriguez 1988). In their wake, a new cohort of young, predominantly professional economists emerged with deep commitment to the principles of a free-market economy (Camp 1990, 1995; Golob 1996). Over the course of the 1980s, this technocratic vanguard gained a virtual monopoly of control within the Mexican state, permeating all

TABLE 6.1. Mexico: Selected Domestic Macroeconomic Indicators, 1980–93 (%)

Year	Growth in GDP	Urban Open Unemployment	Inflation	Deficit (as a % of GDP)	Investment (rates of growth)[a]
1980	9.1	4.3	29.8	–7.5	
1981	8.8	3.9	28.7	–14.1	13.9
1982	–0.6	4.0	98.8	–16.9	–17.3
1983	–4.2	6.3	80.8	–8.6	–24.2
1984	3.6	5.8	59.2	–8.5	9.0
1985	2.6	4.5	63.7	–9.6	12.2
1986	–3.8	5.1	105.7	–15.9	–10.4
1987	1.9	4.4	159.2	–16.1	6.4
1988	1.2	4.4	51.7	–12.5	10.2
1989	3.3	3.7	19.7	–5.6	7.5
1990	4.5	3.2	29.9	–4.0	13.3
1991	3.6	3.0	18.8	–1.5	13.0
1992	2.8	3.3	11.9	0.5	15.8
1993	0.4	4.0	8.0	0.7	–0.4

Source: For growth in GDP, inflation, deficit and investment data, the source is Banco de México 1994. For unemployment data, the source is Información Básica Anual 1994 (Mexico City, Mexico: Centro de Estudios Económicos del Sector Privado, 1994).

[a]Reflects private sector investment at 1980 prices. Note that 1981–85 is taken from Lustig 1992, although based on Banco de México statistics.

1. For a detailed account of the 1982 crisis and the events leading up to it, see Gonzáles Casanova and Aguilar Camín 1985; Ros 1987; Buffie and Sangines Krause 1989; Bazdresch and Levy 1991.

levels of the Mexican bureaucracy and securing key posts within national political office (Centeno and Maxfield 1992; Centeno 1994). Under its leadership, Mexico experienced a dramatic about-face in its economic policy that would shape the tenor of economic and political events over the course of the fifteen years that followed.

The economic program implemented by the so-called técnicos proceeded on two tracks (Weintraub 1990; Lustig 1992; Córdoba 1994). First, it entailed a series of measures to restore macroeconomic stability, with particular emphasis on lowering inflation and protecting the country's international reserves. Second, it sought to replace six decades of inward-oriented, state-led development in Mexico with an outward-oriented development strategy that privileged the private sector. While De la Madrid initiated the bulk of these reforms, Salinas consolidated the inroads made by his predecessor by deepening them.

The road to recovery was not an easy one. Throughout his term in office, De la Madrid was able to maintain a trade surplus, largely due to a deliberate policy of peso undervaluation (see table 6.2). He also shepherded Mexico's entry into GATT (General Agreement on Tariffs and Trade) in 1985. But progress was less visible on other fronts. Despite repeated attempts at orthodox stabilization programs, macroeconomic stability was only achieved at the very end of the decade with a social pact between business, labor, and the government (Whitehead 1989).[2] While a debt rescheduling agreement adopted in 1986 helped to facilitate some new lending, the government failed to redirect the reverse resource transfer out of the country that had taken place over the course of the 1980s (Lustig 1992, 55–59). By 1988, when Salinas took office, he still faced an upward battle: inflation remained at over 50 percent, foreign reserves stood at but a little over U.S.$6 billion, and growth rates had stagnated at below 2 percent.

But Salinas rose to the occasion. Under his administration, the country witnessed an international debt relief agreement under the so-called Brady plan; the privatization of all major industries (including the reprivatization of the banking system); the reduction of inflation to one digit; and the liberalization of trade, investment, and agricultural policies, culminating in the signing of the North America Free Trade Agreement (NAFTA). Midway through his term in office, these policies appeared to be realizing their expected payoffs. For the first time since the reforms were initiated in 1982, growth rates in 1989 had been positive for three successive years, climbing as high as 4.5 percent in 1990. Total external debt as a percentage of GDP was

2. This agreement—commonly referred to as the "Pact"—was a tripartite agreement among the government, business, and labor groups to adopt orthodox fiscal adjustment measures, concerted income and price controls, and accelerated trade liberalization.

TABLE 6.2. Mexico: Selected International Economic Indicators, 1980–93 (in millions of dollars unless otherwise noted)

Year	Real Exchange Rate Index[a]	Balance of Payments (current account)	Balance of Payments (capital account)	International Reserves	Ratio of Debt Service to Exports	Import Cover[b]
1980	100.00	–10.72	—	4,175	49.5	1.5
1981	118.72	–16.56	—	4,971	53.2	1.3
1982	86.80	–6.27	—	1,778	56.8	0.6
1983	79.63	5,860	339	4,793	51.7	2.4
1984	97.20	4,183	306	8,019	52.1	3.4
1985	100.94	800	–316	5,679	51.5	2.3
1986	69.15	–1,374	2,716	6,674	54.2	3.1
1987	63.64	4,239	–1,188.8	13,692	40.1	5.0
1988	77.74	–2,375.7	–1,163	6,327	48.2	1.7
1989	83.50	–5,821.2	3,175.9	6,740	41.1	1.5
1990	83.05	–7,451	8,163.6	10,217	25.9	1.9
1991	91.12	–14,892.4	24,940.1	18,052	29.6	3.0
1992	96.77	–24,804.4	26,542.3	19,171	44.3	2.7
1993	102.08	–23,393	30,882.4	25,299	42.3	3.0

Source: For real exchange rate data, the source is Banco de México 1994. For balance of payments data (current account and capital account), the sources are Banco de México, 1993, and *Información Básica Anual 1994.* Mexico City, Mexico: Centro de Estudios Económicos del Sector Privado, 1994. For international reserves, debt service to exports and import cover data, the source is the International Monetary Fund, *World Debt Tables (*Washington, DC: The International Monetary Fund, 1994, 1996.)

[a]Real effective exchange rate estimated on the basis of consumer prices for 133 countries weighted by GDP.

[b]Ratio of reserves to imports.

cut in half, dropping from 73.7 percent in 1987 to 35.7 percent in 1992 (Banco de México 1994, 275). In its wake, foreign capital began to flow into Mexico at an unprecedented pace. To be sure, there was also cause for concern, including slowing growth rates after 1991, low domestic savings rates, and a growing trade deficit that, by 1993, was on the order of U.S.$25 billion (Dornbusch and Werner 1994; Ros 1994; Ramírez de la O 1995). But the expectation was that larger infusions of foreign capital would stimulate the growth of exports and the trade deficit would eventually disappear (Lustig 1992, 11).

Over the course of the 1980s and 1990s, economic policy in Mexico thus fell into the hands of a technocratic nucleus with a deep commitment to neoliberal economic reforms. Under their tutelage, the Mexican economy witnessed considerable change such that, by the mid-1990s, Mexico seemed poised for economic takeoff. In the words of two prominent Mexican government economists looking back on Salinas's six-year term in office (*sexenio*), "by the end of 1993, all pieces of the jigsaw puzzle seemed to be falling in place" (Gíl Díaz and Carstens 1997, 167).

Interests and Influence: The Economic Power behind the Salinas Regime

In explaining the wave of neoliberal reforms in Mexico that took place in the 1980s, many analysts have underscored the role of ideas. Lauded by the *Economist* in 1991 as "the most economically literate group that has ever governed any country anywhere,"[3] the técnicos unquestionably shared a common vision in which free markets and international integration were the only solution for Mexico (Golob 1996). This ideological cohesion was honed through a common career track within Mexico's public finance ministries, graduate training in prestigious economics departments abroad, and considerable ties to domestic think tanks associated with orthodox economic thought (Camp 1990; Centeno 1994). It would be a mistake, however, to attribute the momentum behind this economic project sheerly to the force of ideas. Rather, ideas become salient at specific historical junctures because society demands them.

In Mexico, the onset of neoliberal policy reforms stemmed in large part from the demands of the business community. Business confidence had been severely damaged by the debt crisis and ensuing bank nationalization of 1982 (Escobar Toledo 1987; Luna, Tirado, and Valdés Ugalde 1991; Valdés Ugalde 1996). If it were to be successful in reinitiating the productive development of

3. *Economist,* December 14, 1991, p. 19.

the country, the government knew that it needed the support of the business class. Indeed, former Mexican finance minister Jesús Silva Herzog later confessed that during this period, economic policymakers felt that they needed to improve relations with the private sector any way they could (Schneider 1997, 9). The overall program of austerity implemented in the 1980s, as well as the dramatic expansion of the nonbanking financial sector noted subsequently, reflected this effort by the government to court the private sector (Heredia 1992, 1996; Puga 1993a). As business support for a more export-oriented and internationalist agenda grew over time, government policy followed suit (Frieden 1991a, 220–22). These efforts culminated in the signing of the "Pact" in 1987—which is often interpreted as a formal sign that a new era of business-state cooperation had begun (Kaufman, Bazdresch, and Heredia 1994).

But while De la Madrid's market-oriented policy reforms were largely successful in mending fences with business elites, many entrepreneurs still feared a return to populism in the early 1990s. The additional economic restructuring undertaken by Salinas constituted an attempt to convince the private sector—once and for all—that the Mexican government was committed to the neoliberal ideas it espoused. By addressing issues such as the cleanup of public finances, the expansion of opportunities for private investment in agriculture, and the Free Trade Agreement, the government was in effect responding to long pent-up demands from the Mexican business community (Valdés Ugalde 1994, 231). As testimony to this emerging business-government partnership, major economic policies came to be implemented through a series of elite negotiations between the government and important business groups, marginalizing Mexico's traditional systemwide corporatist forms of business-government relations (Luna 1995, 85; Heredia 1996, 148; Valdés Ugalde 1996, 142; Gibson 1997, 356).[4]

Who were these capitalist interests that were so closely allied with the neoliberal reformers? One quite visible pocket of economic power during this period was the financial sector (Garrido 1994a, 1997). Its strength stemmed initially from a series of measures to fuel the growth of nonbank financial

4. This "high tech clientelism," as one author called it (Quintana 1992, 181–88), was best exemplified in the wake of the privatization of the Mexican banking system, in which the banks were auctioned off in a highly secretive process to the country's most powerful economic actors (Elizondo 1993). It is true that among those capitalists that stood to benefit most from such privatization efforts, many were individuals directly associated with the ruling family itself, and this group included, most notably, the president's own brother, Raúl Salinas (see "A Mexican Mover and Shaker and How His Millions Moved," *New York Times,* June 5, 1996). I choose to treat this "personal enrichment" line of reasoning as a subsidiary—and not a rival—hypothesis to my own, as the personal enrichment of the ruling family can be understood as part of the authoritarians' broader pro-capitalist agenda.

institutions following the nationalization of the Mexican banks in 1982. Over the course of the 1980s, the growth of this parallel financial sector was spectacular, generating extraordinary rents, particularly for the brokerage houses (Heyman 1991; Mansell Carstens 1992). Between 1985 and 1990, the stock market index grew by 347 percent in real terms, while the capital gain in dollar terms was 752 percent (Natella and Manson 1991, 17). Following the extensive program of financial liberalization initiated in the early 1990s, private financial activity flourished even more (Maxfield 1993; Ortiz 1994). Of particular note, the internationalization of government debt securities led to a dramatic expansion of the money market, which increased fourfold from 1989 to 1993 (Mansell Carstens 1994, 23). In turn, the lack of competition together with large increases in the demand for credit allowed the newly privatized banks to generate high interest rate spreads, enabling them to realize profits well above those of comparably sized countries (Peñaloza and Garrido 1994, 49–53; Gruben and Welch 1996). The depth of financial penetration that took place over the course of these two sexenios is reflected in the ratio of the monetary aggregate M4 to GDP, which rose from 31.3 percent in 1980 to as high as 52.7 percent in 1993 (Banco de México 1994, 225).

A second source of economic power during this period was the export sector, whose sales doubled from U.S.$25.9 billion in 1983 to U.S.$51.8 billion in 1993. Throughout the De la Madrid and Salinas sexenios, the Mexican government sought to simultaneously reduce its dependence on the state-owned oil sector and accelerate trade liberalization. As a result, there was a dramatic increase in the growth of non-oil exports and in manufacturing exports in particular. The latter averaged an annual growth rate of 24.2 percent during 1982–87 (Dussell Peters 1996, 78)—a trend without parallel even among the Asian Tigers. To provide some idea of their importance within the economy, note that while the index for GDP as a whole in 1988 was 101 (1980 = 100), the index for manufacturing was 109 and for manufactured exports 355 (Weintraub 1990, 11). While the growth of the manufacturing sector as a whole began to slow in the early 1990s, those branches with strong ties to international markets continued to excel (see table 6.3).[5] Not surprisingly,

5. Indeed, the fastest growing manufacturing branches in this table (group IA) also exhibited the highest average annual export growth in the early 1990s, which grew from 11.9 percent of the total share of total exports in 1988 to 19.4 percent in 1992 (Dussell Peters 1996, 78). The dynamism of manufacturing sector exports in this strata was in no small measure due to the presence of the so-called maquiladoras—foreign-owned assembly plants located along the U.S.-Mexico border that imported inputs from the United States duty free, assembled products in Mexico, and exported these abroad. While accounting for about 25 percent of Mexico's manufactured exports in the late 1980s (Weintraub 1990, 10), the maquiladoras accounted for approximately 40 percent of that sector's export growth between 1988 and 1992 (Dussell Peters 1996, 78).

TABLE 6.3. Typology of Mexico's Manufacturing Sector

	GDP Growth (1988–92)	Capital Intensity (1988–92)
Group I	10.4	0.26
Subgroup IA	14.7	0.69
Automobiles	22.8	0.68
Basic petrochemicals	9.6	2.11
Beer and malt	7.5	0.42
Glass and products	7.5	0.29
Electrical equipment	6.9	0.31
Subgroup IB	8.0	0.11
Fruits and vegetables	11.3	0.06
Alcoholic beverages	10.9	0.20
Metal furniture	9.0	0.09
Structural metal products	8.9	0.11
Electronic equipment	8.8	0.16
Household appliances	8.2	0.08
Machinery and electric equipment	7.6	0.09
Cleaning and toilet preparation	7.6	0.20
Meat and milk products	7.5	0.07
Motors and auto parts	7.2	0.12
Other food products	6.9	0.11
Group II	4.5	0.24
Subgroup IIA	4.0	0.92
Medicinal products	5.5	0.55
Basic inorganic chemicals	4.8	1.15
Cement	4.1	1.29
Rubber products	3.5	0.23
Plastic resins, synthetic fibers	3.2	0.57
Petroleum Refining	2.9	1.84
Subgroup IIB	4.7	0.09
Other Manufacturing Industries	6.5	0.07
Soft drinks and flavorings	5.7	0.07
Plastic products	4.8	0.11
Other chemicals	4.6	0.20
Printing	4.5	0.08
Apparel	4.5	0.04
Other metal products	4.4	0.14
Ceramics	4.4	0.05
Other textile industries	4.1	0.04
Non-electrical machinery	4.1	0.19
Fats and oils	4.0	0.18
Food for animals	3.3	0.04
Group III	–0.5	0.17
Subgroup IIIA	0.3	0.66
Steel and iron	2.3	1.15
Paper and paperboard	1.5	0.35

TABLE 6.3.—*Continued*

	GDP Growth (1988–92)	Capital Intensity (1988–92)
Coffee	–1.0	0.24
Pesticides and fertilizers	–7.4	0.42
Jute, rough textiles	–31.4	0.49
Subgroup IIIB	–1.0	0.07
Tobacco	1.9	0.11
Corn milling	1.3	0.02
Other wood products	0.8	0.02
Sugar	0.5	0.17
Wheat milling	0.3	0.05
Nonferrous metals	–0.3	0.19
Leather and footwear	–1.2	0.02
Lumber, plywood	–2.7	0.03
Cotton, wool, synthetic textiles	–4.6	0.13
Other transportation equipment	–9.0	0.08
Agriculture	0.9	—
Mining	1.2	0.35
Manufacturing	4.9	0.22
Services	3.7	0.11
Total	3.6	0.13

Source: Dussell Peters 1996, 76–77. Reprinted with permission.

Note: This typology classifies the sector and its 49 branches according to their level of economic activity. Branches have been classified into three groups based on their average annual growth rate (AAGR) in terms of GDP for the 1982–87 boom and the postliberalization period of 1988–92. Each branch in group I accounts for an AAGR of GDP of at least 2% higher than the manufacturing's average (4.9%), while each branch in group II accounts for an AAGR of GDP that falls between 2% of manufacturing's average and –2% of the overall average. Each branch in group III shows an AAGR of GDP 2% below manufacturing's average. Furthermore, subgroups within each of the groups have been established. Thus, the branches with a capital intensity (net capital stock/employment) higher than manufacturing's average during the period 1988–92 (0.22) are in the respective subgroups A, and the branches with a capital intensity lower than manufacturing are in subgroups B. High and increasing capital intensity reflects the potential modernization of the respective activities and a higher potential for facing increasing competition as well as for realizing higher profit rates. From this perspective, it is anticipated that group I with its 16 branches, particularly the 5 branches of subgroup IA, will represent the "leading" branches of the Mexican manufacturing sector with the highest growth potential and the highest probability of achieving successful integration into the world market (Dussell Peters 1996, 77).

these winning branches tended to be dominated by large-scale firms, who were best equipped to reorient their production toward external markets and who consequently led the push for further trade liberalization in the early 1990s (Alba Vega 1993a; Puga 1993b; Heredia 1996, 144–45).

The growth of export and financial capital during this period was also accompanied by the concentration of its profits in the hands of a very small economic elite: the economic groups (*grupos*). By 1987, the country's top 101

economic groups controlled 365 of the country's top 500 companies in sales, accounting for 38 percent of output by the manufacturing sector alone (Garrido 1993, 26). By 1992, this trend had accelerated, as the country's 10 largest private economic groups generated 56 percent of total sales, mobilized 61 percent of total assets, and represented 53.7 percent of employment.[6] The dominance of the groups within the country's most dynamic industries is evident in table 6.4. The most powerful conglomerates also tended to dominate the financial sector, playing a preponderant role in the acquisition of privatized state-owned firms—including the banks (Garrido 1997, 7; Heredia 1996, 145; Teichman 1995, 152–53; Valdés Ugalde 1994, 234). Because of their control over a large portion of the most profitable sectors of the economy as well as their substantial ties to foreign capital, private national groups came to assume a position of leadership within the new economic model (Garrido 1994b).

In contrast, the losers in this development model were those areas of the economy that had failed to successfully restructure their production in the wake of the trade liberalization of the 1980s. These were the "sons and daughters" of import substitution industrialization—those industries that produced traditional consumer goods for the domestic market. Unlike the modern, large-scale manufacturing industries such as chemicals and plastics, whose productivity soared, traditional industries such as tobacco and footwear were badly hit by the reduction in trade barriers (see table 6.3). Not surprisingly, these less dynamic industries also tended to be dominated by small firms and microenterprises (Pastor and Wise 1997, 432–36; Alba Vega 1993b, 471). Although some of these "losing" branches such as textiles and paper were able to improve their export performance significantly over the course of the 1980s, output and wages stagnated, and by the early 1990s, they were thought to have exhausted their potential (Bizberg 1996, 92–95; Pastor and Wise 1997, 435–36). While these more typically sheltered sectors were also constituents of the ruling party, their interests were increasingly marginalized in favor of the more economically powerful exposed and non-asset-specific sectors of the economy (Frieden 1991a, 221; Luna 1994).

In sum, while De la Madrid bore the burden of healing business-government wounds, Salinas used this newfound alliance with important sectors of capital to deepen these reforms. The principal beneficiaries of this reform agenda were the financial sector, large export firms, and the financial and economic groups that united them. In other words, the Salinas and De la Madrid administrations presided over an economy dominated by precisely the sort of economic actors that stood to benefit from the creation of an autonomous central bank.

6. *Expansión,* September 4, 1991, p. 139.

TABLE 6.4. Mexico: Indicators for the Ten Largest Private National Groups and Their links with the Large Firms, 1992

Grupo	Position of Group	Sales (millions of dollars)	Total Number of Firms	Total Number of Firms Included among the Top 500	Principal Firm of the Group Included within the Top 500	Position within the Top 500	Type of Firm	Position within this Branch	Position among the 500 largest Export Firms
Vitro	1	3,308.90	92	47	Vidrio Plano	76	glass	1	24/55/80
Carso	2	2,554.42	6	6	Telmex	1	communication	1	4
Alfa	3	2,492.75	10	10	Hylsa	8	iron and steel	2	43
					Petrocel	41	petrochemical	5	14
					Sigma	49	food	6	
Cemex	4	2,213.20	42	18	Empresas Tolteca	20	cement	1	52
Visa	5	2,100.10	106	7	Cervecería Cuauhtémoc	17	beer	1	53/58
					Ind. Embotelladora de México	95	beverages	4	
Desc	6	1,654.20	124	13	Novum	27	petrochemicals	2	27
					Spicer	17	auto parts	1	13
					Univasa	73	food	8	5/9/12/48
Minera México	8	937.35	40	6	Ind. Minera México	21	mining	1	
La Moderna	9	921.57	15	2	La Moderna	16	tobacco	1	75
Peñoles	14	732.80	30	18	Met-Mex Peñoles	—	mining	2	74

Source: Garrido 1994b, 166. Reprinted with permission.

Reform Timing: Challenging the Conventional Wisdom

With this clearer picture of Mexico's authoritarians in mind, we are now in a position to examine their motivations for undertaking central bank reform. At first blush, the Mexican government's decision to make its central bank autonomous in 1993 should not seem at all surprising. In light of the government's demonstrated commitment to macroeconomic stability, an autonomous central bank would seem a perfectly logical component of its neoliberal reform agenda. But as was the case in Chile, the relevant question to ask is not why the authoritarians chose to undertake a central bank reform per se but, rather, why they chose to do so at this particular moment.

When the Salinas administration unveiled its constitutional amendment to make the Bank of Mexico autonomous, the reform was presented as the crowning event in a decade-long effort to bring Mexico's public finances under control (Ortiz 1994). Consider the case of inflation. From 1987, when the Pact was initiated, to 1993, when the central bank reform was announced, annual inflation had dropped from 159.2 percent to under 10 percent—reaching single digits for the first time in more than two decades. The same was true of budget deficits. Following large-scale privatization of its public enterprises and an aggressive effort to increase tax revenues, the Mexican government had registered a budgetary surplus in 1992 for the first time in decades, equivalent to 0.5 percent of GDP. According to Finance Minister Pedro Aspe, it was only now, "having achieved these solid bases for fiscal restraint," that the economy was finally "in condition for an autonomous central bank."[7] To undergo fiscal and monetary reform in the reverse order, Aspe argued, would have been "to engage in an act of pure voluntarism."[8]

By waiting to undertake this reform until after it had succeeded in attaining single-digit inflation and a budgetary surplus, the government's objective was thus less one of establishing credibility than of entrenching it. Rather than being a mere by-product of the Salinas administration, such policies would now "transcend individuals and transform themselves into institutions" (Aspe 1993, 5). By separating the function of creating money from the other tasks of the state, the government would effectively establish "an institutional counterweight to the rest of the public agencies in which there are continual demands to increase spending" (Aspe 1993, 6). In this way, central bank autonomy would serve as living proof that the country that had set off the debt crisis but a decade earlier was now willing to renounce permanently its inflationary past.

7. Pedro Aspe, interview with Jacobo Zabuldovsky, *Televisa,* May 17, 1993.

8. Pedro Aspe, Mexican finance minister (1988–94), interview by author, tape recording, Mexico City, Mexico, January 30, 1995.

And yet there is good reason to question the government's avowed need to delay central bank reform until after fiscal reform had been completed. A closer look at the evidence suggests that, if anything, the government had incentives to undertake this reform much earlier.

Domestic Demand for Autonomy: The Optimal Time for Commitment

One must begin by questioning how much added economic value a central bank reform could realistically have had in Mexico in 1993. As argued in the discussion of the Chilean case in chapter 4, central bank autonomy would seem most necessary from a credibility standpoint when private sector confidence is lowest. But precisely because of the Salinas administration's demonstrated success in stabilizing the macroeconomic environment, there is little evidence to suggest that such a costly signal was in order. To the contrary, private sector optimism with respect to the future had been rising steadily ever since Salinas took office, reaching an all-time high of 94 percent by July 1992.[9] In the first semester of 1993—just before the central bank reform was announced—it was still as high as 82 percent.[10] Indeed, the rapid recovery of business confidence was one of the defining features of the Salinas administration (Valdés Ugalde 1994, 231).

The same cannot be said for the period a decade earlier. Following the debt crisis of 1982, inflation soared to nearly 100 percent, while fiscal deficits as a percentage of GDP climbed to a record level of 17 percent. As the debt service to exports ratio climbed to 62 percent, the country entered into a profound balance of payments crisis. In the wake of this macroeconomic disarray, investor confidence followed suit. In 1982 alone, investment rates as a percentage of GDP were negative on the order of 17 percent and dropped to 24 percent the following year. During the first two years of the De la Madrid administration, an estimated U.S.$17.7 billion worth of capital fled Mexican borders (Centeno 1994, 70). Throughout the rest of the decade, capital continued to hemorrhage at a net rate of $5 billion per year, and net repatriation did not begin until after 1990 (Oks and Van Wijnbergen 1993, 206, 219). If credibility were at issue, there was arguably no better time for the Mexican government to have implemented a central bank reform.

In addition to macroeconomic circumstances, political considerations should also have militated in favor of enacting the central bank reform well before 1993. As noted earlier, business groups had been quite active in pres-

9. As noted in a biannual poll of business elites in the magazine *Expansión,* July 21, 1993, 51.

10. Ibid.

suring the government to show a deeper commitment to neoliberal reforms following the nationalization of the banks in 1982 (Millán 1988; Maxfield 1989; Luna, Tirado, and Valdés Ugalde 1991). By the time Salinas assumed power in 1988, an economic constituency of financial and export-oriented capital that would have benefited from an autonomous central bank was already securely in place. We have already noted the economic power of the brokerage houses and large export firms. Here, a word is in order on their political power.

Most authors divide the Mexican business community in the 1980s into three main factions.[11] The first—the "liberal conservative" wing—was composed largely of medium-sized firms based in the country's industrial north. Known for its political activism, this faction had championed the opposition to government economic policy in the early part of the decade. A second so-called technocratic faction centered around the insurance industry, the brokerage houses, and the large economic groups. While historically more accommodationist in its dealings with the ruling party, this group shared the conservative economic policy orientation of the liberal conservatives. Finally, a third and considerably weaker faction represented more protectionist forces in the economy, particularly those small and medium-sized businesses that had traditionally been under the protective wing of the state.

By the end of the 1980s, Mexico's formal structure of business representation was squarely in the hands of the technocratic faction (Luna and Tirado 1992). Its influence was most visible within the peak business organization—the Business Coordinating Council (Consejo de Coordinadores Económicos [CCE]). Because the CCE's organizational structure privileged sector, rather than membership size or geographical region, its governing board accorded disproportionate weight to the less numerically strong members of the body—the insurance industry, the brokerage houses, and the economic groups.[12] While these three organizations together accounted for 42 percent of the representation within the CCE, together they comprised only 121 (barely 1 percent) of the more than 900,000 CCE members (Luna and Tirado 1992, 95).

11. Business-government relations in Mexico have been the subject of numerous studies. Puga (1993a) provides a succinct history of business-government relations over the course of the twentieth century, while Camp (1989) offers a detailed sociological profile of Mexican business groups, and Garrido (1992) quantifies their economic activity. An excellent overview of business-government relations in the 1980s can be found in Maxfield and Anzaldúa Montoya 1987.

12. The CCE was made up of seven principal affiliate organizations: the business chambers of the country's five main economic sectors (agriculture, industry, commerce, finance, and insurance) as well as a northern-based business union, Confederaciá Patronal de la República Mexicana (COPARMEX), and a small club of elite businessmen representing the country's largest economic groups (CMHN).

This structural bias in favor of powerful capitalist actors was particularly acute where the country's largest economic groups were concerned. Of the seven main affiliates within the CCE board, one corresponded to a private club of businessmen—the Council of Mexican Businessmen (Consejo Mexicano de Hombres de Negocios [CMHN])—representing the economic groups. While composed of only 37 individuals, this so-called peak of peaks carried the same voting weight within the CCE as the commerce chamber with some 200,000 members. Because of its sheer economic might, the CMHN was able to impose its preferences on the "collective" decisions made by the CCE. This was not a luxury afforded the small and medium-sized firms in the CCE, who were instead at the mercy of decisions made by the grupos and large firms.[13] In turn, the CMHN also benefited from what is known as "door-knocking privileges" (derecho a picapuerta), or direct access to the upper echelons of the government in order to lobby for its preferred policies. As evidence of its integral role within the policy-making process, note that the CMHN was able to screen potential PRI aspirants to the presidency.[14]

By the end of the 1980s, it was clear that this politically powerful economic oligopoly not only favored continuing the process of market-oriented reform initiated under De la Madrid but wanted to deepen it. Recall that despite De la Madrid's bold efforts at liberalization, the business community continued to be wary of the government's resolve in the economic arena. As late as December 1987, businesspeople were still not satisfied with the program for reprivatization outlined by the De la Madrid administration and had not discarded the notion that something like bank nationalization could still occur (Valdés Ugalde 1994, 231). On the eve of the presidential elections of 1988, the then president of the CCE commented, "populist decisions have hurt the country. . . . it is necessary to return to economic orthodoxy. . . . the next sexenio must continue the policies of privatization as part of the strategy

13. The relatively weak position of the smaller and medium-sized firms within the CCE was reinforced at the level of the individual, sectorally based chambers, where leadership also tended to be dominated by large firms. The government was thus able to ignore the demands of small and medium producers, even when they were numerically a good deal stronger. In the wake of the Pact negotiations noted previously, for example, Confederaciá de Cámaras Industriales de los Estados Unidos Mexicanos (CONCAMÍN) was dominated by large manufacturing companies in sectors such as automobiles, fibers, and steel that generally favored trade liberalization. This in turn muted the impact of its member organization, Canacintra, which typically represented small manufacturing companies more inclined toward protectionism (Kaufman, Bazdresch, and Heredia 1994, 391–92). Smaller and medium-sized firms also traditionally lacked the technical information necessary to provide an informed opinion on government policies—particularly of a macroeconomic nature. As a result, they typically relied on chamber leadership to inform them of such matters, which also served to dampen their influence (Carlos Alba Vega, economist, El Colegio de México, interview by author, tape recording, Mexico City, Mexico, January 11, 1995).

14. " 'Afinidad y Afecto' de Empresarios Para Aspe y Camacho," *El Financiero,* January 20, 1993.

of modernization" (Centeno 1994, 13). Indeed, the choice of Salinas as candidate within the PRI was said to be the result of "private sector forces associated with multinationals who desired the development of a privatizing, monetarist and free trade PRI" (Puga 1993a, 183).

In light of such public proclamations at the end of the 1980s, it would not be far fetched to suggest that in addition to, or even instead of, the 1987 stabilization pact, the authoritarians might have enacted a central bank reform to reassure investors of their commitment to macroeconomic stability. As one member of the Mexican financial community so eloquently phrased it, central bank autonomy was a "no brainer" for business groups, as "leaving the central bank in the hands of government was like leaving Dracula in charge of the bloodbank."[15] Notwithstanding their own coincidence of interests with those of the Salinas government, the private sector welcomed any and all institutional changes that might thwart any backsliding on the part of future governments (Valdés Ugalde 1996, 142). Indeed, when Aspe came to discuss the autonomy initiative with the CCE before unveiling it publicly, he is said to have told the assembled members that he was "giving them something that they'd been asking for a long time."[16] And yet, in spite of these overriding economic incentives for central bank reform as early as 1987, the technocratic faction waited six more years before it would act.

In short, a more careful analysis of the De la Madrid and Salinas sexenios suggests that there were incentives for a central bank reform at various points during the 1980s. The government might have undertaken the autonomy initiative following the economic crisis of 1982, as part of broader efforts to win back investor confidence. They might also have acted in the late 1980s, when the demands of powerful economic actors also favored a more explicit commitment to macroeconomic stability and economic liberalization. To therefore argue—as the Salinas government did—that this reform would not have been credible at an earlier point in time simply does not make sense. Rather, the appropriate political question to ask is why the Mexican government undertook this reform when it did, given that the relevant economic preconditions existed well before 1993.

International Explanations: The Need for Foreign Capital

One set of potential explanations attributes the reform's timing to international factors. According to these hypotheses, the 1993 central bank reform

15. Timothy Heyman, Mexico representative for Barings Securities, interview by author, tape recording, Mexico City, Mexico, February 2, 1995.

16. Francisco Calderón, former general director of CCE, interview by author, tape recording, Mexico City, Mexico, January 16, 1995.

represented a deliberate attempt by the Salinas administration to shore up credibility with foreign investors.

The notion that this reform was undertaken largely to cater to a foreign audience was very much the received wisdom outside official government circles. A member of the country's leading left-wing party argued, for example, that the reform was done in part as a way for the "group in government to send a message to the international community about its commitment to stability beyond this sexenio."[17] This sentiment was echoed in the words of a prominent Mexican economist, who attributed this reform to the government's desire to "reinforce the idea of Mexico being a 'first world' country."[18] As one economist at the Mexican stock exchange glibly summarized this view of the reform's motives, "the government wanted to be seen as the 'nice kid' in the hemisphere."[19]

In academic circles, this argument has been most forcefully articulated by Maxfield (1997, 102–4), who links Salinas's support for central bank independence in 1993 to a multifaceted effort to increase foreign financial inflows to Mexico. Specifically, Maxfield argues that when it looked as though the passage of the North American Free Trade Agreement (NAFTA) might be in jeopardy, Salinas instead pushed through a statutory increase in central bank authority in order to lessen potential investor uncertainty. According to Maxfield, the central bank reform essentially served as a contingency measure for foreign capital in the event that the free trade agreement did not pass.

But even while the time-sensitive nature of the NAFTA hypothesis offers a plausible credibility-based explanation for the 1993 reform, a closer look at the evidence reveals that it is not sufficient on its own to explain the reform's timing. Consider first the indicators that Maxfield (1997) uses to suggest the need for such credibility, beginning with the balance of payments criterion. It was true that the country had a large current account deficit in 1993 (see table 6.2). But high and increasing levels of foreign reserves—which had risen from a low of approximately U.S.$6 billion in 1988 to a high of U.S.$25 billion in 1993—had helped largely to compensate for the trade deficit. Her second indicator, the state of financial regulation, is also open to differing interpretations. As noted earlier, the country witnessed a substantial deregulation of the domestic financial market early on in the Salinas administration (Maxfield

17. Jorge Calderón, former deputy and senior economic adviser to the Party of the Democratic Revolution (Partido Revolucionario Democrático [PRD]), interview by author, tape recording, Mexico City, Mexico, December 5, 1994.

18. Victor Urquidi, economist, El Colegio de México, interview by author, tape recording, Mexico City, Mexico, January 9, 1995.

19. Confidential interview by the author, tape recording, Mexico City, Mexico, January 31, 1995.

1993; Ortiz 1994). That said, Mexican banks sought—and achieved—a considerable degree of protection in the wake of subsequent NAFTA negotiations that protected them from undue foreign competition (Mansell Carstens 1994, 29–41; Kessler 1998).

Maxfield's third indicator—the predominant form of asset flow—is perhaps the most convincing of the three where the Mexican case is concerned. At the time that the reform was undertaken, the lion's share of incoming foreign investment was in the form of foreign equity and bonds (Mansell Carstens 1994, 8). This would seem to lend support to Maxfield's claim that central bank reform is most necessary when the predominant type of asset flow is highly liquid in nature. When evaluated in the context of a series of other indicators, however, it is not so clear that Mexico needed to signal its credibility to the international community in 1993. Rather, as Maxfield herself readily concedes, several objective measures of international creditworthiness were strong and improving (Maxfield 1997, 94–104).

Note, for example, that from 1988, when Salinas took office, to 1993, total external debt as a percentage of GDP had declined from 58 percent to 36 percent (Banco de México 1994, 275). And while not nearly as dramatic as the growth of portfolio investment, direct foreign investment had also reached an all-time high, largely as a result of a 1989 law liberalizing Mexico's historically protectionist foreign investment regime.[20] By 1993, total foreign investment in Mexico in 1993 had climbed to a record 33 billion dollars—up from a mere 3.6 million in 1989. This total was nearly 49 percent higher than government projections for the sexenio as a whole and almost 35 percent higher than all foreign investment accumulated between 1973 and 1988 combined.[21]

In the wake of such trends, it would seem difficult to argue that Mexico still felt obligated to prove itself before the international economic community. Rather, as a country risk assessment carried out by a foreign investment agency noted in August 1993, "since 1982 the government has done virtually everything that foreign creditors have asked by way of imposing austerity policies and liberalizing the economy."[22] A series of qualitative indicators lends support to this assertion.

20. I refer here to the 1989 Law on Foreign Investment. Prior to this law, the foreign investment regime had been highly restrictive, stipulating those activities reserved exclusively for the state, those activities reserved exclusively for Mexicans, those activities in which foreign investment could not exceed a certain percentage set below the maximum 49 percent, and those activities where foreign investment could be no greater than 49 percent. The new law expanded a range of operations open to 100 percent foreign ownership and, provided certain conditions were met, did not require investors to seek approval from the regulating body (Lustig 1992, 125–30).

21. "Inversión Extranjera: Carrera Contra Reloj," *Expansión,* February 2, 1994, p. 21.

22. *International Country Risk Guide,* August 1, 1993.

In the 1991 *International Country Risk Guide,* Mexico received a score of 68.5 on a scale with a high of 92 and a low of 21, falling just behind Venezuela, South Korea, and Thailand in the developing world (Natella and Manson 1991, 66). The Mexican stock exchange's "designated market" status by various security and exchange boards in Britain, the United States, and Japan was also a sign of outside faith in the Mexican financial system. In May 1993, Mexico became the twenty-fifth member of the Organization for Economic Cooperation and Development (OECD), suggesting that Mexico's efforts at economic liberalization had not only won it recognition but, in this case, equal status among this "club" of first world countries. Finally, it is worth noting that uncertainty surrounding the passage of NAFTA did not seem to have had any appreciable effects on the behavior of foreign capital during the relevant time period. As an economic analyst noted at the time, the U.S.-Mexico interest rate differential would prove to be a consistent draw for foreign money even if a NAFTA delay or defeat in the U.S. Congress were to cause a temporary drop in the stock market.[23]

This is not to suggest, of course, that international factors played no role whatsoever in influencing the reform's timing. When questioned as to the motivation behind the central bank autonomy initiative, a variety of individuals closely involved in the initiative acknowledged that the government was concerned in part with promoting a set of favorable expectations with respect to the future of the economy, especially before foreign investors.[24] And there is no doubt that the uncertainty surrounding the passage of NAFTA in late 1993 made this a particularly propitious moment to do so. As the following chapter of this book will reveal, however, talk of a central bank reform was under way within the upper echelons of the Mexican government well before the passage of NAFTA was ever in doubt. What such evidence suggests is that while government officials were surely concerned with enhancing Mexico's international credibility, they were equally if not more preoccupied by a series of domestic political events that impinged critically upon the reform's evolution, timing, and content.

In brief, while the NAFTA negotiations did coincide with central bank reform, it seems unlikely that they were its exclusive motivation. In light of Mexico's international reputation for macroeconomic stability, it is doubtful that foreign investors needed a central bank reform to convince them further.

23. Note, for example, that when anti-NAFTA statements from U.S. representative Richard Gephardt and Ross Perot caused pessimism in the Mexican markets in September 1993, the government responded by raising interest rates. Financial analysts considered this a move to prevent short-term foreign capital from fleeing an uncertain stock market ("Making Money in Difficult Times," *Business Mexico,* November 1993, 7).

24. Based on confidential tape-recorded interviews by the author in Mexico City, Mexico, July 1997.

In making this argument, I do not mean to suggest that Mexico was not vulnerable to the international economy in 1993, as the subsequent events surrounding the 1994–95 peso crisis would reveal in bold relief. What I am suggesting is that in addition to international economic pressures, other factors were at work in influencing this decision.[25]

Reform Motive: The Onset of the Democratic Threat

If the 1993 central bank reform was not motivated exclusively by domestic economic demand, or by international economic pressures, then what was driving it? In order to develop a plausible alternative logic to explain this reform, I turn to the domestic political environment. We have already noted that at the time the reform surfaced, the Mexican president was supported by a baseline constituency that favored a "privatizing, monetarist, and free trade" ruling party (Puga 1993a, 183). Historically, the Mexican president had no trouble pursuing policies that benefited the constituency. With the onset of the 1988 national elections, however, it became clear that this luxury would not continue indefinitely.

Pre-1988: Mexico's "Perfect Dictatorship"[26]

The contemporary Mexican political system dates to the early part of the twentieth century, when a violent social revolution led to the overthrow of Porfirio Díaz's personalistic authoritarian regime (1876–1911) and the establishment of a new, postrevolutionary order. The 1917 federal Constitution established a tripartite separation of powers system, dividing decision-making responsibil-

25. In the years since the reform, rumors have also surfaced that the central bank initiative was part of an explicit agreement between the U.S. and Mexican governments in the wake of the NAFTA negotiations that Mexico would maintain exchange rate stability over the medium term. Once again, the fact that the central bank autonomy initiative predated the NAFTA negotiations by several years calls such logic into question. And when asked point blank about the existence of such a "deal," a chief negotiator of the trade agreement was resolute in affirming that there was absolutely no demand for an autonomous central bank in Mexico on the part of the United States (Patricia Armendariz, interview by author, tape recording, Mexico City, Mexico, August 22, 1997). But even if the Americans had pressed for such an arrangement—whether tacitly or otherwise—it is not clear how such a turn of events would challenge the fundamental argument put forth in this chapter and the next. If the U.S. government was indeed looking for some assurances about the long-term stability of the economy, that was because it was concerned with precisely the same scenario that I will argue preoccupied the Mexican government: the long-term economic consequences of domestic political change.

26. I borrow this term from the Peruvian novelist Mario Vargas Llosa, who thus described the Mexican political system during an interview on *Televisa,* August 30, 1990.

ity among executive, legislative, and judicial branches.[27] It also created a federal system in which states' rights and municipal autonomy were explicitly recognized. Finally, this system was also strongly presidentialist, placing jurisdiction over a series of policy arenas in the hands of the executive. But despite the fact that its formal trappings seemed to mirror those of the United States, in reality the president also enjoyed an unusually broad range of informal powers that enabled him to dominate the country's political system.[28]

To begin with, he served as the "supreme head" of Mexico's hegemonic, multisector "official" political party—the PRI. This position empowered the president to choose party leaders, shape the party's internal governance, and impose his personal choices for the PRI's gubernatorial and congressional candidates, as well as for the leaders of powerful state-run unions (Cornelius 1996, 34). Of particular note, through the unwritten norm of "finger-pointing" (*dedazo*), the president was able to control unilaterally selection of the ruling party's next presidential nominee. In the PRI-dominated party system (see the discussion that follows), this essentially amounted to the ability to name his own successor. Despite the PRI's heterogeneous composition, its hierarchical chain of command thus meant that the party served at the beck and call of the president (Weldon 1997).[29]

In addition to controlling the ruling party's internal organization, the president could also rely on the PRI as a tool of far-reaching political support. Since its inception in 1929, the PRI had sought to incorporate the broadest range of social, economic, and political interests under its wing.[30] Through a combination of extensive state patronage and occasional repression, the party was able to secure the loyalty of mass actors to the regime (Heredia 1994). Because of its privileged relationship with the state, the "official" party also

27. The federal legislature was bicameral in nature. Originally, it was made up of a 64-member senate (2 from each of Mexico's thirty-one states plus 2 from the Federal District) and a 300-member chamber of deputies, selected on majority vote in single-member districts.

28. For general discussions of Mexico's unique brand of authoritarianism, see, among others, Cornelius, Gentleman, and Smith 1989; Collier and Collier 1991; Molinar Horcasitas 1993. The "bare essentials" can be found in Cornelius 1996.

29. It is interesting to note that while the president has served as de facto party leader since the presidency of Lázaro Cárdenas (1934–40), the office of party leader is not technically an attribute of the presidency. As Weldon (1997) convincingly argues, a great deal of the authority afforded the president thus stems not so much from the Constitution or from any inherent centralism in the Mexican political system but rather from a role that the party has historically delegated to the president.

30. The official party was divided into three sectors: the peasant sector, the labor sector, and the "popular" sector (representing most government employees, small merchants, private landowners, and low-income urban neighborhood groups). Each sector was dominated by one mass organization: the National Confederation of Peasants (Confederación Nacional Campesina [CNC]), the Mexican Worker's Federation (Confederación de Trabajadores de México [CTM]), and the National Confederation of Popular Organizations (Confederación de Organizaciones Populares [CNOP]).

enjoyed financial, campaign, and media resources that gave it a tremendous advantage over its competitors.[31] Although the political system did entail competitive elections, these held more symbolic value than anything else, serving to reinforce the legitimacy of the ruling elite (Wiarda 1989, 6). Where ample access to government personnel and financial resources proved insufficient, the PRI was able to ensure its dominance over electoral opponents through its ability to commit electoral fraud with virtual impunity (Reding 1991). As a result of these multiple built-in advantages, between 1929 and 1988, the "official" party never lost an election for the presidency, state government, or federal senate.

Finally, the president's supreme authority within the PRI also afforded the chief executive a considerable degree of control over the rest of the country's political institutions (Garrido 1987; Weldon 1997). For example, the president effectively served as the country's chief legislator, imposing his agenda on a PRI-dominated congress that served as a rubber stamp for presidential initiatives. Among other things, this allowed the president to modify the Constitution as he saw fit, a prerogative of which all presidents since 1917 have availed themselves (Garrido 1989, 422).[32] It also meant that his widespread appointment and removal powers would go unchallenged—especially those over high cabinet ministers and high-level bureaucrats. With each successive administration, the president could thus reinforce his policy preferences by infusing all levels of the bureaucracy with members of his *camarilla,* or political clique (Cornelius and Craig 1991, 45–53). Because its members were all handpicked, the president could also rely on the Supreme Court to uphold all presidential decrees and legislation. As a result of its absolutist nature, many have argued that the only limit on presidential power in Mexico was the fact that the president could not be reelected.[33]

31. For example, the ruling party enjoyed virtually unlimited access to government funds for campaign financing. It was the only political party that possessed a truly nationwide network of campaign organizers and poll watchers. And because the television station was state owned, it would typically devote 90 percent or more of its coverage to the campaigns of the PRI (Cornelius and Craig 1991, 61–62).

32. Note that this is not a power that is legally afforded the president, as constitutional amendments required a two-thirds majority in both chambers of the legislature. By virtue of Article 71 of the Constitution, however, which grants the president the authority to introduce bills to Congress, most constitutional amendments have initiated in the executive branch (Weldon 1997, 235).

33. There are two interpretations of the relationship between the party and the executive in Mexico. Traditionally, it was assumed that the party's submissive role vis-à-vis the president was but one of the president's many informal powers (Garrido 1989; Aguilar Camín and Meyer 1993). A more recent challenge to this view holds that the executive's power depends instead on unified partisan control of both chambers of Congress, the president's ability to discipline the "official" party, and continued PRI dominance over opposition parties (Molinar Horcasitas 1994; Weldon 1997). While this debate is not relevant to the period described here (pre-1988), events under the Zedillo administration seem to lend more credence to the latter interpretation.

Given that PRI electoral victories and PRI support for the president were virtually preordained, Mexican politics was historically characterized by a great deal of stability. The only real source of uncertainty in this system stemmed from the president's choice of successor, and even that was quite low (the successor was handpicked and could virtually always be assumed to be like minded). This stability was reflected in the extraordinary policy continuity observed between 1930 and 1982 and in the fact that there were no major institutional reforms during this period. Thus, despite the popular saying in Mexico that "there is a revolution every six years"—implying an incentive to undo the policies of one's predecessor—the empirical record suggests otherwise.[34] Even after the dramatic shift in policy following the 1982 debt crisis, the fact that the political system remained intact meant that the president could still pursue his policy interests at will.

The 1988 Elections: The Threat of Democracy Surfaces

This "pleasant" state of affairs came to an abrupt end in 1988. Like the plebiscite in Chile, Mexico's 1988 national elections served as the first visible signal that the future of the world's longest ruling political party was in jeopardy after almost sixty years of uninterrupted power.

The 1988 presidential elections were an unexpected watershed event in Mexican political history (Cornelius, Gentleman, and Smith 1989). While the official results showed Salinas narrowly winning with just over 50 percent of the vote, few believed that the results had not been doctored, prompting accusations of electoral fraud for the first time in history (Reding 1988a).[35] The pronounced drop in support for the PRI presidential candidate constituted a marked departure from historical trends (see fig. 6.1). At the time, the election results were widely interpreted as a vote of "no confidence" in the austerity measures initiated under De la Madrid, which had produced a decline in living standards over the course of the 1980s (Weintraub and Baer

34. It is true that incumbent presidents have often sought to differentiate themselves from their predecessors by pursuing abrupt changes in policy. Prior to 1982, however, all such "revolutions" took place within the parameters of an overarching consensus on a populist developmental model, such that even when one could detect palpable shifts between left-leaning and right-leaning administrations, these were always within the rubric of a large and ever-expanding state. Indeed, it was precisely because of the existence of this constantly expanding pie that political leaders could employ a variety of political and economic concessions in order to purchase the temporary loyalty of whichever group found itself temporarily excluded from power (Smith 1989, 396).

35. The official results showed 51 percent for the PRI, 31 percent for the left-wing Democratic Current (Frente Democrático Nacional [FDN]), and 17 percent for the right-wing National Action Party (Partido Acción Nacional [PAN]).

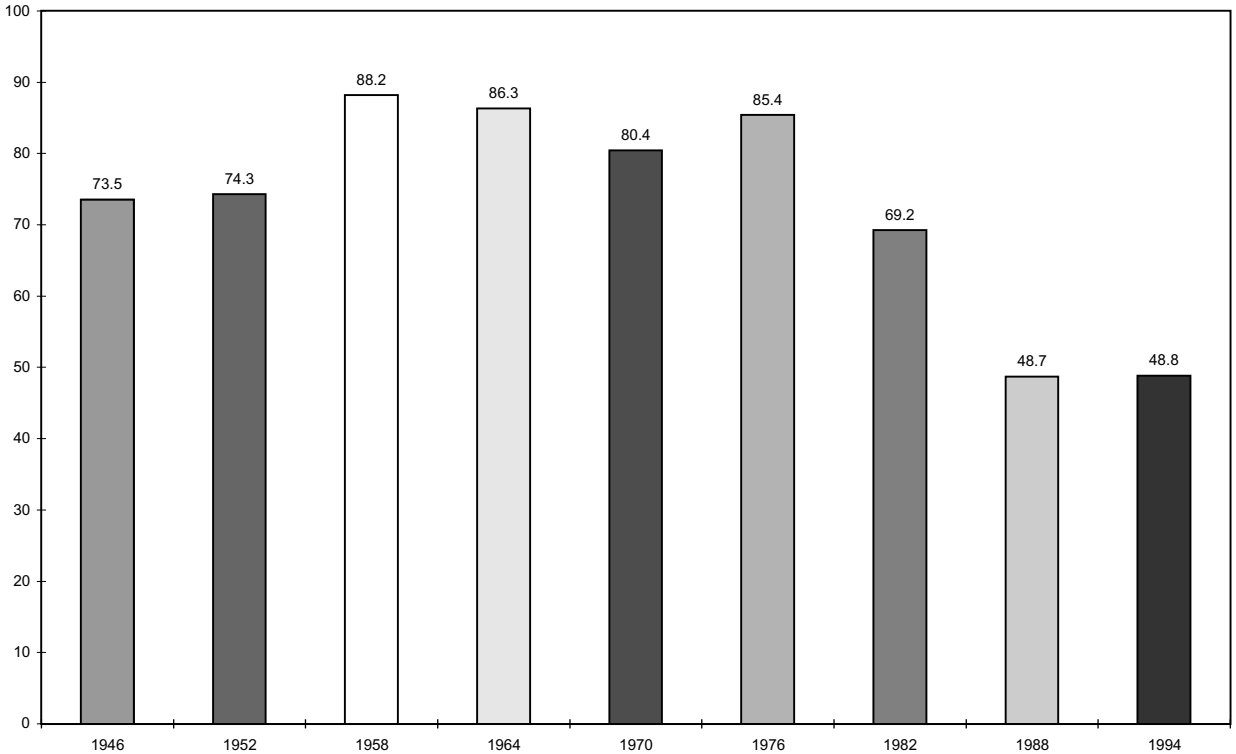

Fig. 6.1. Mexico: Support for ruling party's presidential candidate, 1946–94. (From Cornelius 1996, 64.)

1992, 193–97).[36] While subsequent analyses have shown that the number one determinant of voter defection in the 1988 presidential elections was not economic policy but, rather, attitudes toward the political regime, there is no question that a series of underlying ideological cleavages had emerged that might easily lend themselves to an electoral realignment in the future (Domínguez and McCann 1996, 110–12; Klesner 1994,180).[37]

In turn, Salinas's candidacy also brought deep fissures within the ruling party to the surface. From the 1950s onward, the PRI was characterized by a long-standing divide between the so-called nationalists and the neoliberals (Cordera and Tello 1981). While the former had advocated classically protectionist policies to increase public investment and stimulate domestic demand, the latter weighed in favor of controlling inflation and dismantling Mexico's elaborate system of import substitution industrialization to open up Mexico's borders. The two groups had historically coexisted in relative harmony within the Mexican state, alternating in their influence (Smith 1979; Camp 1985). But with the decided shift toward a neoliberal economic model beginning in 1982, it was clear that there was only room for one faction to exert its leadership (Ronfeldt 1989).

The rise of the neoliberal faction over the course of the 1980s had a splintering effect on internal party unity. First, it revealed the profound dissatisfaction with economic liberalization at the party's base. Cornerstone policies of the neoliberal reform agenda, such as the privatization of state-owned enterprises and cuts in government subsidies, were directly damaging to the core interests of organized PRI support—workers and peasants (Weintraub and Baer 1992; Dresser 1994a; Middlebrook 1995). In the months leading up to the 1988 elections, strong internal opposition emerged from these more traditional sectors of the party, who viewed the Salinas candidacy within the PRI as a decisive blow to the party's historic origins (Smith 1989). This was followed by the collapse of the PRI's so-called sectoral vote in 1988, as official party candidates affiliated with the party's traditional peasant and labor organizations failed to deliver their customary number of votes. It is no secret, for

36. In a Gallup poll conducted just before the 1988 elections, 74 percent of respondents said that the country's economic situation was bad or very bad, and 81 percent of those who actually defected from the PRI in the November elections also categorized it as such (Domínguez and McCann 1992, 213).

37. Domínguez and McCann (1996) propose what is essentially a two-step model to explain voting behavior in this election, in which voters decided first on their view of the ruling party. If they were favorably predisposed toward the PRI, seeing it as a party that both was likely to strengthen over time and was likely to improve the country's economy, then they voted for the PRI. If, on the other hand, they were critical of the ruling party and its ability to manage the economy, then they supported an opposition party based on their policy preferences and social cleavage attachments.

example, that many members of the state-controlled petroleum worker's union were actively engaged in the Cárdenas campaign (see "The Cárdenista Challenge," which follows), providing both organizational and financial support (Cornelius and Craig 1991, 78; Teichman 1995, 175; Middlebrook 1995, 293–94).

Second, the rise of the technocratic faction within the PRI also blocked the political mobility of more statist elements within the party leadership. In 1986, dissident elements associated with the party's left wing formed a protest movement within the PRI calling for greater internal democratization of the party and less commitment to a single economic dogma (Carr 1989; Bruhn 1996). When it was unsuccessful in its bid to recover party leadership, this faction broke with the ruling party in an unprecedented move and formed an independent left-wing political movement (see the discussion that follows). This rift was by far the most significant in the PRI's history and made it clear that the growing disparity between the "haves" and "have-nots" within its ranks was beginning to take its toll.[38]

In addition to these obvious signs of ruling party decline, the 1988 elections also signaled the rise of a political opposition in Mexico. Throughout most of the PRI's history there had been no effective opposition to speak of in Mexico. Rather, the main function of opposition parties had been to indirectly legitimize the ruling party by providing it with nominal competitors. But when popular discontent began to surface with regard to the government's austerity policies after 1982, opposition parties were the main beneficiaries (Molinar Horcasitas 1989, Molinar Horcasitas 1991; Klesner 1994).[39]

While the growth of the opposition had taken place primarily at the local level over the course of the 1980s, following the 1988 elections, opposition

38. One must of course ask why the técnicos would choose to pursue a set of economic policies that would per force undermine their political support. One possibility is that when they first began the liberalization of the economy, they simply did not anticipate its political fallout with certain support groups. This interpretation seems unlikely, however, given the foresight otherwise attributed to them. A second position holds that the authoritarians understood full well that economic liberalization would in turn engender political liberalization but they thought that they could sequence economic and political freedoms à la Gorbachev (Rubio 1993; Coppedge 1993). While the latter interpretation seems more plausible, it also suggests implicitly that Salinas was guiding the country toward democracy. In keeping with Dresser (1994a) and Craske (1996), it seems more likely that while Salinas was laying the groundwork in the country for political change, it was not toward eventual democratic rule. Rather, he was laying the foundation for a new brand of Mexican authoritarianism whose organizational structure and constituency bases would be brought in line with Salinas's own economic project. I return to this point in chapter 7.

39. The increasing strength of the opposition was also fueled by a series of electoral laws introduced in order to quell antisystem activities, which lowered the legal mandate for party registration, increased the total number of seats in the Chamber of Deputies from 400 to 500, and introduced proportional representation for 200 of those seats.

parties obtained a national presence (Alcocer V. 1994; Reyes del Campillo 1996). For the first time in history, the PRI lost its two-thirds dominance in the lower chamber of the legislature and, with it, the ability to unilaterally reform the Constitution. For the 1988–91 period, the PRI was thus reduced to a working majority in the Chamber of Deputies, where it held but 260 out of 500 seats. This effectively made Salinas the first president in Mexican history who would be forced to negotiate with the opposition in order to enact major legislative initiatives. Also for the first time since the ruling party was founded in 1929, opposition party candidates were elected to the Senate, gaining 4 out of 64 seats. While the ruling party's need to rig elections had arguably increased as a result of this more competitive environment, the cost of doing so had also risen (Molinar Horcasitas 1993).

The 1988 national elections thus made clear that the days where a PRI victory could be taken as a given had officially come to an end. Not only was the ruling party itself increasingly polarized, but it also now faced a newly invigorated opposition. In the words of one political analyst, the 1988 elections "made opposition legitimate and democracy possible" (Pastor 1990, 8).

The Cárdenista Challenge

But while the regime had broader reasons to fear these signs of democratization, it also had a very specific cause for alarm. For the first time in history, the principal challenge to the PRI did not come from the right but rather from the left.

At the time of the 1988 elections, the opposition clustered around two poles: the right-wing National Action Party (Partido Acción Nacional [PAN]) and the left-wing National Democratic Front (Frente Democrático Nacional [FDN]). While the former was a conservative, predominantly middle-class party with a support base drawn heavily from the industrial north, the latter was a coalition of disparate left-wing groups that traditionally drew the bulk of its support from the urban upper and middle classes (Klesner 1994, 163–81). In the early and middle part of the 1980s, the PAN had capitalized on the growing discontent within the middle class to win a series of electoral contests in northern Mexico at the local level (Loeza 1989). But in 1988, the left-wing alliance seized center stage in national politics under the leadership of breakaway populist candidate Cuauhtémoc Cárdenas.

A former leader of the PRI who left the ruling party amid the internal disputes noted earlier, Cárdenas ran for president on a decidedly anti-neoliberal platform. Highly critical of the speculative economy that had grown up around the Mexican stock market, Cárdenas called instead for a revitalization of domestic production geared for internal market consumption (Reding

1988b, 334). Viewing a mixed economy as "essential in order to properly orient economic development and preserve national self-determination" (Reding 1988b, 335), Cárdenas was particularly intent on providing political and economic support for Mexico's collective farm (*ejido*) system. In this more classically social democratic, Keynesian vision of economic growth, international debt repayment would take a backseat to stimulating domestic economic growth and satisfying social needs. In particular, job creation would be made a top policy priority to increase the purchasing power of Mexican workers. And while not denying the importance of expanding exports, Cárdenas also felt that there ought to be continued controls on foreign investment (Reding 1988b, 340). In brief, his movement represented everything that the técnicos did not.

Cárdenas's staunchly anti-neoliberal message resonated with large segments of the Mexican population. While he officially garnered only 31 percent of the popular vote, he was widely believed to have been the real winner in the 1988 presidential elections (Reding 1989). As noted earlier, he generated considerable support among the PRI's rank and file union members and peasants, who had benefited greatly from social reforms under Cárdenas's father, Lázaro, in the early years of the party's creation. Many of the PRI's base-level militants were also sympathetic to the nationalist-populist rhetoric that Cárdenas advanced. In short, one thing that the 1988 elections had made abundantly clear was that the PRI and the left were now competing for the same "market share" (Klesner 1994, 174; Magaloni 1998).

With the 1988 elections, the left thus gained a permanent place on the political map in Mexico (Castañeda 1993; Bruhn 1996). In the wake of Cárdenas's newfound electoral strength, the ruling elite—and the powerful capitalist actors it represented—began to worry about how this turn of events might affect their interests in the future. In the words of one author, "except for death, nothing strikes greater fear in the heart of Mexican big business than the specter of Lázaro Cárdenas" (Valdés Ugalde 1994, 229). Frightened by the prospect of a reversion to populism, the technocratic faction of organized business threw its support solidly behind Salinas (Puga 1993a, 202; Luna 1995, 83). Even the more traditionally confrontational radical business faction ceased its previous campaign against the concentration of power within the political system and assumed a more accommodationist position toward the government (Kaufman, Bazdresch, and Heredia 1994, 398). Faced with the possibility of a center-left future, powerful business groups recognized their incentives to close ranks behind a business-friendly neoliberal government.

In sum, the results of the 1988 elections sent out shock waves within Mexico's ruling elite. Not only were the traditional sources of ruling party

power in jeopardy, but there was also a direct programmatic threat to the interests of its market-oriented leadership. The events surrounding the 1988 elections thus provided the first concrete evidence that the clock was ticking for authoritarian rule in Mexico.

This chapter has situated the Mexican central bank reform of 1993 within the broader economic and political context in which it took place. Until now, the events described in this chapter have borne a great deal of resemblance to those in the Chilean case. First, as in Chile, a government of a decidedly neoliberal bent carried out the reform. Second, also as in Chile, this was a case where prevailing economic explanations alone could not account for the reform's timing. Finally, as was the case in Chile, the stability of Mexico's authoritarian rule was rocked by an unexpected and cataclysmic event that placed the threat of democratization squarely on the table.

And yet, despite what appeared to be similarities between these two cases on a series of dimensions, their outcomes—in terms of the actual degree of autonomy exhibited by the central bank—were nonetheless quite different. Why the setup of the Mexican central bank did not duplicate that of the Chilean central bank warrants further investigation. Chapter 7 will explore this in more detail.