

**Fractured Elites: The Politics of Economic Crisis in Mexico**

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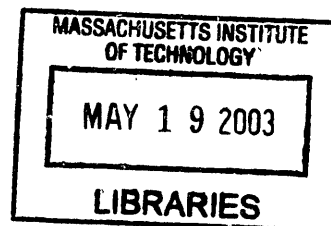
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ABSTRACT

Economic crises are such powerful socioeconomic disasters that, not surprisingly, they are usually explained by powerful socioeconomic pressures, such as global financial speculation, structural economic failure, or populist demands. This thesis, in contrast, identifies the crucial role of elite politics.

From the 1950s through the 1980s politics inside a tiny circle of high Mexican officials made the difference between economic crisis (when the exchange rate crashes) and stability. In the 1950s and 1960s, competing *grupos*, or cliques, within the ruling party abided by a “cooperative” system. The *grupo* whose leader won the internal contest for presidential nomination, hence automatically won the election, would do better, but losing *grupos* retained important posts. Such assurance of political survival allowed elites to defend the political system’s long-run interests, not just their narrow self-interests, and avoid economic crises. In the 1970s and 1980s, “struggle” emerged as power conflicts became all-or-nothing, erupting in massive expenditures, other economic gambles, and crises. Public spending soared in *pre-election* years (27 percent in 1975, 22 percent in 1981), when *grupos* vied to build support for their leader’s presidential nomination. Slashing it in the actual election years (0 growth in 1976, 8 percent decline in 1982, excluding debt payments) was too late to avert economic crisis.

Most studies of economic crises in developing nations focus on what went wrong – and find too many possibilities. By scrutinizing Mexico’s economic stability in the 1950s and 1960s (when nations such as Brazil and Argentina suffered repeated crises), this thesis is better able to discover the critical characteristics of political *success* that later eroded. The relationship between state and society did not change; the system of elite politics did. Many interviews with high officials reveal how this system worked, and illuminate important facets of Mexican economic history.

The more general lesson is that politics at the heart of the state is not just a small replica of society. While external constituencies endure, elite factions survive or die politically. How they handle mutual conflicts can have momentous effects on a nation.

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## Preface

It is no secret how arduous writing a Ph.D. thesis can be, but it is easily forgotten – especially by the author – how much thought and encouragement others may contribute. Another doctoral candidate who attended a colloquium I gave at MIT to present my research expected the members of my thesis committee to grill me – and was not disappointed – but afterwards remarked to me, I think a little surprised, “They want you to succeed.” Many people, including my committee, helped immensely in my project. This preface is a very partial acknowledgement of the role a few of them played.

An important impetus for me to undertake a doctorate in political science was auditing “Political Economy I,” a class taught at MIT by Suzanne Berger and Michael Piore, both subsequent members of my thesis committee, introducing some of the principal thinking about the state and the economy. A magazine editor at the time, I discovered vistas that I wanted to be able to bring together into some broader intellectual landscape. That task is the goal of preparing for general examinations (partial though one’s efforts may inevitably remain), but then comes the effort to extend a part of that landscape: the thesis. Now one finds oneself peering as if through a dense fog, guided by hunches, experiences, even prejudices, wondering at once whether any picture at all might emerge and how one could assess its fidelity if it should. Here one’s thesis advisor plays a critical role. I long ago lost track of how many proposals, chapter fragments, and other relevant or irrelevant writings my advisor, Suzanne Berger, read. Her excellent perceptions about them, not to mention the sheer time and energy she devoted to reading them, helped me to focus my more interesting and useful ideas in this thesis, and to reject a great deal that was a convoluted way of saying the obvious, that would not hold up to scrutiny, or that, when I thought about it twice, fundamentally bored me. Suzanne had the intellectual generosity to be at once tough-minded about sloppy thinking yet open-minded to what I am quite certain are unusual – and I hope may prove to be important – avenues of thinking.

Michael Piore crucially helped me shape the framework of my research and argument. One seemingly simple example will have to suffice. In Mexico interviewing former officials about how economic policy was made under the old regime from the 1950s through the 1980s, I felt overwhelmed by the seeming boundlessness of the task. Mike suggested what seems obvious: that I make a list of individuals I would ideally like to interview, alive or dead, who could articulate the principal differing perspectives on each administration. I should interview all I could, and for those no longer alive or unwilling to talk, I should seek substitutes – colleagues, protégés, sons in politics. Not only did this approach give me a more manageable list of interviewees; the interviews gave me as solid a base as I could find to construct the historical account. Chappell Lawson’s continuing, always reliable advice as to what constitutes sound political-science research – and what is not a sound argument – his acute perceptions, and even his good editing suggestions (to someone who was an editor for years!) helped guide me again and again and again. I am not sure I would have gotten through my thesis without his enthusiastic help. I am sure it would have taken me longer than it did and would not have turned out as well. The non-MIT member of my committee, Roderic Camp of Claremont McKenna College, a well known Mexico scholar, generously read evolving drafts of my thesis. He helped reassure me that, even if my arguments about the Mexican political elite might be challenged, they are at least serious. When he was at MIT, Jonathan Fox, now of the

University of California at Santa Cruz, introduced me to Mexican politics.

On two separate trips to Mexico, the Instituto de Investigaciones Económicas (IIE) of the National University of Mexico kindly accepted me as a visiting researcher. Within a stone's throw of the Economics Faculty and Law Faculty, which the great majority of former high Mexican officials I interviewed had attended, it allowed me to feel, in some small measure, part of the story too – aside from providing an academic home away from MIT. I am particularly indebted to the director, Alicia Girón; to Professor Teresa Gutiérrez Haces, who introduced me to the IIE and helped me find my way around my subject; and to the head librarian Ernesto Reyes, who, in addition to steering me around the dozens upon dozens of National University libraries, became my good friend. Ernesto's wife Susana Gutiérrez and his son, also Ernesto, helped transcribe a massive quantity of taped interviews. To anyone who does interviews in a foreign language, I recommend – as do they! – employing the best recording equipment money can buy; the sound quality was sometimes horrible. My friend Cecilia Dávila, a translator and professor of French (for a while also at the National University), employed her fine sense of language and great care for words in helping with particularly horrendous passages. At the same time, I bear responsibility for all quotes; I did not use anything that I did not carefully listen to myself.

On the list I constructed of Mexican officials I would ideally like to interview, I had to find alternates for the dead, but for almost none of the living. Even former presidents of Mexico, finance secretaries, and interior secretaries very seldom declined interviews, and they told me the story as they saw it. The political class, as Mexicans call it, takes research with a seriousness and deference one would hardly find in most countries; as I point out in the thesis, half of those officials were professors at some point in their careers. Many talked at length, even on two, three, or four occasions. I am especially indebted to Victor Urquidi, a distinguished Mexican economist whose career in the public sector and academia spans the decades from the 1940s to the present; to the economist and former finance secretary Mario Ramón Beteta, who likewise answered sometimes tough questions on numerous occasions; to Julio Rodolfo Moctezuma, also a former finance secretary, who talked with me for hours (there were three cassettes to transcribe!) a few months before his untimely death; and to Guillermo Barnes, a younger ex-official who gave me introductions when I most needed them at the beginning. These four were associated with the Finance Ministry, but officials associated with the economic left, such as Javier Alejo or José Andrés de Oteyza, and so-called political dinosaurs (a silly term), such as Augusto Gómez Villanueva, were no less generous of their thoughts and time.

I did my best to send quotes to interviewees to check for accuracy, though I was unable to locate a small number in the month available after finishing the thesis. I did *not* ask them whether they agreed with my conclusions but only whether the specific quotations reflected what they meant to say. In some cases the answer was no or not quite – despite the tape recordings (nothing can be more misleading) I had unintentionally distorted what they meant – and as best I could, I corrected these problems. A few who had talked on the record asked me to take interviews off the record, but in the end all but one happily left everything on the record. Even in the case of that individual, who did not dispute the quotes' accuracy, I left them on the record. (A few individuals' remarks were originally off the record, and of course they stayed that way.) I was adamant about keeping citations on the record: I want to attribute remarks to individuals not only so I can be held accountable for verifiable statements, but also because the right story is often elusive. Two



credible sources say one thing; four say another; and it is not a question of dissembling but of genuinely different perspectives and understandings. Though I reach my conclusions, it is important that readers and future scholars know who said what.

However, I do *not* mean to implicate anyone I interviewed in any of my arguments, and this is not just the usual boilerplate. I know I quote individuals in paragraphs where I reach conclusions that they sharply disagree with (even if the quotations *per se* are correct): they sometimes told me so. Far more might they disagree with my theories about elite cooperation, elite struggle, and economic policymaking. To repeat, these theories do not derive from anyone I interviewed; I do not speak for one political current or another. If my ideas received an impetus from any Mexican, it was Jorge Castañeda in *The Inheritance (La herencia)*, a bestseller available to read (I did not interview him). But I formulated and presented my basic ideas (not to say that they did not evolve) in a colloquium in February 1999 before it came out. The thinking is mine, right or wrong.

I will only very briefly acknowledge gratitude to friends and family. The entire Ortiz family of the Casa González helped to make Mexico City my second home, indeed a city that I came to love for all its problems, as did the Pueblita family during an earlier stay. My parents Mark and Marion and my sisters Kate and Ellen must have been concerned more than a few times when I abandoned a 15-year journalism career to do a Ph.D. in political science. Their sustained support has meant more than they know. My cats deserve credit for enduring one rather long stay in Mexico City, where the feline world is as fierce as the rush-hour traffic. My friend Pam Varley considerately looked after them in Boston the second time I went to Mexico, even if her dog was not precisely pleased.



## Chapter 1

**Introduction: Politics at the Heart of the State**

The defining characteristic of economic crises, such as struck many Latin American nations in the 1980s, the European Monetary System in 1992, and East Asia in the late 1990s, is a crash in the value of the national currency. Since the exchange rate links the domestic economy to the world, such a crash can produce enormous ruin. In December 1994 the dollar value of Mexicans' bank accounts plummeted to less than half what it had been days earlier. The banks, which had taken out what seemed at the time cheap foreign loans,<sup>1</sup> now needed more than twice as many pesos to repay them, so they raised interest rates to astronomical heights, for example, driving mortgages, variable-rate in Mexico, to over 100 percent a year. Of course, no one who could pay 100 percent interest would have mortgaged a house in the first place. Some committed suicide; most realized that, under Mexican law, it can take a bank five years to foreclose, and the owner has a right to buy the house back at auction, so along with many commercial borrowers, they just defaulted. The banking system failed, and bailing it out cost Mexican taxpayers \$100 billion dollars.

Meanwhile, as always, devaluation ignited inflation. Essential imported inputs, ranging from semiconductors for computing equipment to corn for tortillas (Mexico is not self-sufficient in basic grains), suddenly cost twice as many pesos as before, so firms that had to buy them raised the prices they charged consumers. Mexicans' spending power eroded as price increases, led by prices of basic necessities, outpaced wages, in a cycle that continued long after the crash. For example, in late 1996 wages increased 15 percent, as agreed in a government-business-labor "pact" to control inflation, but prices rose faster. The Mexico City Metro fare went up 30 percent, the fare on minibuses went up 25 to 50 percent (depending on the distance traveled). Just taking the minibus and subway to and from work could eat up a quarter of the daily minimum wage. Though the concentrated export sector grew rapidly in the second half of the 1990s, by 2000 real the minimum wage was barely more than half what it had been before the crisis (Aguayo 2000, 199).

Economic stability, that is, avoiding crisis, is critical for sustaining growth in developing countries. Whatever else can be said about the "Washington consensus" that promoted freeing trade, deregulating markets, and selling off state enterprises, it distracted attention from the real scourge, economic crises. Overall, neither trade barriers nor the portion of the economy controlled by the state sector had any significant effect on growth across developing nations from 1974 through 1995 (Rodrik 1999, 137-39). Some of the most protectionist economies did badly, while others such as India maintained or increased their growth rates (Rodrik 1999, 75). However, economic instabilities that provoke and are provoked by crises – high inflation and black-market premiums for the currency – undermined growth at better than the 99 percent confidence level.

In defining a crisis economists usually do not distinguish between an uncontrolled crash and a planned devaluation – they just gauge the percentage by which the value of the currency falls (Esquivel and Larraín 1998, 10-11)<sup>2</sup> – but there is a difference. A planned

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<sup>1</sup> On Mexican banks' foreign borrowing, see Cárdenas 1996, 189; Sachs 1998, 249.

<sup>2</sup> Some economists also count a speculative attack on a currency as a crisis even if it is unsuccessful, but determining whether such an unsuccessful speculative attack has occurred is difficult (Esquivel and Larraín

devaluation, when financial authorities decide to make the local currency exchange for fewer U.S. cents (or other hard currency), and make the new parity stick, can be harsh indeed. But there is a political difference between one government that makes an economic decision and another that cedes the decision, willy-nilly, to currency speculators, and there is an economic difference, too. Mexico's planned devaluation in April 1954 provided the basis for two decades of stable growth and has never been called a crisis; its botched effort to devalue in December 1994, which collapsed in an uncontrolled crash, has always been considered a crisis. A planned devaluation is a painful measure to stabilize an economy. A currency crash, which like any financial crash exceeds all warranted bounds – the Bank of Mexico would say that it “withdrew from the foreign exchange market” (Urquidi),<sup>3</sup> letting the peso plunge as far as speculation would take it – is an economic crisis.

Economic crises are such wide-reaching societal disasters that, not surprisingly, most efforts to explain their political causes focus on comparably wide-reaching relationships between state and society, such as powerful interest groups' capturing the state, or failure of the underlying industrial model. However, the causes of economic crises can be far more circumscribed, if not less powerful. Politics at the heart of the Mexican state – politics within a small circle of high officials, not reducible to interests of broader societal factions – was for decades critical to economic stability or crisis.

In the 1950s and 1960s competing *grupos*,<sup>4</sup> cliques within the Mexican political elite united more by career, educational, and family ties than by ideology, maintained a “cooperative” system: The *grupo* whose leader won the ruling party's internal contest for presidential nomination (and automatically won the *pro forma* election) would do better, but – the feature that defined cooperation – even losing *grupos* could expect to survive. Some members would retain high public posts and would be contenders for the presidency the next time. This expectation of political survival forged a mutual interest in the system's long-term stability and allowed the state to avert economic crisis.

In the 1970s and 1980s “struggle” emerged as internal contests over presidential succession grew increasingly all-or-nothing. Since losers expected to be and were expelled from politics, these internal succession conflicts trumped concerns about economic stability. As the presidential nomination approached in the fifth year of each six-year administration, rival *grupos* within the party engaged in massive public spending and other economic gambles to build support for their leaders to be chosen as the candidate. In the sixth, final year of each administration, when elections were held, public spending was always slashed and other harsh measures were taken to stabilize the economy – now real control over power was no longer in dispute – but economic crises erupted.<sup>5</sup>

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1998, 10). And I specifically want to distinguish between states that can avoid an uncontrolled currency collapse, despite an attack, and those that cannot.

<sup>3</sup> Whenever I quote or cite an individual without giving a written source, the information comes from a personal, on-the-record interview. The dates and locations of each interview are given in the bibliography, so to avoid literally hundreds of repetitions, I omit them in the text.

<sup>4</sup> As discussed later, most scholars refer to *camarillas*, but the term connotes more nearly a mafia than a political group in everyday Mexican. *Grupo político*, or just *grupo*, the word used by politicians themselves and in ordinary conversation, seems preferable.

<sup>5</sup> My argument shares something with the “elite settlement” literature, which sees bargains among major elite factions as essential to consolidating democracy (see Field, Higley, and Burton 1990; Burton and Higley 1987; Field and Higley 1985).

This is a story of elite politics writ large. It focuses on a particular nation in a particular era: Mexico from 1952, when the ruling-party system was consolidated, through 1988, when it faced its first real threat at the ballot box. Since during that period the ruling party always won elections by landslides (the opposition never got more than 15 percent of the vote and never even effectively protested electoral fraud) and incorporated key societal groups (the principal labor, peasant, and middle-class organizations belonged to the party and were largely manipulated by it), elite politics mattered more than in most nations at most times. But there is a general point, too. No matter how deep one looks within the state, one cannot find some inner core exempt from politics, some unitary leviathan that only needs to manage politics between itself and society. On the contrary, the heart of the state has its own politics, its cliques that are not mere reflections of external societal pressures, but have important mutual relationships. Indeed, societal interests tend to endure and reassemble, while elite factions survive or die politically. When such factions fear for their political existence, other considerations come second. If all such factions can expect to survive even though they lose a particular succession contest, then their common interest in the system's long-term prospects helps sustain stability.

#### The economics of crises

For all the diversity of economic crises, their basic mechanics share commonalities. Financial panic always drives the crisis *per se*. Although accounts of how it provokes crises, notably Charles P. Kindleberger's *Manias, Panics, and Crises*, are nothing new, and the phenomenon itself is as old as capitalism, only in the 1990s did economists develop formal "second-generation" models showing that self-reinforcing financial panic can drain a nation's hard-currency reserves and cause an exchange-rate crisis, even if nothing is fundamentally wrong with its economy (Obstfeld 1996). The analogy is to a run on a bank that is solvent, in that it has ample income to pay depositors in the long term, but illiquid, in that it cannot pay them all at once (Sachs 1998, 249-50). Actually, all banks are illiquid in this sense. What banks do is accept short-term deposits, in checking and savings accounts, and issue long-term loans such as mortgages. Since they cannot call those loans if there is a run, they would be at continual risk of collapse did not the Federal Reserve (or other central bank) stand behind them as a lender of last resort.

In effect, developing nations have no lender of last resort. Of course, their central banks act as lenders of last resort for debts in their own currencies, but for their debts in hard currencies, which often run into the tens or hundreds of billions of dollars, they obviously cannot. The International Monetary Fund (IMF) sometimes lends a limited amount of hard currency if a nation commits itself in negotiations to accept a string of "conditionalities," but to stop a run, a lender of last resort must lend immediately and unconditionally. If a core of speculators starts trading the local currency for dollars (or other hard currency), no matter how irrational their initial impetus, others will rationally fear that the central bank may soon be out of reserves; whether the nation is solvent and could service loans in the long term is irrelevant. They follow suit demanding dollars, the central bank does run out, and the currency crashes. The Asia crisis has been explained as this kind of problem. Steven Radelet and Jeffrey Sachs (1998, 2) say: "International financial markets demonstrate a high degree of intrinsic instability, or to put things another way, the East Asian crisis is as much a crisis of Western capitalism as Asian capitalism."

If this explanation of the Asia crisis is correct, contagion caused financial panic in most countries: Thailand, which arguably had economic problems (Eichengreen 1999, 145), suffered a crisis, so nervous investors started pulling funds from other countries that were nearby or seen as similar, and the panic spread, causing crises. Domestic political shocks can likewise cause a crisis. For example, when Mexican President Adolfo López Mateos declared in 1960, not long after the Cuban Revolution, that his was a government “of the extreme left within the Constitution,” he hoped to placate leftists who supported Castro and, at the same time, placate the private sector by promising no constitutional change. But nobody paid attention to “within the Constitution”; capital flight took off; and the government avoided a crash only by spending months restoring business confidence.

Since unstable international financial markets allow economic crises to occur – monetary flows dwarf trade, approaching 10 percent of the world’s annual output every day (Eatwell and Taylor 1998b, 4) – a better global financial architecture could certainly help prevent them (Kindleberger 1986, Eichengreen 1999, Eatwell and Taylor 2000). As George Soros says, “Stability can be preserved only if a deliberate effort is made to preserve it” (1997, 51). Barry Eichengreen notes that there is “no shortage” of such proposals: “The French government has one, the German government has one, the Canadian government has one, the US government has one” (1999, 1) as do the IMF, the G-7, the G-22, George Soros, and Barry Eichengreen. Proposals include better financial regulation and “transparency” (though such efforts are inevitably trying to catch up with the last crisis, not anticipating the next one), controls on capital flows to slow panics (since panic can be self-reinforcing, merely slowing it can provide time to prevent a crisis, not just postpone it), and a global lender of last resort (unlikely to be implemented any time soon). The global financial architecture matters. Since the erosion of the Bretton Woods system of fixed exchange rates, which maintained unusual financial stability in the 1950s and 1960s, growth rates have fallen by a third (Eatwell and Taylor 1998a, 1) – and they will look worse after the current worldwide recession.

However, global financial architecture is a limited instrument. Neither Bretton Woods nor the pre-World War I gold standard, the most successful such architectures, prevented repeated crises in developing nations. While there were none in Mexico in the 1950s and 1960s, in Argentina failed efforts to stabilize the economy ended in four military coups (against Peron in 1955, Frondizi in 1962, Illia in 1966, and Onganía in 1970), while in Brazil they culminated in a president’s suicide (Vargas in 1954), another’s resignation (Quadros in 1961), and a military coup (against Goulart in 1964). Conversely, Mexico erupted in crisis in 1982 even though oil revenues cushioned it from the worst economic shock (contrary to a popular misimpression, its oil revenues continued to increase through 1982 despite a price dip), while South Korea, an oil-importer hit by powerful external shock, avoided crisis (Rodrik 1999, 78). Though in theory panic alone can cause crises, in practice, it usually strikes nations with economic problems. As Eichengreen notes, national policies “still determine whether or not the economy strays into the zone of vulnerability” where crises are likely (1999, 138).

The IMF has traditionally blamed poor “macroeconomic fundamentals” for pushing economies into a vulnerable zone. This problem arises from the relationship between the money economy – cash, credit, finance – and the “real” economy of goods such as automobiles or hair cuts. To increase their purchasing power, unions seek higher wages, middle-class groups press for welfare benefits, or business interests lobby for subsidies.

The usual metaphor referring to these as conflicts over income “distribution” is unavoidable but, it is worth noting, not quite apt because it suggests conflicts over dividing up a physical quantity of goods. In fact, the conflict is over that far more fungible thing, money *promising* a quantity of goods, which can grow rather faster than the goods themselves. Governments in developing nations have typically caused this problem when they run large budget deficits – paying more in welfare benefits, business subsidies, wages to state workers, and other expenses than they collect in taxes and other revenue – by “printing” money. They not only literally print bills but write checks on their accounts at the central bank that exceed deposits (they have usually had unlimited authority to so), so that, as individuals and firms deposit those checks in their bank accounts and write more checks, the amount of money in circulation increases.<sup>6</sup> Governments may also run deficits and print money to compensate for shocks such as natural disasters (recovering from an earthquake or hurricane can put serious financial pressure on poor countries) or external shocks (a U.S. interest-rate hike can suddenly increase the cost of servicing debt).

If the money supply, the monetary promise of output, is thus allowed to rise faster than real output, the disparity will somehow be closed. Inflation is the typical way to break the promise: people get the money – paper wages, paper profits, paper welfare benefits – but its value erodes, so they do not get the goods.<sup>7</sup> Moderate inflation is not a mortal problem, but it can lead to one: overvaluation. The central bank has typically fixed the local currency against a hard currency such as the dollar, or at least kept the exchange rate within some band, to anchor the economy – firms know how much local currency they will need to import industrial inputs or service foreign loans, investors know how much interest they will earn on domestic bonds compared with foreign ones. The problem arises if the prices of domestically made goods rise because of inflation, while a relatively fixed exchange rate holds the prices of imports down, so everyone tries to get a better deal by buying imports. As one Mexican ex-finance secretary is said to have joked, very seriously, you can measure overvaluation by the length of the line to cross the border in Tijuana to shop. If it is half an hour, the exchange rate is fine; if it is two hours, the peso is overvalued; if it is three hours, crisis is imminent (Cárdenas 1996, 194). The surge of imports and decline of a country’s exports, as the overvalued exchange rate makes them more expensive abroad, open a trade deficit. To cover it, the government has to spend its hard-currency reserves or take out foreign loans.

At some point speculators may doubt that the government can or will continue spending and borrowing dollars to maintain the exchange rate, so they start selling their domestic stocks, bonds, or other financial assets and turn in their pesos, or other local currency, for dollars to stash in Miami or Switzerland. When they thus attack the peso, hard-currency reserves really plummet. At some point the central bank can no longer secure dollars to keep exchanging for pesos, so the currency does crash (Krugman 1979).

Debates about the economic causes of crises do not center so much on what generic mechanisms can produce them as on which mechanism contributed the most in a given

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<sup>6</sup> If the government borrows from the private sector, the effect may not be inflationary, but financial markets in developing nations are typically thin, and large budget deficits are mostly covered by printing money.

<sup>7</sup> Inflation increases with the velocity at which money changes hands as well as with the money supply. The typical IMF assumption that velocity is constant may often be incorrect (Taylor 1988, 11), but there is little disagreement that massive budget deficits and monetary creation can lead to inflation and crises.

case,<sup>8</sup> and each culprit carries its political agenda. Self-reinforcing panic, spreading from one nation to another, points to an inadequate international financial architecture, hence blames the financial interests and governments of advanced nations for failing to strengthen it. Poor macroeconomic fundamentals blame profligate governments of developing nations, while external shocks blame actors such as the Federal Reserve, which, for example, doubled global interest rates in 1979. The IMF blames the Asia Crisis partly on inadequate financial supervision (IMF staff 1998, 18-19) – domestic financial bubbles and crashes can erupt in exchange-rate crises as speculators flee the currency – while others blame the IMF for pushing financial deregulation too fast.

### Political explanations of crises

Though there have been a few efforts unravel how the politics of financial regulation – and deregulation – can lead to economic crises,<sup>9</sup> the overwhelmingly dominant approach to explaining domestic political causes of economic crises has focused on the poor macroeconomic fundamentals of budget deficits, inflation, and overvaluation, and the distributive conflicts that can lie behind them. Political economy literature has taken this approach in part because it is relatively feasible. Even if external shocks are present, the effects of macroeconomic fundamentals can be distinguished. For example, the effect of higher global interest rates on government deficits via debt payments can be separated from the effect of increased public spending on business subsidies or welfare programs without corresponding revenue. Virtually no one has sought political causes of financial panic *per se*. No doubt this is partly because panic often has external causes such as the contagion in Asia, and when the causes are domestic, as with López Mateos' infamous remark about his government of the extreme left, they may be only part of the picture and hard to relate to other economic policymaking. Also, when macroeconomic fundamentals are sound, as in Mexico in 1960, panic is easier to control.

There are two different but overlapping ways of understanding the effects of distributive conflicts on macroeconomic fundamentals: First, are societal interests, such as unions, business groups, and political parties, organized so as to minimize distributive conflicts or aggravate them? Do *institutions of conflict management* help limit monetary promises of goods – wages, profits, public spending – to the volume of goods really produced? Second, how autonomous is the state from distributive conflicts? Even if societal pressures for excessive monetary promises of output cannot be really resolved, is there adequate *state autonomy* to resist or repress them?<sup>10</sup>

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<sup>8</sup> For example, Eichengreen 1999, 143-169; Radelet and Sachs 1998; and Krugman 1998 evaluate how well competing theories apply to the Asia crisis; Eichengreen and Wyplosz 1993 do the same for the European Monetary System crisis of 1992; and Taylor 1988, 75-143; Kahler 1985, 358-59; and Golub 1991 do the same for the 1980s wave of developing nations' crises.

<sup>9</sup> An excellent example is Kessler (1998) on economic problems that contributed to Mexico's 1994 crisis.

<sup>10</sup> I omit in this chapter theories about structural economic problems, namely the "exhaustion" of import substitution and the "fiscal crisis of the state." They are used to explain some of Mexico's and other Latin American crises of the 1970s and 1980s but are rather unlike most of the political economy literature, so rather than complicating the discussion here, I focus on them separately in chapter 2.



After the Asia crisis, it was widely argued that, as Dani Rodrik puts it, “democratic institutions are the institutions of conflict management par excellence” (1999, 84).<sup>11</sup>

Democracy, he says, was critical in nations that best weathered the Asian crisis:

First, [it] facilitated a smooth transfer of power from a discredited set of politicians to a new group of government leaders. Second, democracy imposed mechanisms of participation, consultation, and bargaining, enabling policymakers to fashion the consensus needed to undertake the necessary policy adjustments decisively. Third, because democracy provides for institutionalized ‘voice,’ the South Korean and Thai institutions obviated the need for riots, protests, and other kinds of disruptive actions. (1999, 92)

Oddly, until the mid-1980s – the fall of the Eastern Bloc seemed to mark a shift in attitude – the usual thinking was that democracy destabilizes economies by giving voice to demands for immediate consumption.<sup>12</sup> Stephan Haggard, while not entirely subscribing to the theory, summed it up neatly: “Distributional coalitions flourish in democracies; only strong states can tame them” (1985, 510). Certainly, many democracies or supposed democracies – Chile before its 1973 military coup, Russia in the 1990s – have plunged into economic crisis, while many authoritarian regimes – South Korea in the 1970s and 1980s, Mexico in the 1950s and 1960s – have enjoyed sustained stability.

Democracy is too broad a category to be useful in this discussion, but particular types of democratic institutions may manage conflict better. In the 1970s, when the tug and pull of American pluralism was thought to cause inflation, the “democratic corporatism” of European nations such as Sweden, Norway, Denmark, the Netherlands, Belgium, or Austria, where encompassing “peak associations” represented labor and business groups in centralized bargaining, came to be seen as the successful way to manage conflict. These institutions were specifically seen as effective in avoiding currency crises because of their ability to implement firm wage and price controls and thus maintain macroeconomic stability (Katzenstein 1985, 95). If organized in peak associations that understand their responsibility for long-term economic success, labor and business are more likely to agree to real wage increases in line with productivity improvement; monetary promises of output rise with real output. Conversely, many competing interest groups that vie to boost wages, profits, welfare, and subsidies are seen as exerting powerful distributive pressures. Since no particular wage bargain or business subsidy has discernible effect on the national economy, no one group cares much, or even can do much, about overall inflation. Leaders that secure smaller benefits are just blamed for being ineffective.

Because corporatism channels societal pressures through centralized associations likely to be unresponsive to their members, it may improve governability at some sacrifice of democracy. Philippe Schmitter argues that its “very success at keeping political life ruly and effective has been purchased at the price of . . . disregard for the individualistic norms of citizen participation and accountability characteristic of a liberal democratic order” (1981, 323). Corporatism is quite compatible with undemocratic regimes. Not unlike Spain and Portugal while they were fascist, several authoritarian Latin American nations were seen as organized along “state corporatist” lines, incorporating societal groups into official sectors (Stepan 1978). In particular, the Mexican Workers Federation, National Peasants Federation, and National Federation of Popular Organizations (middle-class and professional associations), incorporated into the ruling party in the 1930s, are widely

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<sup>11</sup> Similarly, Jeffrey A. Frankel (1998) and Martin Lee (1998), chairman of Hong Kong’s Democratic Party.

<sup>12</sup> Samuel Huntington (1968) helped launch this idea. See also O’Donnell 1973; Skidmore 1977; Goldthorpe 1978, 202; Lindberg 1985, 45; Kaufman 1985, 489.

thought to have improved the government's ability to resolve distributive conflicts and sustain more stable macroeconomic policies (Haggard and Kaufman 1992b, 293).

The way political parties are organized may affect the state's ability to manage distributive conflict. Stephan Haggard and Robert R. Kaufman argue that parties based on strong class or ideological divisions promote "bidding wars" as candidates vie with each other to buy electoral support. A quintessential example would be the sharply split Chilean electorate before 1973 (1992b, 295): the Conservative landed oligarchy and big business on the right, the Christian Democratic center of small business and professionals, and the working-class Socialist and Communist left. In such a situation, bidding wars for votes "reinforce cleavages among social groups and undermine efforts to maintain macroeconomic discipline" (1992b, 271). Conversely, a system of two "broad catchall parties" based on multi-class coalitions more along U.S. lines, as in Colombia or Costa Rica, discourages politicians from appealing to narrow class or societal interests (1992b, 279-80). Such parties "are capable of sustaining macroeconomic stability [because they] mute the conflicts among contending social forces, facilitate relatively stable ruling majorities, and thus discourage abrupt swings in policy" (1992b, 271-72).

Such arguments about institutions of conflict management consider how to peacefully resolve distributive conflicts among social interests, but it is not always necessary to resolve them; controlling or quashing them may do quite well. Rodrik writes that South Korea, hit in the early 1980s by a much worse external shock than Mexico or Argentina (both of which have oil), nevertheless took harsh measures to avoid crisis while they succumbed to it: "Adjustment was swift and somehow nonpoliticized" (1999, 81). Nonpoliticized, indeed! The state slashed government spending, fired many public-sector workers, eliminated farming subsidies, broke national unions, cut real manufacturing wages 10 percent, and, in case anyone objected, jailed political opponents (Haggard 1990, 134-36; Amsden 1989, 101-105). But Korea avoided economic crisis and resumed rapid growth, while Mexico and Argentina, along with most of Latin America, suffered the "lost decade" of the 1980s.

Thus the other line of thought about the politics of macroeconomic stability: even if institutions do not in any real sense resolve distributive conflicts, can the state control them? Is it "autonomous" enough to impose necessary sanctions? Economists' perennial call for independent central banks that resist inflationary pressures is one form of the idea, but it is also applied to economically activist states. For example, Chalmers Johnson argues that the success of East Asian states depended on protecting economic managers from politics: "Political leaders reign, holding off interest-group pressures that would undermine economic growth and performing safety-valve functions, while a technocratic, economically rational bureaucracy . . . actually rules. . . . [W]henver the politicians have tried both to reign and rule, economic disaster has followed" (1986, 560, 563). Haggard and Kaufman similarly conclude that while states threatened by coups and regime changes are vulnerable to economic instability, "strong authoritarian governments [that] have managed either to establish dominant party systems or to proscribe electoral politics entirely over extended periods of time" are better at maintaining stability (1992b, 271).

Peter Evans (1995) identifies the principal characteristics of the autonomous state. It may have its panoplies of political institutions – the presidency, military, and congress – but an elite corps of officials, a bureaucracy in the sense that Weber used the term, must really manage the economy. They should be recruited and promoted on merit within a

civil-service system; should enjoy long-term careers (not move in and out of the private sector); and should be rewarded based on those careers (not bribes or external pressures). They should share a common purpose and commitment, forged perhaps during their education at a prominent national university. Ideally, Evans argues, this autonomous elite should be attentive to the private sector – in this case state autonomy is “embedded” – but communications should occur in formal meetings, not on social occasions such as business lunches that lend themselves to bribery and influence peddling. Evans sees embedded autonomy, such as typified by the Korean state in the 1970s and 1980s, as the key to economic success (1995, 12, 49, 58-59), and several authors specifically attribute macroeconomic stability to state autonomy along the lines he describes (Nelson 1990a, 21; Nelson 1990b, 341; Haggard and Kaufman 1989, 269-70; Remmer 1993, 402).

### Methods of investigation

Identifying the political causes of economic crises and requisites of avoiding it is a tricky proposition. The first question about the way I do so in the case of Mexico is whether my definition of a crisis as an uncontrolled crash, when the government abandons any attempt to manage the exchange rate, might arbitrarily bias the whole project. It does not because there is no important disagreement over when crises occurred. No economic study of Mexico disagrees that they erupted in 1976, 1982, and 1994,<sup>13</sup> and no one refers to the 1954 devaluation (or any other episode in the era before 1970) as a crisis. What happened in 1987 could be debated. There was a controlled exchange rate for major industrial imports and a free exchange rate for most other purposes. On November 18 the Bank of Mexico let the controlled rate fall<sup>14</sup> until it reached a par with the uncontrolled rate (Cárdenas 1996, 148). By economic measures the crisis was severe,<sup>15</sup> but unlike in the other cases, the Bank of Mexico did not allow reserves to be depleted, and afterwards the government carried out a successful stabilization. It is most sensible to call 1987 a crisis followed by a stabilization. In any event, what it is called does not matter greatly because domestic politics cannot be said to have caused it. Non-political factors, namely the October 1987 U.S. stock market crash on top of a disastrous economy since 1982, weighed heavily. Politics did, however, contribute to inflating the economy before the crisis and can usefully be examined without attributing the crisis to it.

Any effort to understand the political causes of economic crisis is complicated by the fact that non-political factors always play some role. If not for financial panic, which ultimately arises from investors' psychology, a crisis would not be a crisis. Sidney Weintraub (2001) tries to decide which causes of crises are the most critical essentially by summarizing external factors (adverse shocks, financial contagion) and internal political factors (excessive budget deficits and monetary growth, irrational policies) and then pronouncing on which type appears more important. But the two types cannot really be

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<sup>13</sup> Not only was the fall in value of the peso large; an index incorporating the percentage fall in the value of the currency, the percentage rise in interest rates, and the decline in the ratio of foreign reserves to domestic monetary aggregates also indicates “severe” crises in 1976, 1982, 1987, and 1994 (Heath 1999, 7).

<sup>14</sup> Technically, the exchange rate, defined as the number of pesos per dollar, rose. But to avoid this counterintuitive way of speaking, I follow some economists such as Eichengreen, who in effect use the opposite definition, the amount of U.S. currency per dollar, and speak of the exchange rate as falling when the currency is devalued.

<sup>15</sup> Heath's index classifies 1987 as more severe than 1976 and less severe than 1982; 1994 was the worst.

weighed against each other; they are fundamentally different; there is no commensurate scale. If both kinds of factors can be identified, then both are the cause.

Even if domestic political factors never fully cause a crisis, explaining them is useful. As Eichengreen argues, financial panic does not often attack an otherwise sound economy. To put it differently, a better international financial architecture could reduce the damage that financial panic causes, but as long as it has yet to be built – and at least since the early 1700s no international financial architecture has been adequate to prevent crises such as the South Sea Bubble and the Bank of Ayr collapse (Kindleberger 1989, 250) – governments had better do what they can to maintain stability. Thus, understanding what politics helps maintain stability or cause crises is valuable.

In particular, understanding the domestic politics of Mexico's 1976 and 1982 crises is useful because, for all the dispute about them, almost no one disputes the importance of internal causes.<sup>16</sup> In effect, since it is not under debate, I need not debate it. It is worth noting that Mexico is a special case in this regard. The broader Latin American debt crisis after 1982 was caused in good part by external shocks, particularly the Federal Reserve's precipitous 1979 interest-rate increase to "whip inflation" and declining commodity export prices (Fishlow 1990), but the general argument does not apply well to Mexico. It only took on dangerous levels of debt in 1981 (Buffie 1990, 442, Lustig 1998, 21) – more than a year after the Fed had already raised rates – and though oil prices dipped modestly in 1981, its total oil export revenues rose almost 50 percent that year, then another 13 percent in 1982 (Cárdenas 1996, 142). Moreover, the Mexican crisis could not have been caused by financial contagion spreading from other countries because it was the first.

Why not just look for the political causes of sound or unsound macroeconomic fundamentals, rather than of economic stability or crisis *per se*? In the Mexican case, it would mean looking at the same events anyway. But if one wants to explain economic crisis, trying to designate some macroeconomic danger zone as a proxy for it only complicates matters. There are many macroeconomic fundamentals to consider, such as budget deficits, money creation, inflation, current-account deficits, and overvaluation. How would one construct a formula that designated some combination of fundamentals as sound, others poor? Where would one draw the line? Economists have not found anything remotely close to a confident answer (Esquivel and Larraín 1998, 36-37). One reason such a line could never be drawn is that some critical domestic factors behind crises are unrelated to macroeconomic fundamentals and should be considered in their own right. For example, when oil prices dipped in June 1981, Mexico's president fired the director of Pemex for lowering its prices along with the rest of the world, then Mexico proceeded to raise its price, demanding more per barrel and losing half its market for a few months. As the private sector concluded that economic policymaking had become completely

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<sup>16</sup> Bazdresch and Levy 1991, Buffie 1990, Cárdenas 1996, Heath 1999, Maddison 1992, Newell and Rubio 1984, Reynolds 1977, Solís 1981, and Zedillo 1985. The "exhaustion of import substitution" argument (Boltvinik and Hernández Laos 1981 and others) discussed and rejected in chapter 2 for the Mexican case, points to internal causes. The "fiscal crisis of the state" (Fitzgerald 1978), also discussed and rejected in chapter 2 for the Mexican case, sees the international economic system as causing internal fiscal deficits. Ros (1987) sees the 1982 crisis as a mixture of internal and external causes. Lustig (1998, 26), citing sources across the political spectrum, says, "Most analysts agree that the [1982] Mexican crisis was the result of expansionary government policies that resulted in higher inflation and a growing balance-of-payments disequilibrium." However she says that worldwide recession contributed to the 1976 crisis (1998, 19).

irrational, billions of dollars fled the country. The power struggle that lay behind this oil-price fiasco and contributed directly to the 1982 crisis needs to be considered.

My investigation would be in trouble if Mexico avoided crises in the 1950s and 1960s just because the global economy in that era, under the Bretton Woods system of fixed exchange rates, was more stable. But that cannot have been the only reason. As mentioned, even under Bretton Woods and the pre-World War I gold standard, the most stable eras for the international economy, poor nations suffered repeated crises. Moreover, Mexico avoided crises despite that fact that it was unusually vulnerable. The peso was always freely convertible to the dollar and Mexico did not control flows of financial capital,<sup>17</sup> even during the post-World War II era when many advanced nations such as France and Germany, let alone nearly all developing nations, did exercise such controls. Mexico always faced the dangers of capital flight that have increased in most of the world since the 1970s. Ernesto Fernández Hurtado, a Bank of Mexico official since the early 1940s and its director from 1970 to 1976, says, “Any international crisis or internal crisis of confidence could affect us. We had to manage the economy with exquisite care.”

Mexico might have fallen victim to numerous crises in the 1950s and 1960s.<sup>18</sup> In the early 1950s, as inflation reached 30 percent, the peso became overvalued, and reserves kept falling – by \$42 million dollars in 1953 (Cárdenas 1994, table A-21), and \$43 million in the first few months of 1954 (Aleman Velasco 1997, 247) – the finance minister became convinced there would be a crisis if he did not devalue.<sup>19</sup> In 1958-59, after the most powerful Mexican strike wave of the second half of the twentieth century provoked capital flight, the government had to go to the IMF for a loan to avoid crisis (Ortiz Mena 1998, 86-87). López Mateos’ ill-calculated remark about his being an administration of the extreme left provoked more capital flight, indicated by \$200 million dollars of “errors and omissions” in the 1961 balance-of-payments accounts, as the Harvard economist Raymond Vernon noted: “Only heavy fresh credits from the Export-Import Bank and other public sources saved the Mexican peso from crisis” (1963, 122). In 1963-64, contenders for the ruling party’s presidential nomination surreptitiously borrowed at least \$200 million dollars abroad and spent them on investment projects to build support, causing inflation that could well have led to a crisis (chapter 3). Anti-authoritarian protests in 1968 ended in the slaughter of perhaps hundreds of demonstrators at Tlatelolco Square, but while Paris protests that same year contributed to macroeconomic instability and devaluation, the peso remained so stable that the IMF used it in a loan package to support the French franc (Ortiz Mena 1998, 114). Indeed, between 1965 and 1970 the IMF used the peso to support

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<sup>17</sup> Lance Taylor wrote in 1984 that Mexico was “virtually the only developing country in which the economically powerful classes have the privilege of such an open capital market” (Maxfield 1990, 75). The usual explanation is that the 2000-mile border with the United States made currency or capital controls impossible to enforce (Maxfield 1990, 72). I find this idea implausible – even in the nineteenth century major capital flight took the form of transfers between banks, not bandits running briefcases of hundred-dollar bills across the Rio Grande – but I am not sure what the real reason is. Perhaps it had to do with the powerful Mexican banking sector’s ability to survive the Revolution and shape financial legislation. In any event, the only post-revolutionary attempt to enforce exchange controls was abandoned in the 1930s (*ibid.*).

<sup>18</sup> Ortiz Mena, Izquierdo, Urquidi, Carrillo Gamboa, Romero Pérez, Carvajal, and others describe these episodes, as detailed in chapter 4.

<sup>19</sup> Finance Minister Antonio Carrillo Flores noted in the February 2, 1954, entry in his diary (provided by his son, Emilio Carrillo Gamboa) that he had been worried since the previous August or September about the possibility of a crisis unless he devalued. Numerous subsequent entries discuss the same worries.

currencies including the Canadian dollar and British pound (Ortiz Mena 1998, 114, 151). It is far from obvious why Mexico enjoyed such stability.

Given that two decades of economic stability followed by two with repeated crises call for some explanation, the next question is how to decide what caused the difference. I focus on the era from 1952, when Mexico's ruling-party regime was consolidated, until 1988, when it faced its first serious electoral threat, because most major political characteristics remained essentially the same. In particular, as discussed in chapter 3, the extent of the Mexican state's autonomy from society and its institutions for resolving – or suppressing – societal conflict did not fundamentally change. Thus, I can investigate what could have made the difference between the period of economic stability and the period of crises by looking for plausibly relevant political characteristics *did* change.

Obvious as this method seems, most efforts to investigate economic crisis and stability in Mexico have not taken it but have overwhelmingly concentrated on explaining what caused the crises after 1970. This one-sided search can easily go astray because it is not hard to discover political and economic problems, especially in a poor country, and it is a temptingly short step from discovering them to blaming crises on them. But did they really cause the crises? By looking back at the period of economic stability, one can better tell whether real or imagined problems actually had anything to do with the crises. Looking for the requisites of stability is also useful because they are likely to be some fairly stable set of characteristics. It seems doubtful that Mexico avoided crises for two decades when most Latin American nations succumbed to them just because of a series of accidents. Something must have been behind its success, and if that thing fell apart in about 1970, then its loss may go a long way toward explaining the crises.

It is not necessarily easy to determine what political characteristics were essentially stable over decades in a nation, but fortunately, there is widespread agreement about many of the most important ones in Mexico from 1952 through 1988. As discussed in chapter 3, the *Partido Revolucionario Institucional* (PRI) – the party that, in the strange political landscape of Mexico, was seen as the institutional embodiment of the 1910 Revolution – faced no real threats to its political dominance. By official counts, which were never seriously challenged, it always won important elections by landslides – until the evening of July 6, 1988, when, to the utter surprise of everyone, as discussed in chapter 8, an opposition candidate came close to winning (or might have won but for fraud). The PRI never faced a threat of insurrection during this period. Indeed, the authoritarian Mexican regime outlasted any other such regime in the twentieth century except arguably the Soviet Union (depending how one counts it), and even most democracies.

Mexican institutions of conflict resolution, or suppression, are widely agreed to have remained robust. The party incorporated and largely controlled the most important social organizations, from workers to peasants, architects to economists, in overarching federations. Indeed, if anything, the state's ability to circumscribe societal protest grew more effective during the 1970s; it changed the wrong way to explain crises. Powerful protests erupted in the 1958-59 strike wave and the 1968 demonstrations, but the economy remained stable. The worst economic crisis of the period, in 1982, could hardly have been caused by societal pressures. As *The Economist* noted in the wake of the crisis:

Even though [President Elect Miguel] de la Madrid faced six opposition candidates in the July election, none of them looked credible. . . . The urban middle classes voted en masse for the conservative National Action party; even so, it won only 14% of the vote. The left-wing parties did even worse. . . . Outside congress, the government so thoroughly dominates the Confederation of

Mexican Workers and the National Peasant Confederation that they are ineffective lightning rods of dissent. (September 4, 1982, 48)

Haggard and Kaufman consider Mexico one of those states where “the general security of officeholders and the nature of party systems seem . . . conducive to stable macroeconomic policy” (1992b, 288).

It is doubtful that Mexican state fully met Evans’ conditions for autonomy (if, indeed, any state ever did), but the extent of autonomy that it did enjoy certainly was not lost after 1970.<sup>20</sup> High officials were always a tight-knit group, bred in the National University. By the 1960s and 1970s, more than 70 percent had graduated from “the university” (Camp 1980, 78); the name did not even need to be mentioned. Here common values were forged, as one political generation taught and recruited the next (Camp 1980, 94). Except in the Foreign Ministry, there was no civil service that made promotions based on merit, as Evans requires, but this was as much the case before 1970 as after. And the state maintained a certain distance from business. In contrast to the revolving door between the university and government, there was practically none between private and public sectors. From 1946 through 1988, only 4 to 7 percent of the individuals who moved into high political office had been business leaders (Camp 1995a, 132; Smith 1979, 88).

The most plausible hypotheses about characteristics of Mexican politics that changed in about 1970 and could have made the difference between economic stability and crisis include the following:<sup>21</sup>

- Cooperative rules to manage relations among *grupos* within the political elite, or “revolutionary family,” as it is often called, eroded in increasing power struggle.
- The Finance Ministry managed the economy independently from a separate political arena in the 1950s and 1960s (enjoyed autonomy) but lost its independence afterwards.
- An “ideological escalation” (Hirschman 1979, 85) that spread across Latin America in the late 1960s provoked powerful conflicts and undermined coherent policymaking.
- The state spent massively<sup>22</sup> to buy back political legitimacy lost when it crushed anti-authoritarian protests in the massacre at Tlatelolco Square in Mexico City in 1968.
- President Luis Echeverría (1970-76) spent massively and disrupted the political system in seeking to install a personal dynasty.

Public data is useful to a point in weighing these hypotheses. Turnover among cabinet ministers who typically led *grupos*, which shows a sharp jump after 1970, tells a lot about officials’ political security. The cycle of public spending over each six-year administration, which from the 1960s on always peaked in the fifth year when presidential hopefuls contended for the party’s nomination (not in the sixth year when elections were held), indicates what political purposes the spending could have served. But interviews were needed to understanding the data. For example, even though turnover surged among

<sup>20</sup> Centeno (1994, 35-41, 46-47) argues that the Mexican state met Evans’ requisites of autonomy.

<sup>21</sup> As noted, I have omitted the argument about structural economic problems here; I discuss it, and criteria for evaluating it as an explanation of economic crises, in chapter 2.

<sup>22</sup> When I refer to massive spending as causing economic crisis, I always mean spending *without comparable increases in revenue*. High levels of public spending do not cause inflation and crises; large budget deficits financed by printing money do. In fact, as long as government investment is reasonably efficient and balanced by adequate revenue (or even based on prudent borrowing), it often improves growth. Of course, there is rarely any great political incentive to increase spending and taxes equally; major tax increases have been powerfully resisted in Mexico, no matter how desirable the proposed uses. Thus, politicians’ spending is shorthand for giving in to pressures to spend *without* raising comparable revenue.

high officials after 1970, it was essential to know if they saw their careers as increasingly unstable; only their *recognizing* this instability could erode cooperative norms.

On other matters interviews and memoirs were the only possible source. To decide if Finance had political independence from some separate political arena in the 1950s and 1960s, one wants to know whether former officials say it was independent and to understand the internal line of command by which the state responded to threats of crises. Developments inside the political elite even bear on Tlatelolco, the state was so firmly ensconced in power. Since the PRI never faced a threat to its continuing rule, how could concerns about political legitimacy within a portion of the middle class – but not business, labor, or peasants, and precious little of the state-manipulated media – turn policymaking upside down? If important *grupos* inside the political elite split over Tlatelolco, rejecting the president's repression as illegitimate, then it might become a serious political problem.

I systematically interviewed high officials from 1952-88 in agencies with different functions and political orientations, including five of the six living ex-finance secretaries<sup>23</sup> from the period and all four living ex-directors of the Bank of Mexico, as well as others from the state's financial sector. I interviewed others from often more activist ministries, namely Planning and Budget, Presidency (not the president's office but a separate ministry that planned investment), Industry and Commerce, and State Industries (responsible for public enterprises); and yet others from more directly political ministries such as Interior (charged with maintaining order and running the secret police) and Labor.<sup>24</sup> When a high official was deceased or unavailable, I attempted to interview a protégé or son in politics who could represent his view. I also found useful written memoirs and some secondary sources (far the most important on elite politics being Jorge Castañeda's *The Inheritance: Archaeology of Political Succession in Mexico*).<sup>25</sup>

Where I found near unanimity, I report it. For example, contrary to what has long been inferred, I discuss in chapter 6 that no important faction of the political elite split with President Díaz Ordaz over Tlatelolco. In other cases, of course, I found disagreement, for example over whether officials under Echeverría were more leftist than in earlier administrations. In part because the tight-knit nature of the political elite made it extremely difficult for outsiders to find out what was going on inside – or even for part of the elite to know what another part was doing – much of what would seem to be a matter of fact is debatable. Wherever there was disagreement, I have tried always to report opinions that differ and to explain my conclusions.

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<sup>23</sup> Julio Rodolfo Moctezuma, who was extremely generous of his time and thought, died since talking with me. The finance secretary I did not interview was José López Portillo, subsequently president. His son's account of economic policymaking during the period (López Portillo Romano 1994) traces his point of view in considerable detail – I assume accurately – along with others'.

<sup>24</sup> Some ministries changed names several times, so to avoid confusing non-Mexican readers, I have chosen a generic English name and stuck with it. Finance is *Hacienda y Crédito Público*; the Bank of Mexico is *Banco de México*; Planning and Budget, transformed in 1976 from what had been Presidency (here I change names since the function changed importantly) is *Programación y Presupuesto*; Presidency is *Presidencia*; Industry and Commerce is *Economía* (1952-58), *Industria y Comercio* (1958-76), *Comercio* (1976-82), and *Comercio y Fomento Industrial* (1982-88); State Industries is *Bienes Nacionales* (1952-58), *Patrimonio Nacional* (1958-76), *Patrimonio y Fomento Industrial* (1976-82), *Energía, Minas e Industria Paraestatal* (1982-88); Interior is *Gobernación*; Labor is *Trabajo y Previsión Social*.

<sup>25</sup> *La herencia: Arqueología de la sucesión presidencial en México*. The English version is a truncation.



Accounts of the Mexican economy are almost never based on interviews and almost never focus on the politics among *grupos*.<sup>26</sup> This double omission is not accidental: until the mid-1990s when the ruling-party system was demonstrably on its way out, particularly after the opposition's landslide victory in July 1997 in races for the Mexico City mayor and council, a study like mine would have been almost impossible. In the 1980s Roberto Newell and Luis Rubio attempted to analyze elite politics but noted that its "closed nature . . . prevents a detailed analysis of the individual agreements or alliances at different times; the allocation of resources does give a clue as to what sectors, in general, have benefited in each sexenio" (1984, 267). Unfortunately, their very method of looking for clues to elite politics based on what happened outside, though the only one available when they were writing, inherently turns elite politics into a reflection of society. If elite politics matters in its own right, interviews are essential to learning about it.

There are other powerful reasons why accounts of the Mexican economy have usually ignored elite politics. Two economic traditions have dominated Mexican economic thinking: Marxism, long taught at the National University, and neoclassical theory, which gained acceptance as economists increasingly went to the United States for training. Marxism sees the political "superstructure" as emerging from the technological base; relations among cliques of high officials are not supposed to be great motives for good or ill. Neoclassical economics, similar to Marxism in this regard, explains an economy in terms of market structures and interest-group pressures. In these schemes, *grupos* within the political elite are mere epiphenomena: why bother to interview officials?

The confirmation that ideology blinded economic studies to *grupos* is that analyses of most other Mexican politics, from academic research<sup>27</sup> to street gossip, have placed *grupos* squarely in the center of events. For example, after the PRI lost the presidency in July 2000, the great question was how the contest to control it would play out among contending *grupos*: that of Francisco Labastida, former governor of Sinaloa who had won the nomination but lost the election; Roberto Madrazo, a political boss in the state of Tabasco who had unsuccessfully fought for the party's presidential nomination; or half a dozen others. Why should economic policymaking be fundamentally unlike other Mexican politics? From the 1950s through the 1980s *grupos* were, in some real measure, autonomous from external constituencies, but unlike Evans' picture of the autonomous state, they did not form an internally seamless whole. Thus, I investigate how they managed their mutual conflicts. Could they adequately resolve them, reaching a reasonably unified positions *vis-à-vis* society? Or did their internal struggles to gain the upper hand cause or exacerbate external economic problems?

## Organization of the thesis

My arguments fall into four principal themes:

- Mexico's vulnerability to crisis arose not from societal or electoral pressure but rather from internal conflicts within the political elite, especially over presidential succession. This vulnerability existed throughout the period from 1952 through 1988.

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<sup>26</sup> An important exception is Centeno (1994), who argues that the ascent of Salinas' tight-knit *grupo* made it possible to rapidly bury Mexico's *dirigiste* economic regime and adopt neoliberal policies.

<sup>27</sup> For example work by Roderic Camp, Peter Smith, Rogelio Hernández Rodríguez, Joy Langston, Francisco Suárez Farías, Centeno, and others discussed in chapter 5.

- A cooperative method of resolving those conflicts (all *grupos* could expect to survive politically) allowed the state to avoid crises before 1970, and its erosion in elite struggle after 1970 produced crises. The 1982 crisis was the epitome of elite struggles.
- The Echeverría administration from 1970 to 1976 was a transition period, as the earlier cooperative era eroded in struggle. Echeverría's dynastic ambitions and mismanagement, in a broader climate of ideological escalation, led to the erosion of elite cooperation.
- Although the rules of elite cooperation continued to be well known, restoring the cooperative system became increasingly difficult; struggle built on itself.

Chapters 2 and 3 consider the usual arguments that socioeconomic forces caused the crises. Chapter 2 rejects underlying “structural” economic problems in Mexico’s case. This is a popular approach to explaining crises, for example, in the view that excessively statist economic management caused the Asia crisis. One favorite culprit in Mexico’s case is the “exhaustion of import substitution,” the overuse of protectionism and other industrial policies to promote domestic production of formerly imported goods. The other is the “fiscal crisis of the state,” as internationally connected business (both multinationals and large domestic firms) threaten capital flight to extract subsidies and avoid paying adequate taxes. Chapter 3 looks at how the Mexican state managed to suppress societal pressures for income redistribution that can cause crises, how it avoided the “macroeconomics of populism,” in Rudiger Dornbusch’s phrase. Much of this argument is not controversial among Mexico scholars, yet just how the state was able to incorporate and control societal interests in official associations is worth consideration, given the prominent role that such interests play in most explanations of economic crisis. Chapter 3 then argues that *grupos* within the political elite, particularly as they contended over the all-important presidential succession, could exert powerful enough economic pressures to cause crises.

Chapters 4 and 5 look at why, despite this vulnerability, Mexico avoided crises in the 1950s and 1960s. Chapter 4 rejects the possibility of Finance Ministry independence or of any truly separate political arena. The president, defending Finance from rivals within the government and rallying the entire state to halt threats of crisis, was the political authority, even if he relied on finance ministers’ technical expertise. Chapter 5 examines who Mexican political elites were and how the *grupo* structure worked, as interlocking, informal cliques operating principally within the central administration and prohibited from mobilizing external societal factions. The unwritten rules of elite cooperation established in the traumatic 1951-52 presidential succession – that *grupos* must not reach out to mobilize societal pressure against the president and, in exchange, could expect political survival – were key to avoiding crises. This promise of political survival was the greater incentive the president could offer *grupos* when he curtailed their spending; it was the coin more valuable than money itself in buying loyalty. Not only does data on turnover in high office point to unusual career stability precisely during the 1950s and 1960s, but officials themselves recognized that stability.

Chapter 6 considers why cooperation eroded under Echeverría. Tlatelolco did not undermine support for the president and national government except among a limited portion of the middle class, did not generate societal organizations remotely powerful enough to threaten the regime, and thus did not provoke state spending to buy back legitimacy. There were two principal problems. One was the broader Latin American climate of ideological escalation: as political elites came to envision a great contest to shape inevitable change, *grupos* feared that the stakes in winning or losing had increased,

and elite cooperation weakened. The other problem was Echeverría. Obsessed with bringing social justice to Mexico but lacking any capacity for coherent administration, he promoted massive, disorderly spending programs and rapidly dismissed officials when things did not work out as he hoped. A master at behind-the-scenes machinations, he also used massive spending and dismissed officials to try to build a dynasty – unique in the 1952-88 era – by installing a politically weak boyhood friend in the presidency.

Chapters 7 and 8 focus on elite struggle: *grupos*' fear of political exile, hence their use of massive spending and other economic gambles to promote their leaders as the party's presidential candidate, and presidents' acquiescence to such gambles in their efforts to manage the dangerous period of political succession. Both José López Portillo (1976-82) and Miguel de la Madrid (1982-88) tried to restore political and economic order as they saw it, but struggle continued partly because, once initiated, it built on itself – the very informality of the old cooperative rules made them hard to restore once they had seriously begun to erode – and partly because these presidents committed their own errors. Struggle, not leftist big spenders or other usual culprits, caused the 1982 crisis. During the no-holds barred 1981 presidential nomination contest, real public spending surged 26 percent of GDP, and the public-sector deficit swelled from a precarious 5.6 percent of GDP to a disastrous 12.0 percent of GDP. Though real public spending other than interest payments was cut by 8 percent in the election year 1982, it was too late. Struggle cannot be said to have caused the 1987 crisis – a deep, ongoing recession and the 1987 U.S. stock market crash were too important – but the usual political mechanism was at work, inflating the economy and worsening the crisis, as Carlos Salinas sent the Mexican securities market soaring 500 percent in the nine months leading up to his presidential nomination.

Chapter 9 considers other cases where the lessons of this economic account may apply. Some form of elite cooperation and struggle surely plays an important role in aspects of politics everywhere that never can be fully defined by written law. Accounts suggest that intra-elite power struggle contributed to the 1994 Mexican crisis, the 2001-2002 Argentine crisis, and the 1997 Thai crisis. Explicit elite power-sharing pacts helped Colombia maintain economic stability in the 1970s and 1980s and helped Bolivia end hyperinflation that had reached 10,000 percent or more in 1985.



## Chapter 2

### Structural Economic Failure?

Some misconceptions about Mexico's economic crises need to be cleared away before focusing on their causes. When an economy plunges into such a great disaster as Mexico's did in the 1970s, it is easy to think that the disaster arose from deep "structural" economic problems. At least early as the 1950s and 1960s, inefficient agriculture across Latin America, seen as a legacy of colonial exploitation, was widely blamed for failing to produce enough food to consume at home or crops such as cotton and coffee to export, and thus as the underlying source of economic crises (Hirschman 1985, 54). After the recent Asian crisis, even though nobody had predicted it (Krugman, 1998, 1), formal economic models were rapidly developed to demonstrate that "crony capitalism" was to blame (Eichengreen 1999, 138). The IMF blamed state-directed lending and failure to provide good economic data (IMF staff 1998, 19), while Jeffrey A. Frankel, a member of the Council of Economic Advisers, pointed to "Asian economic flaws," including "patterns of corruption, industrial policy and other excessive government interference in the economy" (1998). Charles Wolf, Jr., a fellow in international economics at RAND, summed the problems up as "the legacy of the so-called Japanese development model, and its perverse consequences" (1998).

Mexico's economic crises have likewise been blamed on structural economic problems. Unlike in the Asian case, these structural problems were discovered before the crises – a point in their favor since, if such problems really exist, they should be evident before a crisis brings them to notice. Marxist dependency theory, notably Andre Gunder Frank's *Latin America: Underdevelopment or Revolution?*, written largely at the National University of Mexico and published in 1969, saw the capitalist core's domination of the Third World as blocking its development, while neoclassical theory, notably Ian M. D. Little, Tibor Scitovsky, and Maurice Scott's *Industry and Trade in Some Developing Countries*, published in 1970, saw excessive state intervention and protectionism in the Third World as undermining efficiency. These lines of thought yielded specific explanations of the crises. On the one hand, E.V.K. Fitzgerald (1978) argued that both multinationals and large-scale domestic capital wielded their international connections, threatening divestment and capital flight, to demand public subsidies and cheap infrastructure while refusing to pay adequate taxes, and thus caused the "fiscal crisis of the state." On the other hand, Clark W. Reynolds blamed Mexico's 1976 crisis on its "artificial" statist measures such as trade protection stifling import competition as well as excessive subsidies for basic goods such as electricity, fuels, telecommunication, and even roads (1977, 998). When presidents de la Madrid, Salinas, and Zedillo attributed Mexico's economic crises to the old economic model (*El Financiero* 15 December 1996, 68), they meant the same problems as Reynolds saw.

Ideological distinctions between these arguments – fiscal crisis and industrial inefficiency – should not be exaggerated; with different emphases, left, right, and center could and did make both. Like Fitzgerald, Reynolds pointed to subsidized public goods and excessive tax breaks, while dependency theorists such as Fernando Henrique Cardoso (now president of Brazil) and Enzo Faletto could agree that exhaustion of the protectionist model caused economic crises (1979, 204). Moreover, the arguments are complementary.

Industrial inefficiency makes tax revenue harder to extract, since it squeezes profits and wages, thus aggravating fiscal crisis. The economic historian Enrique Cárdenas makes a careful, centrist argument taking both approaches in analyzing almost the whole period of one-party rule in Mexico;<sup>28</sup> a wide spectrum of economists espouse variations of the same basic ideas,<sup>29</sup> and political scientists often accept them in the course of other arguments.<sup>30</sup>

### The exhaustion of import substitution

The most widely accepted account of Mexico's industrial problems is the "exhaustion" (*agotamiento*) of import substitution. Import substitution, using trade barriers to block manufactured imports and thus stimulate domestic industry, was a legacy of the Depression when trade was cut off and World War II when industrial goods were scarce, but after the war it was widely adopted as deliberate policy and promoted by the U.N. Economic Commission on Latin America. Initial import substitution to stimulate the manufacture of basic consumer goods such as textiles and processed foods is said to be "easy": the technology is known, investments are moderate, economies of scale are limited, and a small market is adequate. The question is what to do once nearly all such goods are already made at home. Economists became concerned about possible exhaustion of import substitution in the mid-1960s (Hirschman 1979, 69). Alternative strategies, such as exporting manufactured goods or "deepening" import substitution to include industrial inputs like chemicals, are deemed "hard." Domestic firms and labor will oppose these strategies since they require challenging entrenched interests. Lowering trade barriers to improve efficiency and boost exports at least initially threatens profits and wages. Import substitution of industrial inputs is supposed to require more advanced technology, and economies of scale put a premium on more extensive markets than exist in developing countries (the poor are effectively outside the modern economy), so promoting it means favoring multinationals. Not wishing to erode domestic political support, the state postpones such industrial restructuring, instead spending and resorting to other short-term expedients to inflate growth. These policies put the nation on the road to economic crisis.

The chain of reasoning that ties economic crises to structural economic causes has several vulnerable links. Structural problems concern manufacturing, agriculture, or other industrial processes that arise in the real economy and can be described in models that do not consider money,<sup>31</sup> but economic crises, when the exchange rate of the currency collapses, are inherently monetary. Some argument must lead from structural industrial problems to monetary crisis. In the case of Mexico it breaks down at several points.

<sup>28</sup> Cárdenas 1994, 1996. He states his theory succinctly in his book covering 1950-94 (1996, 19).

<sup>29</sup> Golub 1991 summarizes structural arguments about Latin American crises, and Lustig (1998, 17) notes that Mexico's economic crises are widely attributed to industrial exhaustion, but disagrees. On the left, Tello (1979, 205-6) says that Mexico's economic problems in 1970-76 resulted from long-standing structural problems, while Hector Guillén Romo (1984, 13) says that the nation's "financial and monetary problems [were] only a manifestation of the crisis of the model of accumulation; in no way should they be considered the cause of this crisis." Boltvinik and Hernández Laos (1981, 482) and Casar et al. (1990, 9) make interesting arguments about industrial problems, which they say caused economic crises. Though Kaufman (1979) principally argues that industrial problems caused Latin American military coups, he also provides a particularly good account of how they could have caused the preceding economic crises.

<sup>30</sup> See Smith 1991, 325-27; Collier and Collier 1991, 602; Basáñez 1996, 160; Lawson 2000, 272; Bruhn 1997, 62-63; Basave 1996, 39.

<sup>31</sup> Structural problems in the banking sectors are the exception, but were not a concern in Mexico until 1994.

To begin with, Mexico made relatively successful industrial transitions. It completed the “easy” stage of manufacturing basic consumer goods not by 1970, nor even by 1960, but by 1950 – but there was no crisis. In 1950 imports fell to only 7 percent of the consumer goods used in the economy, and that portion remained unchanged through 1970 (Villarreal 1977, 71). Moreover, at least as early as 1960 government officials understood the need to push beyond producing consumer goods – to manufacturing aluminum instead of kitchen pans, engine blocks instead of assembled cars – and saw that these advanced processes might involve larger investments and more sophisticated technologies (Vernon 1963, 116-17). In fact, they articulated the problem before the academic economic literature on “hard” import substitution began to appear. “Fabrication programs” providing trade protection and tax incentives for heavy intermediate goods such as steel and chemicals and some capital equipment (Ros 1994, 172) helped transform these sectors into the motor of the economy, as they grew more than 11 percent a year (Table 2-1). Auto construction advanced from merely assembling imported kits of parts to producing major components such as transmissions. The overall economy sustained better than 6 percent growth per year. Current account deficits in the 1960s averaged a “moderate” 2.76 percent of GDP, according to Francisco Gil Díaz, Mexico’s current, economically conservative finance secretary.<sup>32</sup> Angus Maddison, known for long-term growth studies, considers that total public foreign debt remained “modest” in 1970 at about \$4 billion dollars (1992, 158, 133), or 12.7 percent of GDP (Gil Díaz 1984, 340).

The state turned to promoting manufactured exports during the 1970s (Banco Nacional de Comercio Exterior 1971), reducing protection on established consumer-goods and raising it for advanced industries it sought to encourage. Effective protection, a comprehensive measure of trade barriers, fell from 28 percent in 1970 to only 5 percent in 1980 on basic consumer goods, while it increased from 41 percent to 53 percent on heavy intermediates and from 77 percent to 109 percent on consumer durables and capital equipment (Ros 1994, 174).<sup>33</sup> These advanced industries received protection and duty-free access to inputs in exchange for export commitments (Ros 1994, 172-73). Of course, they did not always meet their commitments, but, overall, they led manufacturing exports, which grew on average 10 percent annually from 1972 through 1979 and 10 to 15 percent from 1979 through 1984 – before any trade barriers came down.<sup>34</sup> Industrial policies also promoted key sectors, for example, pressuring automakers to build modern factories in Mexico’s northern industrial cities in the late 1970s (Bennett and Sharpe 1985).

Productivity figures paint a similar picture.<sup>35</sup> Total factor productivity (overall efficiency) in capital and durable goods grew 3.5 percent annually from 1973 through 1980, faster than in any OECD country except Japan. It also did well in heavy intermediate goods: 2.5 percent annually in chemicals and 3.2 percent in non-metallic minerals such as glass and clay, in both cases faster than in any OECD country, including Japan. It was -1.3 percent in basic metals such as steel, a bad record, though not as bad as the United States.

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<sup>32</sup> Gil Díaz 1984, 341. This is the average for 1960-70 from Table A-3, without adjusting for inflation. The table yields a slightly lower figure as adjusted for inflation. The current account deficits for 1958-70 given by Buffie (1990, 399) average 1.9 percent of GDP.

<sup>33</sup> Maddison (1992, 180) reports a broadly similar pattern of “implicit protection,” the difference between world and domestic prices.

<sup>34</sup> All manufacturing export figures are from Table 2-2; my general conclusions parallel Ros 1994. Export figures are taken from business cycle peak to peak to smooth out yearly fluctuations.

<sup>35</sup> All total-factor productivity figures are from Hernández Laos and Velasco Arregui 1990, 662.

**Table 2-1 Real manufacturing growth (percent per year)**

	1954-64	1964-72	1972-79	1979-84	1984-90	1990-94
Manufacturing	8.0	8.9	6.5	1.2	3.3	2.3
Consumer goods	6.0	7.4	5.0	1.6	1.7	0.8
Light intermediate	8.5	7.9	6.8	1.6	2.2	-0.9
Heavy intermediate	11.0	11.3	7.6	3.3	3.7	2.2
Capital/durable	12.5	11.7	8.9	-2.2	6.6	5.9

Growth is measured from business cycle peak to business cycle peak.

Data for 1954-1964: Manufacturing output in 1960 pesos, Ros and Vázquez 1980

Data for 1964-1994: Manufacturing output in 1980 pesos, Nacional Financiera (*Economía mexicana en cifras*) 1990 and 1995

**Table 2-2 Real growth of manufactured exports (percent per year)**

	1964-72	1972-79	1979-84	1984-90	1990-94
Manufacturing	8	10	10	12	13
Consumer goods	7	8	-2	6	12
Light intermediate	9	10	2	7	2
Heavy intermediate	8	9	10	12	8
Capital/durable	10	11	15	20	18

Growth is measured from business cycle peak to business cycle peak.

All figures exclude maquiladora assembly export platforms.

Figures for 1964-72: Real exports in 1960 pesos, Ros and Vázquez 1980

Exports in current dollars, 1972-1981: Lopez Portillo 1982 (*Sexto informe de gobierno: Sector comercio*)

Exports in current dollars, 1982-1990: Instituto Nacional de Estadística, Geografía e Informática 1996 (*Anuario Estadístico 1995*)

Exports in current dollars, 1991-1994: Banco de México, *Indicadores del Sector Externo*, various issues.

All figures for exports in current dollars are originally from the same Banco de México series.

Real exports: Exports in current dollars deflated by producer price index (1982=100) from *The Economic Report of the President 1995*



Total factor productivity across Mexican manufacturing grew 1.2 percent annually in 1962-73, then picked up to 1.5 percent annually in 1973-80. This is not a poor record, particularly considering that developing nations tend to grow by accumulating capital, not by using it more efficiently. Deepak Lal, a prominent critic of industrial promotion, agrees that Mexico's total factor productivity performance was "quite respectable by international standards" (Maddison 1992, vii).

These results are not so surprising. Calculations based on standard trade theory show that even in the short-term, protectionism has small economic costs ("welfare loss"); its main effect is to transfer resources from consumers, forced to pay high prices, to protected firms. Once the trivial size of these "welfare losses" was noted, economists favoring free trade had to discover presumed ancillary costs of protectionism such as influence buying and corruption to sustain the case against it (Shapiro and Taylor 1990, 863-65). As long as firms face some market competition, higher profits thanks to protectionism may boost long-term growth by giving them resources to invest. And, again in Lal's words, "market forces continued to operate . . . because the vigor of the private sector helped to maintain competition" (Maddison 1992, vii). Even the most concentrated sectors could count on at least four major firms (Casar, Márquez, Marván, Rodríguez, and Ros 1990, 36, table 2.3).

One reason for Mexican industry's relatively successful performance is that the private sector did not uniformly demand protection (as some economists suppose); firms that purchased industrial inputs to produce final products sought to *limit* trade protection, notes Luis Giménez Cacho, an entrepreneur who bought steel and other inputs to fabricate construction materials. Committees comprised of officials from Finance, Commerce and Industry, and business chambers would meet to debate what levels of tariffs and import quotas to set, he points out: "If the users said the domestic product was bad, the government would allow imports, without tariffs, without quotas." Gilberto Borja Navarrete, president of Grupo ICA, one of the largest industrial and construction consórtia in Mexico, agrees that state officials, after meeting with industry representatives, including the industrial users of products, would protect domestic industry "only up to a certain limit." Tariffs on earth-moving equipment that ICA manufactured averaged around 15 percent in the 1970s; if domestic firms charged more than that margin above world prices, the government would let imports in.

Protectionism surely was not problem-free. Manuel Suárez Mier, a former Bank of Mexico official and professor at the Technological Institute of Mexico (ITAM), doubts the overall figures on effective protection; import quotas and other non-tariff trade barriers make them hard to estimate: "As a consumer, I can tell you that all of us waited until we had a trip abroad to shop for clothing. And those industries – textiles and apparel – didn't survive well." Says Sergio Ghigliazza, director of the Center of Latin American Monetary Studies: "Mexico produced sheet iron at 60 or 70 percent above world prices. And the quality was so bad that 30 percent of it had to be thrown out. Suddenly when it could be imported from the United States or Japan, the cost of stoves and refrigerators fell 50 percent."

Only large firms could handle the bureaucratic procedures to import materials and components that they incorporated in exports duty-free; coping with the paperwork was too much of a burden for smaller firms (Mancera). Likewise, managers of smaller firms could doubtless spare less time to meet with officials in the general process of setting

tariffs and quotas – and had less clout if they did meet with them. Partly because of these difficulties, by far the worst industrial problems arose in sectors of small, competitive firms producing traditional consumer goods. Battered by overvaluation and crises as well, and starved for capital, they were unable to invest, and many folded. Suárez Mier notes that after trade barriers came down, multinationals such as Levi bought some of the very same manufacturing plants and restored them to efficient production.

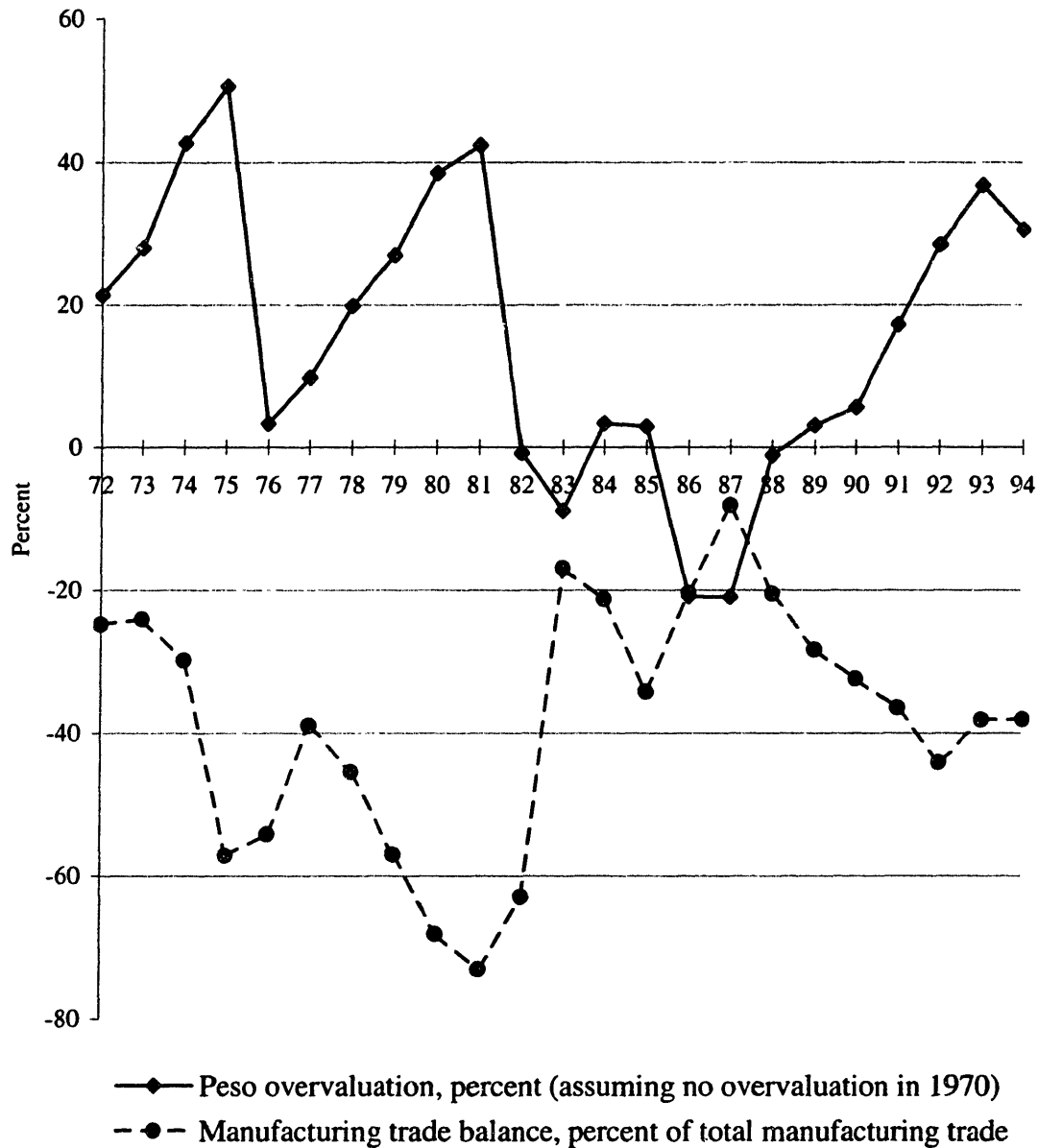
Nevertheless, 10 percent real annual growth of manufactured exports and relatively good total-factor productivity for the 1970s is not a picture of massive industrial failure. Moreover, had the heavy-intermediate and durable-good industries favored by industrial policies been very inefficient, they should have collapsed when trade barriers were slashed from 1985 through 1987 – this period, after Mexico entered the General Agreement on Tariffs and Trade (GATT), saw a much more dramatic trade opening than after it entered NAFTA in 1994. Factories cannot be transformed from industrial disasters to export miracles overnight, but far from collapsing, these advanced industries prospered. Their annual export growth increased, to 12 percent annually in heavy intermediates and 20 percent in consumer durables and capital goods, from 1984 through 1990. The post-1985 industrial structure and trade pattern were just an extrapolation of the past (Moreno and Ros 1994, 134-35), with the exception of textiles and apparel (as noted by Suárez Mier), which increased their market share. As Juan Carlos Moreno and Jaime Ros argue (1994, 135), “The outstanding export performance of Mexico's manufacturing in the 1980s is thus, to a large degree, a legacy of the import substitution period.”

This industrial progress should have made it *easier* to balance manufacturing trade after 1970 than it had been earlier. In 1960 increasing growth by 1 percent required a 1.5 percent increase in imports<sup>36</sup> – mainly capital and intermediate goods – but because of progress in these advanced industries, by 1970 increasing growth by the same 1 percent only required a 0.8 percent increase in imports (Villarreal, 1977, 92). Why then did manufacturing trade deficits at business cycle peaks rise from \$0.5 billion in 1972 to \$7.8 billion in 1979, fall to \$3.5 billion in 1984 still under the protectionist regime, then explode to \$30 billion in 1994, after a decade under the free-market regime?<sup>37</sup>

Overvaluation of the peso was the problem. The peso appreciated 50 percent from 1970 through 1975; after the 1976 crash brought it back to its 1970 level, it appreciated 40 percent through 1981 (Cárdenas 1996, 213). As it thus came to buy 40 or 50 percent more foreign goods, imports reached insane levels. The trade deficit was directly proportional to the level of overvaluation (Graph 2-1). Mexico's problem was not that import substitution become “exhausted”; rather, the overvalued peso reversed it and turned the clock back. In 1970 Mexico imported about 6 percent of its basic consumer goods, but by 1981 it was importing more than 12 percent, the same level as before 1950 (Villarreal 1990, 307). Overvaluation can permanently harm manufacturing, as industries are swamped by imports (Krugman 1990), and once factories close, subsequent devaluation may not bring them back. Mexican industry's resilience *despite* macroeconomic chaos is the surprise.

<sup>36</sup> That is, the income elasticity of imports was 1.5 percent.

<sup>37</sup> Sources for manufacturing trade figures are given in Graph 2-1 data notes. These figures exclude export-oriented *maquiladora* plants (really foreign industries manned by cheap Mexican labor) and thus indicate growth of exports from domestic-oriented industries created by import substitution. The worst trade balance under the protectionist regime was \$18.6 billion in 1981, not a cyclical peak.

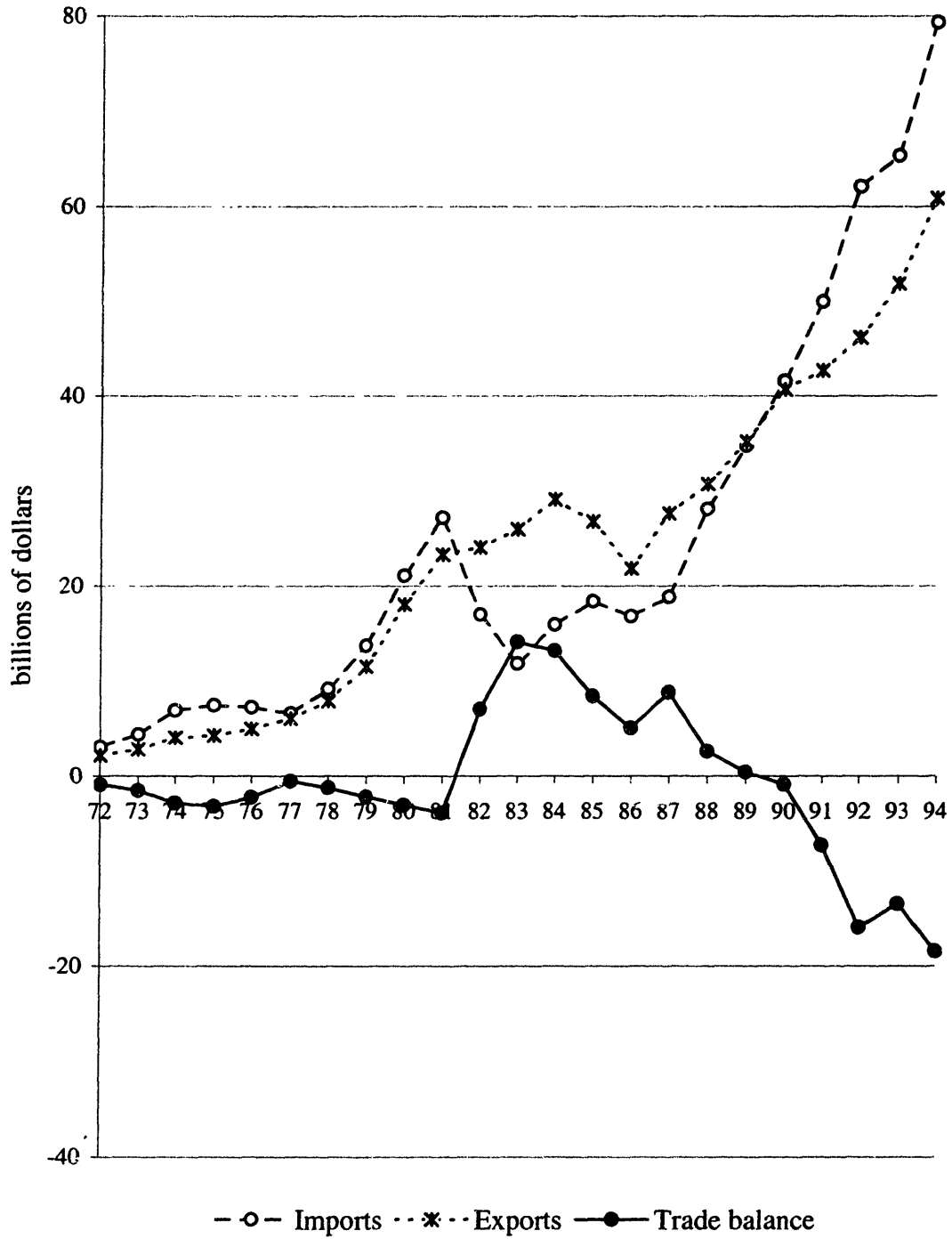
**Graph 2-1: Manufacturing trade balance and peso overvaluation**

*Maquiladora* export assembly plants are not included in exports.

Trade figures for 1972-79 are from López Portillo 1982 (*Sexto Informe de Gobierno: Sector Comercio*), 57, 68. Figures for 1980-81 are from Instituto Nacional de Estadística, Geografía e Informática (INEGI) 1993 (*Anuario Estadístico 1992*), tables 17.6 and 17.7. Figures for 1982-90 are from INEGI 1996 (*Anuario Estadístico 1995*), tables 17.6, 17.7. Figures for 1991-94 are from Banco de México, *Indicadores del Sector Externo*, nos. 152, 155, 173.

Peso overvaluation is from Cárdenas 1996, 213 (1970 value = 100).

Graph 2-2: Total Mexican trade balance



Source: Cárdenas 1996, 221-22

There is another trouble with the argument about exhaustion of import substitution. Suppose it had caused structural manufacturing problems. To erupt in economic crisis, these problems would have had to translate into actual economic slowdown, impelling politicians to borrow and spend, but there was no such slowdown. The “recession” of 3.8 percent growth in 1971 (Cárdenas 1996, 214) – so it was called in Mexico at the time – was no more than the norm for the year a new administration took office (Buffie 1990, 413-14). And that growth was achieved despite the fact that Finance excessively slashed public investment (Moctezuma). If such a modest slowdown could force the state to borrow and spend, why did virtually zero growth in 1953, the first full year President Adolfo Ruiz Cortines held office, not do the same? Despite the 1976 crisis, growth under President Echeverría, from 1970 through 1976, slowed only slightly, from the 6.6 percent average of the 1950s and 1960s to 6.2 percent (Maddison 1992, 159).

Under López Portillo, oil exports surging from nothing in 1976 (new reserves were found a few years earlier) to over \$16 billion in 1982 (Villarreal 1990, 312) would have swamped any manufacturing troubles. There was no structural need for the 1982 crisis: growth exceeded 8 percent a year as it approached, 2 percent above the norm. Though world oil prices dipped moderately in 1981, Mexico’s export revenues kept rising. Given Mexico’s enormous resources – its total exports grew 28 percent a year in current dollars in the 1970s, not far behind South Korea’s meteoric 35 percent a year<sup>38</sup> – how could industrial exhaustion have forced politicians to borrow and spend?

Not only is the theoretical connection between protectionism and economic crises tenuous; across countries, there is no consistent evidence of such a connection. either. Nations with large price distortions such as caused by protectionism were actually slightly less likely to succumb to the 1982 wave of economic crises than those with small price distortions (Rodrik 1999, 77-78). Colombia, the most economically stable Latin America nation in the 1980s, maintained relatively high tariffs until 1990. Maddison concludes that Mexico’s “catastrophic slowdown” in the 1980s was not caused by the “inefficiency of *dirigisme*. It was the result of major errors in macroeconomic policy – attempting to push growth too fast and ignoring the canons of fiscal responsibility and sound money” (1992, 4). The question is why Mexican leaders chose such hazard-prone policies.

#### The fiscal crisis of the state

A more direct argument about structural failure is the “fiscal crisis of the state” or, in Mexico’s case, the “Pact of 1958.” The idea is that an implicit pact among government, the private sector, and labor forced the state to provide infrastructure, supply basic goods such as petroleum products and electricity at below cost – thus broadly subsidizing profit and wage growth – but blocked the state from raising sufficient taxes or charging enough for those basic goods to avoid excessive fiscal deficits. As mentioned, this argument is often combined with the one about structural industrial problems, which put added pressure on the state to try to sustain profits and wage growth. In any event, with or without structural industrial problems, swelling public-sector deficits can very well cause crises.

The most convincing case is that the implicit pact arose from a powerful wave of strikes in 1958-59 by railroad and telegraph workers, teachers, and other public-sector

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<sup>38</sup> Export figures in current dollars from *U.N. Statistical Yearbook*, various years.

unions. Like much of the political elite, Adolfo López Mateos, who faced these strikes first as labor secretary and then as president, saw them in the context of series of devaluations that had provoked inflation and eroded real wages in 1938, 1948, and 1954, helping radical labor leaders gain rank-and-file support (Ortiz Mena; Izquierdo 1995, 19).<sup>39</sup> Recalling his years as labor secretary, the president told his new finance secretary, Antonio Ortiz Mena, “We would manage to get an excellent raise, then prices would go up, everything we had gained would be lost, and we would have to start all over. There is no way out of that path” (Izquierdo 1995, 18). He gave Ortiz Mena orders that political stability depended on sustaining growth, controlling inflation, and avoiding another devaluation (Ortiz Mena, Izquierdo). The argument about the Pact of 1958 holds that, to achieve those goals, the government provided an array of business incentives to sustain investment; for example, state-owned firms furnished subsidized electricity, gasoline, and rail transport; “new and necessary” industries were given tariff protection and other tax breaks. Profit and interest income were taxed very lightly – tax collection was less than 10 percent of GDP – to sustain investment and discourage capital flight. Since the peso was always freely convertible to the dollar, and investing in Mexico was more risky than investing in the United States, after-tax profits on Mexican investment had to be higher to persuade the wealthy to keep their money at home (Ortiz Mena).

Nothing in the pact could budge, it is argued: Increasing prices charged by state firms or reducing business subsidies would discourage investment, force firms to raise their prices, and cause inflation. Raising taxes on profits or interest would erode savings and provoke capital flight, while raising taxes on wages and salaries might provoke another strike wave. Although revenue covered current government spending, there was not enough to finance public investment, notably in the state-owned oil company, electric companies, and railroads. The state could only keep borrowing, first from the Bank of Mexico and then from abroad, until at some point lenders finally balked, and the whole economic scaffolding collapsed in crisis.

The argument is entirely logical, and though some developing countries collected far higher taxes – about 25 percent of GDP in Brazil, as compared with 10 percent in Mexico (Kaufman 1985, 482-83) – Mexico was in an unusually difficult situation. As mentioned, wealthy Mexicans had always been able to send capital abroad because of the historical absence of currency or capital controls, and they repeatedly did so, while capital controls made the same tactic significantly harder for wealthy Brazilians. Threats of capital flight are said to have foiled repeated attempts beginning in 1960 to close loopholes and reform taxes (Maxfield 1990, 88-93).

Much has been made, in particular, of an aborted 1972 tax-reform proposal (Solís 1981, 72-77; Buffie 1990, 418-19; Cárdenas 1996, 96; Maxfield 1990, 88-93). Echeverría was convinced that tax reform was essential to his plan for “shared development” – not just growth but equitable growth – according to Javier Alejo, head of the working group that drafted the tax proposal. State Industries Secretary Horacio Flores de la Peña, the leader of the economic left under Echeverría, was a strong supporter (Flores de la Peña)<sup>40</sup>; the more

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<sup>39</sup> Chapter 4 describes these events in more detail.

<sup>40</sup> As mentioned, when I quote or cite an individual without giving a written source, the source is always a personal interview. If it could be ambiguous which interview I am citing about a statement, I insert the individual’s name. Dates and locations of all interviews are listed in the bibliography.

conservative Finance Minister, Hugo Margáin, supported tax reform with some cautions; only some Bank of Mexico officials may have opposed it (Solís 1981, 74).

The aim of the 1972 proposal was principally to make the tax system more equitable and reduce evasion. Different types of income, such as salaries, business profits, rent on real estate, and interest on bonds, had been taxed separately; authorities could not even tell if one tax return on interest and another on wages came from the same individual. Also, bonds and shares were held anonymously. The measure agreed on within the administration in late 1972 required all income to be reported jointly, except on interest and dividends, but bonds and shares could no longer be held anonymously (Solís 1981, 74). Finance Minister Hugo Margáin and other officials met twice in December 1972 with leading bankers, industrialists, and their retinue of attorneys; Leopoldo Solís (1981, 76), director of economic planning in Presidency, recalls that “private sector representatives were very critical and presented a common front against both bills.” Their principal argument, seconded (if indeed not proposed in the first place) by Bank of Mexico officials, was that tax reform would precipitate capital flight (Maxfield 1990, 92).<sup>41</sup> Government officials responded that if wealthy Mexicans sent their capital to the United State or Europe, they would only have to pay taxes there (Alejo). According to Solís, the finance minister, who had been ambassador to Washington, “showed all his diplomatic skill in overlooking the carping tone of the private sector representatives and went on to explain the bills point-by-point” (1981, 75-76). He did not win them over. A few days later the Mexican Council of Businessmen, an elite group of business leaders, is said to have met privately with Echeverría (Maxfield 1990, 92), and he dropped the bill.

Why did Echeverría drop the tax proposal? He himself gives no clear answer. He says the private sector never come to speak with him personally about it (as opposed to talking with economic officials in formal meetings). He explains that though some cabinet members promised that fiscal reform would “solve all Mexico’s economic problems,” adopting it was not so easy. Theirs were only “partial views.” But for all he says, it is far from clear what his own synoptic view was that they missed: “Theorists who write lovely books but never get out of their libraries [do not realize that] nobody invests just to create jobs and pay taxes. Capital needs to reproduce itself and make profits in order to invest more. The capitalist’s efforts have to be rewarded.” Such points surely did not escape Leopoldo Solís, Javier Alejo, or anyone else involved in the tax reform effort.

Does this episode demonstrate the impossibility of tax reform, or at least one significantly increasing revenue from wealthy individuals? Some academics say so (Maxfield 1990, 88-93). Suárez Mier, who worked on tax reform under Alejo, says it never passed because “there were too many interest groups, both in the cabinet and in the private sector close to the government, such as bankers and industrialists.” Ortiz Mena says that tax reform was possible and indeed that some occurred while he was finance secretary in the 1960s, but argues that danger of capital flight did limit the possibilities: “The idea that you could just tax capital from one day to the next and nothing would happen is the gravest error. If you impose harsher conditions on capital here than in the United States, it will go to the United States. You have to carry out fiscal reform gradually.” If he had been finance secretary in the 1970s, he says he would not have substantially raised taxes, particularly not on capital. Especially given Pemex’s increasing oil income, he argues, public-sector revenue was adequate to support sustained, broad-based development.

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<sup>41</sup> Alejo, Izquierdo, and Suárez Mier concur but do not mention the Bank of Mexico’s making the argument.

Other former officials, including Ortiz Mena's economic advisors Victor Urquidi and Rafael Izquierdo, do think substantial tax reform was feasible (Izquierdo, Urquidi, Alejo, Oteyza). Solís sees the 1972 failure as a political bungle. At the time Echeverría's leftist rhetoric was beginning to frighten businessmen whose prevailing mood, according to a survey commissioned by Solís, was "full of confusion and . . . fears that the country was being led to socialism" (1981, 72). He suspects that they reacted "purely on ideological grounds . . . rather than as managerial personnel who would have assessed the issue in strictly rational terms" (1981, 93). Moreover, Echeverría did not mobilize workers to support tax reform, though they would have benefited as it affected principally unearned income, but then when inflation took off as a result of budget deficits, he did mobilize them to support wage increases that only caused more inflation (1981, 100). Solís is certain that pushing these wage increases against business opposition required at least as much political clout as passing the 1972 tax reform would have (1981, 84). Alejo says that the reform was perfectly feasible. Echeverría and Margáin should not have done what Finance always did – bargain with business privately – but instead just sent the bill to the Chamber of Deputies: "Taxes (*impuestos*) are not negotiated, they are imposed (*impuestos*)."

Rafael Izquierdo, economic advisor to López Portillo from 1976 through 1982 as well as to Ortiz Mena from 1964 through 1970, concedes that a tax reform would have caused capital to leave Mexico but says it would have returned. Capital had fled before and returned soon enough to Mexico's favorable business climate. Why should it not do the same when wealth holders saw that public finances were sounder after a tax reform and a growing economy offered good investment opportunities?

Further reason to suppose that tax reform was possible is that, though oddly it is little mentioned in debates on the topic (Solís 1981, Buffie 1990, Maxfield 1990), some tax reforms did pass, one in November 1974, another in 1981. The 1974 legislation required all forms of income except interest to be reported jointly (Alejo). Fixed-interest-rate bonds were taxed at 12 percent if the owner was identified, 16 percent if not (Villarreal 1977, 97, 107), and gasoline prices were doubled (Alejo, Suárez Mier) – this last measure partly to raise short-term revenue, partly as a decoy to draw attention from the rest of the package (Alejo). The gasoline prices did indeed create a storm, but despite them, Echeverría is widely considered to have remained one of the most powerful Mexican presidents, at least until the 1976 crisis. Between a small excise tax increase in 1973 (Buffie 1990, 419) and the 1974 reform, total tax revenue rose from 8.1 to 10.3 percent of GDP (Buffie 1990, 422), a far from trivial amount. Another tax reform was passed in 1981, abolishing volumes of paperwork and bureaucracy on some 36 federal and 660 local taxes (Ibarra), and establishing a new value-added and corporate income taxes. Taxes collected from low-income brackets (between one and five minimum wages) fell 50 percent, while those collected from high-income brackets (more than 15 minimum wages) tripled (Moreno and Ros 1994, 128, 141).

The more definitive problem with the theory that the Pact of 1958 produced inevitably widening budget deficits is that the deficits were not widening. They remained "very moderate" throughout the 1950s and 1960s, in the judgment of Gil Díaz, Mexico's current finance secretary (1984, 341). It is true that federal government budget deficits in the 1950s were lower than in the 1960s. Data in Table 2-3 on the government deficit excluding debt payments, which is the most reliable (see Appendix 2 data notes), shows an average surplus of 0.3 percent of GDP under the Ruiz Cortines administration (1952-58), a



deficit of 0.6 percent of GDP under López Mateos (1958-64), and virtually the same small deficit, 0.8 percent of GDP, under Díaz Ordaz (1964-70). Alternatively, Table 2-4 shows exactly the same average deficit of 1.4 percent of GDP (now including debt payments) under López Mateos and Díaz Ordaz. But nothing can be concluded from the federal government alone: state-owned enterprises accounted for roughly half of public spending. Though data on the total public-sector is only available since 1960, it points to *decreasing* deficits, averaging 3.3 percent of GDP from 1960 through 1964 under López Mateos and 2.1 percent of GDP from 1965 through 1970 under Díaz Ordaz (Table 2-4). Anyway, a deficit of 2 or 3 percent of GDP in an economy growing 6 percent a year is a long way from disaster. Mexico's fiscal performance met the Maastricht Treaty's requirements for European monetary union (Ortiz Mena 1998, 289).

Further, the Pact of 1958 could not itself have caused public-sector deficits to soar under Echeverría and López Portillo because those presidents broke it. Not only did Echeverría increase the weight of the public sector from 20 percent to 30 percent of GDP, after which López Portillo increased it from 30 percent to 45 percent of GDP, but they broke the confidence built up between public and private sectors in the 1950s and 1960s. Though there had been frictions, such as the ruckus about López Mateo's "government of the extreme left," officials, and above all finance secretaries, always worked to patch them up. The Echeverría administration's relations with business were gratuitously and unnecessarily acrimonious (Sánchez Navarro). Echeverría departed from the text of his 1973 state of the union message to improvise an attack on "little rich men" who engaged in capital flight, were "despised by the people," and led their sons "to social inadaptability, to drug addiction, to irresponsibility" (Solís 1981, 82). When a nervous private sector formed the Businessmen's Coordinating Council to bridge various existing groups, Echeverría's finance secretary and close friend José López Portillo brilliantly declared its innocuous principles ("private business is the basic unit of the economy") to be "an impossible admixture of Saint Thomas Aquinas' ideology, the Manchester School, eighteenth century utilitarianism, Ayn Rand's execrable literary productions, and ideas of the Mexican Revolution. . . . [F]rom there to Nazi-fascism is one mere step."<sup>42</sup>

If the Pact of 1958 had still been operating, the enormous fiscal deficits under Echeverría – 10 percent of GDP – should have resulted from a revenue squeeze, even as the government struggled to hold spending down. Just the opposite happened (Table 2-5). Spending exploded, and even increased revenues could not keep pace. As Edward F. Buffie notes (1990, 422-23) in a careful study of Mexico's economic performance, while federal government revenue growth was "relatively strong" at 2 percent of GDP from 1970 to 1976 (thanks largely to the 1974 tax reform), "enormous" spending increases – 6 percent of GDP – swelled deficits (Table 2-5). If state-owned firms are added to the picture, between 1970 and 1976 revenue grew 5 percent of GDP, while spending soared 10 percent of GDP. Nor can it be argued that business pressure for subsidies forced the state to increase expenditures because business clamorously and incessantly opposed them. And after 1977, when new oil fields came on line, there was certainly no lack of revenue. Pemex's net revenue to the state – deducting its own spending but including taxes it paid to

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<sup>42</sup> The quote is from Tello 1979, 123; the characterization of it is my own.

**Table 2-3 Federal government budgets 1953-70 (percent of GDP)**

	Revenue	Spending*	Spending excluding debt service	Surplus or deficit*	Surplus or deficit excluding debt service
Ruiz Cortines					
1953	7.9	9.0	7.7	-1.1	0.2
1954	8.7	10.7	9.3	-2.0	-0.6
1955	8.7	9.9	7.9	-1.1	0.9
1956	8.9	10.0	8.4	-1.0	0.6
1957	8.2	9.6	7.9	-1.4	0.3
1958	9.0	10.1	8.5	-1.1	0.5
Lopez Mateos					
1959	7.4	8.1	7.8	-0.7	-0.4
1960	8.1	9.5	9.2	-1.4	-1.1
1961	7.1	8.0	7.5	-1.0	-0.4
1962	7.5	8.3	7.9	-0.8	-0.4
1963	7.9	8.5	8.1	-0.6	-0.2
1964	7.6	9.2	8.7	-1.6	-1.1
Diaz Ordaz					
1965	8.2	10.7	10.0	-2.5	-1.8
1966	8.2	9.4	8.6	-1.2	-0.4
1967	8.4	9.8	8.9	-1.4	-0.6
1968	8.8	9.9	9.0	-1.1	-0.1
1969	9.0	10.9	10.0	-1.9	-1.0
1970	9.1	10.8	9.8	-1.7	-0.7

\* Data for total spending and the resulting deficits from 1953-58 are problematic because they include amortization of debt; see Appendix 2 data notes. Data excluding debt service is not problematic, nor is data from 1959 on.

All data is originally from final annual federal government budgets (*gasto ejercido*) in Secretaría de Hacienda y Crédito Público (SHCP), *Cuenta de la Hacienda Pública Federal*, various years.

1953-58 spending and total debt payments are from INEGI 1994 (*Estadísticas Históricas de México*), Table 17.10. Revenue in current pesos is from INEGI 1994 (*Estadísticas Históricas de México*), Table 17.6

1959-70 spending and total debt payments are from Izquierdo 1995, Table VII.5. Amortization, deducted from total debt payments (interest and associated expenses are left), is from Izquierdo 1995, Table VII.4. Revenue is from his Table VII.8

GDP is from Instituto Nacional de Estadística, Geografía e Informática (INEGI) 1994 (*Estadísticas Históricas de México*), Table 8.1.

For further discussion of data sources and the question of amortization, see data notes table in Appendix 2.

**Table 2-4 Public sector budgets, 1960-70 (percent of GDP)**

	Public sector*	Federal government plus state enterprises			Federal government alone		
		Revenue	Spending	Surplus or deficit	Revenue	Spending	Surplus or deficit
Lopez Mateos							
1959	N.A.	N.A.	N.A.	N.A.	7.4	8.1	-0.6
1960	-2.9	14.8	17.4	-2.6	8.1	9.6	-1.6
1961	-2.5	14.5	16.8	-2.3	7.1	8.5	-1.5
1962	-2.7	15.1	17.2	-2.1	7.5	8.8	-1.4
1963	-3.7	15.6	18.5	-2.9	7.9	9.5	-1.6
1964	-4.8	15.0	18.9	-3.9	7.6	9.4	-1.8
Diaz Ordaz							
1965	-0.9	17.5	18.4	-0.9	8.2	9.8	-1.6
1966	-1.2	16.7	17.9	-1.2	8.2	9.1	-0.9
1967	-2.4	17.0	19.0	-2.1	8.4	10.0	-1.6
1968	-2.2	17.1	18.7	-1.6	8.8	9.8	-1.0
1969	-2.2	17.5	19.0	-1.5	9.0	10.2	-1.2
1970	-3.8	17.3	19.4	-2.1	9.1	10.9	-1.8

\* Public sector includes the federal government, state enterprises, Mexico City, the net deficit of public banks, and other off-budget items.

All spending figures include interest payments.

Data gives revenue received and spending paid out during the course of the year (*gasto pagado*) as opposed to the amounts in final budgets (*gasto ejercido*), which may not actually be received or paid during the calendar year. This is the only type of data available for the public sector before 1965.

Federal government is from Izquierdo 1995, Table VII.15, originally from Secretaría de Hacienda y Crédito Público (SHCP) 1981 (*Estadísticas de finanzas públicas 1938-80*).

State enterprises and public sector for 1960-70 is from Izquierdo 1995, Table VII.22. The 1960-64 data was originally reconstructed by a Finance-Bank of Mexico working group, and should be treated with caution (Table VII.22, note 1). State enterprises and public sector for 1965-70 is originally from SHCP 1982 (*Estadísticas Hacendarias del Sector Público 1965-1982*).

Current GDP to calculate percentages: INEGI 1994 (*Estadísticas Históricas de México*), Table 8.1

**Table 2-5 Public sector budgets, 1970-82 (percent of GDP)**

	Public sector*			Government**			Pemex		
	Revenue	Spending	Surplus or deficit	Revenue	Spending	Surplus or deficit	Revenue	Spending	Surplus or deficit
Diaz Ordaz									
1970	18.9	22.3	-3.8	8.7	9.7	-1.0	3.3	2.7	0.6
Echeverria									
1971	18.4	20.5	-2.5	8.4	8.8	-0.4	3.2	3.0	0.2
1972	18.7	22.9	-4.9	8.6	11.6	-3.0	3.1	2.7	0.4
1973	20.2	25.8	-6.9	9.3	12.4	-3.1	2.8	3.0	-0.2
1974	21.1	27.0	-7.2	8.8	11.6	-2.8	4.0	3.2	0.8
1975	23.1	31.9	-10.0	10.0	13.3	-3.3	4.1	4.1	0.0
1976	23.8	32.0	-9.9	10.7	15.5	-4.8	4.0	3.6	0.4
Lopez Portillo									
1977	24.2	29.5	-6.7	10.2	13.6	-3.3	4.9	3.9	1.0
1978	25.5	31.0	-6.7	10.5	14.2	-3.7	5.8	4.8	1.0
1979	26.2	32.2	-7.4	10.1	15.2	-4.9	7.4	5.5	1.9
1980	27.8	34.6	-7.9	7.5	16.7	-9.2	12.1	5.8	6.3
1981	27.7	41.3	-14.7	8.3	20.8	-12.5	11.6	7.5	4.1
1982	30.1	46.4	-17.6	6.2	26.5	-20.2	15.8	7.5	8.3

\* Public sector revenue and spending include the federal government, state enterprises, the Mexico City government, and some off-budget items. The deficit also includes the net deficit of public banks and is therefore slightly larger than the difference between revenue and spending.

\*\* Government spending and revenue includes the federal government and Mexico City government.

All spending figures include interest payments.

Source: Buffie 1990, 422-23, 435-36

the federal government – rose from 0.4 percent of GDP in 1976 to 6 percent of GDP in 1980-82. In 1982, the year of the crisis, its net revenues were 8 percent of GDP, as large a portion of the economy as *all* tax revenues had been in 1970. The question is not why the Mexican state faced an inevitable revenue squeeze but why it spent so profligately.

#### Structural problems versus perception of them

There is a common problem with both structural theories about Mexico's crises: the exhaustion of import substitution and the fiscal crisis of the state. Suppose long-term structural problems were at work beneath the surface of things. Still, they had not *manifested* themselves in 1970. With a sustained 6 percent growth, there had been no economic slowdown; budget deficits had shown a marginally decreasing trend; current-account deficits were low and stable. Except for a small intellectual current on the left, everybody *thought* the economy was doing just fine. Even those like the political scientist Miguel Basáñez who saw structural problems underneath concede that that they were not widely appreciated; the dominant view of the Mexican economy was "triumphalism" (1996, 153; likewise Tello 1979, 11). Government officials saw excellent economic prospects.<sup>43</sup> The encomiums on the economy of the president of the Federation of Business Chambers hardly need to be detailed (Tello 1979, 11). Octavio Paz, unflinching critic of his nation that he was, wrote in 1972 that its "economy has made such strides that economists and sociologists point to Mexico as an example for other underdeveloped countries" (1985, 230). Fausto Zapata, a close Echeverría advisor, says:

For many lucid thinkers, with an ability to see into the future, such as Pablo González Casanova in his book *Democracy in Mexico*, the economic model had failed by creating many more poor people than rich. . . . But they were a critical minority. The majority of us lived in total autocomplacency. In the eyes of the majority, the economy was a marvel. . . . This sort of autocomplacency was morally reprehensible, but businessmen, social leaders, labor leaders, government, church, and all the great institutions were convinced that, as it was, the country was working very well.

The point is not to minimize Mexico's severely inequitable income distribution (though it was improving slightly), but rather to establish that the broad consensus saw the economy as doing excellently. The consensus did not see "structural" problems, nor were they evident in growth, budget deficits, or foreign borrowing. How could they then force the Echeverría administration to suddenly loose spending? In political terms, they did not exist. Economists could say grave troubles would surface – and perhaps they would; surely no economy can continue on a dead-reckoning course forever – but these were unproven theories about the future. Politicians do not turn economic policymaking around because of such theoretical arguments. In Mexico there was no manifest economic failure.

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<sup>43</sup> Bracamontes, de la Vega Domínguez, Mancera, Moreno Valle, Romero Kolbeck, Moctezuma agree, not only that they saw the economy as doing well but also that the general view saw it as doing well.



## Chapter 3

### The Macroeconomics of Elite Conflict

The claim that such momentous social consequences as economic crisis or stability was caused by politics among small *grupos* of high officials within the heart of the state, a politics not driven by broad societal interests, may seem strange. In some form or other the “macroeconomics of populism” – MIT economist Rudiger Dornbusch’s phrase capturing the idea that weak or misguided politicians facing organized societal pressure seek to bolster support by granting welfare benefits, allowing wage increases, and making other expenditures far greater than the state can afford – is an entirely plausible way to explain inflation and crisis (Dornbusch and Edwards 1991). A guide written for the OECD on how to avoid economic crises singles out two political factors, both variations on Dornbusch’s theme: “the government’s degree of independence from the demands of competing interest groups and political parties” and its “life expectancy,” in that if elections are approaching or a coup feared, incumbents are more likely to inflate the economy (Haggard, Lafay and Morrison, 1995, 43-44). Moreover, the Mexican administrations of Luis Echeverría (1970-76) and José López Portillo (1976-82) are widely called populist in that sense.

Yet the usual story does not apply. The principal political cause of Mexico’s economic crises was rival *grupos*’ internal contest for the presidential nomination.<sup>44</sup> Public spending in the 1970s and 1980s always plunged in actual election years, when the control over power was never in dispute, but rose in the previous, pre-electoral years when rival *grupos* within the ruling party sought to build support for their leaders to be the nominee. Such intra-elite conflict did not inevitably cause crisis any more than incumbents’ spending to buy votes in democracies inevitably does, but intra-elite conflict was the Mexican system’s inherent vulnerability, the political weakness that could lead to economic crises. The critical difference between stability and crisis depended on controlling it, rather than on controlling relations between state and society.

Much of this chapter will not be controversial among those who study Mexico. In particular, the initial discussion of how Mexican state worked largely concurs with conventional opinion. But a clear picture of the state is essential to the overall argument of the chapter, and since finally that argument is so unlike the usual ones about economic crisis, each piece of it is worth spelling out carefully.

#### Centralization of political power

The high Mexican politics of presidential succession and national policy, the politics that mattered enough to cause economic crises, was principally waged within the central administration; elections never decided who held political power. Explaining why this curious situation existed requires a sketch of the whole political system because it was, precisely, a whole; to look at only a piece of it, such as how the state controlled unions,

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<sup>44</sup> External economic shocks can cause crises, and investor panic is always involved, as noted in chapter 1. As mentioned there and discussed further in later chapters, economists widely consider internal causes to have predominated in 1976 and 1982, while contagion from the U.S. stock market crash was salient in 1987. But I do not need to consider these matters here. I only argue that the usual theories *about domestic political causes* of crisis do not apply to Mexico; the key *domestic political cause* was conflict among *grupos*.

raise as many questions as it answers. The president for his six-year term, and the federal bureaucracy under him, virtually were the government. Though called the ruling party, the PRI *per se* – its National Executive Committee and the rest of its apparatus – had no independent power. As Octavio Paz said, it gave “blind obedience to each president in turn. . . . The party has not produced a single idea, not a single program, in [all its] years of existence!” (1985, 241-42). The party’s corporatist sectors – the labor unions, peasant associations, and even middle-class groups such as the College of Architects, legally incorporated by the state – were also dominated by the president and bureaucracy and had as their mission “the control and manipulation of the people,” Paz said. As for the Senate and Chamber of Deputies, they “have been, and still are, two groups of chatterers and flatterers who never offer any criticism whatsoever; . . . the judicial power is mute and impotent; . . . freedom of the press is more a formality than a reality” (1985, 245-46).

Despite differences in emphasis, no serious observer disputes this essential account of the old Mexican state (Hernández Rodríguez 1992, 242).<sup>45</sup> Even when the conventional view of how the central bureaucracy dominated society is questioned, the fact that it did is not. For example, Jeffrey W. Rubin (1996, 85) writes that “while social scientists in the 1970s were right to characterize the postrevolutionary Mexican regime as authoritarian and hegemonic, they were wrong about the nature of that hegemony.” Instead of a single “triumph of state building, . . . multiple regional arrangements – each a distinct combination of bargaining, coercion, and alliances – together reinforced the power of the center.” In investigating Mexicans’ ability to occasionally form autonomous groups that defend grass-roots interests rather than being manipulated by the state, Jonathan Fox explicitly notes that, even in the 1990s, the broader system was “still largely dominated by an authoritarian corporatist brand of machine politics” (1994, 151-52, 158).<sup>46</sup>

Despite how often it is painted, this picture remains somewhat strange, even to Mexicans who grew up within it. Mexicans are, arguably, a revolutionary people; since the waning years of Spanish rule, there have been three full-scale revolutions and uncounted lesser uprisings (Knight 1990, 87). Worker insurgency for democratic governance has repeatedly erupted (*ibid.*) despite the terrible costs – death, imprisonment, unemployment. Peasants have repeatedly invaded private estates to claim a little land, also sometimes at terrible cost. Moreover, corporatist groups cannot be just repressive; as Fox says, to be effective they must represent “some member interests at least some of the time” (1992, 28).

Two historical legacies help explain why the stable Mexican regime nevertheless concentrated so much power in the national administration and president. First, although all Latin America experienced centralized Spanish rule, in Mexico it merely overlaid a centralized Aztec empire. The Mexican president’s authority, to quote Paz again, has rested at least in part on “the Aztec archetype of political power: the *tlatoani*, or ruler, the pyramid” (1985, 315-16): “The *tlatoani* is impersonal, priestly, and institutional – hence the abstract figure of the president corresponds to a bureaucratic and hierarchic corporation like the Institutional Revolutionary Party. . . . The president is the Party during his six-year

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<sup>45</sup> Pablo González Casanova’s *Democracy in Mexico* (1970, originally published 1965), was a comprehensive and powerful account of the system. Lawson 2000, 268-69, summarizes features of the old regime and provides a recent list of references. Bailey 1988, 31; Cornelius and Craig 1991, 23-26; Ortiz Salinas 1988, 14-18; Bruhn 1997, 33 ff; Luna 1988, 252; Suárez Fariás 1988, 308; and Hernández Rodríguez 1984, 8-10, are just a few authors who succinctly describe the principal political features of presidential control over a hegemonic party and official corporatist organizations.

<sup>46</sup> Likewise Foweraker 1989, 112; and Fox 1992, 1.



term; but, when it ends, another president appears, and is only another incarnation of the Party.” (The “party,” in this sense, is a common but somewhat confusing shorthand for the entire political system, not the subordinate electoral apparatus.)

The second historical legacy was the 1910 Revolution – always written with a capital “R” – bequeathing, on the one hand, broadly shared ideals, and, on the other, deep-seated fear of societal violence. Wayne A. Cornelius and Ann L. Craig write:

A residue of the widespread violence of [the 1910 Revolution and its aftermath], which killed one of every seven Mexicans, is a general fear of civil disorder and uncontrolled mass mobilization. The prospect of another wholesale disintegration of the social and political order is viewed with alarm not just by Mexico’s elites but also by a majority of the poor. Their personal economic risks in a period of protracted political violence would be much greater than those of the elite.

An even more important legacy of the 1910 to 1940 period was the symbolic capital that accrued from events and public policies pursued during those years: the Revolution itself; the radically worded Constitution of 1917; the labor and agrarian reforms of [President Lázaro Cárdenas in the 1930s]; and Cárdenas’ expropriation of foreign oil companies in 1938. (1991, 14)

A 1963 survey of political culture in several democracies (a category that some American political scientists thought Mexico belong to) discovered a dichotomy that every subsequent study has confirmed: Mexicans’ pride in national political institutions coupled with cynicism about their government’s actual performance. Faith in the Revolution and the president endured despite a bureaucracy that was often arbitrary and corrupt, at least on the lower levels that interacted with the population (Almond and Verba 1965, 310-11; Craig and Cornelius 1989, 353-54, 375-76). Asked to respond in 1969 to the statement that “the individual owes first loyalty to the state and only secondarily to his personal welfare,” 92 percent of Mexicans agreed; of the five nationalities surveyed, Italians were second likely to agree, at 48 percent (Stepan 1978, 96).

The violence of the Revolution also helped persuade the political elite to accept presidential authority. In extensive interviews with high officials of the 1950s and 1960s, Roderic Camp found their “most striking universal belief” to be an “emphasis on peace and order” (1984a, 134). If they had not participated in the Revolution itself, they had seen first hand the violence that engulfed Mexico. As one said:

I helped my father take pictures of men who were to be executed by the various sides during the revolutionary period. As a young boy, I saw and talked to men who were brave, melancholy, or crying just before they were killed. I also helped my father . . . pick up the dead men in the streets after an engagement by opposing forces. All of this made a lasting and profound impression on me, and is something I would never want my children to witness. (Camp 1984a, 42)

Even after the Revolution, really a civil war among shifting military factions, supposedly ended in 1920, democracy did not bring peace and order. Elections were always followed by revolts, and losers were executed. The ballot box failed as a real means to determine who won political contests, serving instead only as the first step toward more violence.

Forging a dominant party was a strategy to shape a workable political system in these circumstances. In 1929 President Plutarco Elías Calles brought together those factions that would join one ruling party and defeated in battle those that would not. As a practical alternative to democracy, a president presiding over a centralized political system served as the ultimate arbiter. Pablo González Casanova, who published an eloquent indictment of the authoritarian Mexican state in 1965, carefully qualified it by noting that trying to apply democracy after the Revolution would have been “senseless”; it would only have meant “respect for the conspiracies of a semi-feudal society” (1970, 68-69).

The state that emerged from the Revolution, fought under the banner of democracy but in a society unprepared for democracy, looked one way on paper but worked another.

José Andrés de Oteyza, former state industries secretary says, “The PRI was called a political party, but it wasn’t a political party, it was a whole political system. It is said that there were three powers, but there was only one. The system was called federal, but it was centralized.” As a document, the Mexican Constitution of 1917 derives in many ways from the American Constitution, resting sovereignty in the people; dividing power among executive, judiciary, and legislative branches; and providing checks and balances (González Casanova 1970, 11). Indeed, partway into Vicente Fox’s current administration, the first time one party has *not* controlled all branches of government since the PRI was founded, those provisions have turned out to matter; the checks and balances are even looking perilously close to mutual checkmate. But as long as the PRI dominated the state, the executive determined policy and political succession. On entering office presidents would use their overwhelming control of Congress to pass a flurry of constitutional amendments, adding up to several hundred over the course of seventy years (Cornelius and Craig 1991, 31).

Some of the president’s power was *de jure*. The Constitution and laws gave him complete control over the executive branch and state-owned enterprises (Ortiz Salinas 1988, 15-16). He could appoint and dismiss, without congressional approval, all cabinet secretaries, from Finance and Interior to Justice and Tourism, as well as the governor of Mexico City (Cornelius and Craig 1991, 33). He had equal power over state enterprises: Pemex and the electric utilities; railroads, airlines, and telecommunications; industrial giants such as steel mills and chemical plants. As President Miguel de la Madrid wrote, cabinet secretaries and directors of state enterprises, along with everyone under them, were mere “auxiliary collaborators dependent on the unique office-holder, the president” (Ortiz Salinas 1988, 14). Victor Urquidi, economic advisor to the finance secretary in the 1950s and 1960s and president of the Colegio de Mexico for two decades, wryly notes: “The MacArthur Foundation once asked me how to develop a program that would interest policymakers in Mexico. I said, ‘There’s only one policymaker in Mexico. He’s the president.’”

Even more important were the president’s extra-constitutional powers as *de facto* head of the ruling party. It dominated Mexican politics, and he dominated it. As de la Madrid wrote, “Even though the party has its own bosses, it recognizes the incumbent president of Mexico as its highest leader” (Ortiz Salinas 1988, 16). Fernando Solana, a former professor of political science who held four posts as cabinet secretary, broke off an interview to correct the misuse (the same that Paz committed) of referring to the regime itself as the PRI: “The PRI was not important. I never was in the PRI. The correct term is the political system.” The PRI’s National Executive Committee was appointed and dismissed by the president, and its financing came from the Interior Ministry (Camp 1993, 142). Legal authority to certify opposition parties and run elections was under likewise under Interior (Cosío Villegas 1975, 101).

The president’s dominance of the party translated into control over the legislature, courts, and (though not so effortlessly) state governments. The PRI supplied every governor and senator and more than two-thirds of federal deputies until 1988 (Cornelius and Craig 1991, 60-61). That year it lost its super-majority in the Chamber of Deputies, and thus lost for a time its unconditional ability to pass constitutional amendments, but it regained it in 1991. The Constitution still prohibits elected officials from serving successive terms – talk about term limits! – thus making an elective career impossible.

Legislators owed their nomination and hence election to the president and his entourage; their advancement depended on him or his successor (Cornelius and Craig 1991, 25), always a cabinet secretary appointed by him. Thus, bills were approved almost automatically (González Casanova 1970, 20; Cornelius and Craig 1991, 31). Since governors did manage states, they were far the most important officials outside the central administration, but the president could unseat them, too, through informal pressure or formal “withdrawal of powers,” removing the governor, legislature, and other authorities in one fell swoop (Cornelius and Craig 1991, 33, González Casanova 1970, 24). Typically governors were deposed if they failed to maintain order, as when Eduardo Angel Elizondo of Nuevo Leon was unable to handle students riots and “the federation,” as it was said, but in fact the person of President Luis Echeverría, decided he should resign (Bravo).

Supreme Court judges, appointed and dismissed by the president thanks to automatic legislative approval, were politically irrelevant (Cornelius and Craig 1991, 31; Lawson 2000, 283). Three presidents, including Ernesto Zedillo in 1994, dismissed the entire bench (Dillon 2000, A-3). Though in theory the court could challenge a law’s constitutionality, a decision applied only to the particular defendant whose case had been heard and set no precedent, so that if others disobeyed the supposedly unconstitutional law, they would be prosecuted anyway (Dillon 2000 A-3, Aguayo 2000, 285). And the court had a staggering workload, for example, issuing 6,573 rulings in 1999 (Dillon 2000, A-3).

Presidential authority rested on force, too. Mexico was not a police state – it was said that the state used “two carrots, then a stick” (Collier and Collier 1991, 578) – but if need be, coercion was available. Interior managed the infamous Federal Security Directorate, the secret police. Particularly in crisis moments such as the summer of 1968, says Urquidi, “They had spies everywhere.” Interior knew more about union activities in the Colegio de Mexico, which Urquidi was president of, than he did. “The force of the Mexican president had two sources: legitimacy and the legitimate use of force,” says Victor Bravo, advisor to a former presidential contender and son of a cabinet secretary. Bravo explains what he means by the “legitimate” use of force:

I am not talking about the atomic bomb – no – the police, the public prosecutor, intelligence services, hidden tape recorders. If someone was homosexual, I mean photos taken of him with a friend. J. Edgar Hoover didn’t have the atomic bomb, but files on individuals, no? Suppose in the fourth year of Echeverría’s administration my father, the education secretary, had asked his friends who were rectors of universities to support [the presidential contender he favored] Mario Moya Palencia. If Echeverría had found out, he would have gotten rid of my father. He would have driven him out. Suppose my father had said, “I’m not going; no one who replaces me will be as good an education secretary.” “Oh yes? Well, then, it seems you didn’t pay your taxes.” If it wasn’t by fair means, it was by foul.

Big business and the Catholic Church had real political bases and the ability to negotiate with the executive branch (González Casanova 1970, 41, 50; Cornelius and Craig 1991, 56),<sup>47</sup> and the U.S. government could never be ignored. But the ruling party incorporated and regulated the most important other societal organizations, notably the Mexican Workers Federation, the National Peasants Federation, and the National Federation of Popular Organizations (professional and middle-class associations).

The state’s corporatist apparatus was built in part on the kind of informal patron-client relationships that pervade much of Mexican society. For example, the ubiquitous street vendors in Mexico City pay a local boss to occupy space, as if public sidewalks were

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<sup>47</sup> González Casanova says the military had *de facto* political power and could bargain independently with political rulers, but most authors do not see it as having more clout than any other part of the bureaucracy.

for rent, while the boss keeps local authorities and rival vendors at bay. Mafioso-like *caciques* dominate many poor communities, acquiring followers, often going around with armed guards (Cornelius 1975, 146), and collecting “donations,” ostensibly for travel, bribes, and other costs of negotiating with government officials (Cornelius 1975, 143). For all their inflated commissions, they do manage to secure benefits such as land titles, water service, or street grading from politicians (Cornelius 1975, 159). Those politicians, who are in turn vying with each other to prove their effectiveness to higher authorities, require the *caciques* to produce mass supporters for rallies, prevent social unrest, and avoid building alliances with other communities (Cornelius 1975, 159-60).

The state’s control over corporatist sectors<sup>48</sup> rested not just on informal patron-client relationships but on Mexicans’ loyalty to revolutionary ideals, a bureaucracy that made some concessions but blocked grass-roots mobilization, and armed force. In the 1930s President Lázaro Cárdenas, a champion of land reform and worker rights, drew on his radical populist image to officially incorporate social sectors (Collier and Collier 1991, 571). Unions were splintered when the administration began, but labor leader Vicente Lombardo Toledano established the primacy of his umbrella group, the Mexican Workers Federation, and cemented its ties to the state (Knight 1991, 274-77). Though the story had its odd twists, as when (in accord with its “Popular Front” strategy) Moscow rescued his federation by ordering powerful Communist unions such as rail and electrical workers to join, Lombardo’s belief that unions should ally with progressive, Revolutionary currents in the state was critical (Bizberg 1990, 321). The Cárdenas administration did not forget to repay the federation, granting it subsidies and installing leaders in political office, including 30 in the Chamber of Deputies. Peasants who benefited from agrarian reform were organized in *ejidos*, communities to jointly manage expropriated lands, were split from Lombardo’s urban workers, and were required to join the official National Peasants Federation (Stepan 1978, 61; Knight 1991, 257-58). Government employees, cordoned off from the rest of urban workers, were later incorporated in the “popular” sector.

As Alfred Stepan argues in comparing Mexico with other Latin American states, this corporatist structure, elaborated over succeeding decades, assured that Mexican worker and peasant organizations “do not, and cannot, exercise group sovereignty, but rather perform the role assigned to them” by the political elite (1978, 61). Many features of the system contributed to that end. Fragmented unions, covering only 16 percent of the workforce and often representing employees of only a single firm (Middlebrook 1991, 9) – the average union in the Mexican Workers Federation had fewer than 150 members (Middlebrook 1995, 267) – faced enormous obstacles to collective action. They depended on government subsidies instead of collecting membership dues (Camp 1993, 122), and though in theory workers could vote to be represented by whichever union they chose, in practice if official corporatist leaders were threatened, they could postpone votes, get ringleaders fired, and sink the whole process in the state-controlled courts (Pérez Arce 1990, 110). Strikes had to be recognized as legal by so-called conciliation and arbitration boards, with one member from the government, one from the official labor movement, and one from management (Middlebrook 1991, 4; Franco G. S. 1991, 110) – in short, by state-controlled boards – or workers who participated could be fired (Stepan 1978, 65). Between

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<sup>48</sup> Statements that the state effectively controlled corporatist sectors include Stepan 1978, 61-66; Cornelius and Craig 1991, 85-92; Collier and Collier 1991, 574; Camp 1993, 121-125; Middlebrook 1991, 9, and 1995, 27; Smith 1979, 54; Newell and Rubio 1984, 272; and Frank 1969, 314.

1963 and 1993, a mere 2.2 percent of strike petitions under federal jurisdiction, covering the most important industries, were recognized as legal. During the ongoing economic recession of the 1980s – depression really – real Mexican wages fell nearly twice as fast as the Latin American average (Middlebrook 1995, 269), yet there was not a single general strike in Mexico, as compared with eight in Argentina and two in Brazil (265-6).

Corporatist labor leaders had every incentive to control rank and file demands and mobilize them to rally behind the PRI at elections because their careers advanced within the political system, not the labor movement *per se*. They were called *charros*, as one of the most infamous was nicknamed for his habit of dressing like a cowboy. Francisco Pérez Arce, an anthropologist, says that in workers' eyes, "a *charro* is someone who has an office (the union's office) and has a political career (in the PRI) and will probably become a congressional deputy, or is one, or already was one" (1990, 109). Even if national and state legislatures had no real legislative power, lucrative seats in them rewarded labor, peasant, and "popular" sector leaders for maintaining discipline (Hernández Rodríguez 1992, 244-47). And trouble-makers could be sacked (Cornelius and Craig 1991, 33), as, for example, when President Carlos Salinas ostentatiously jailed the Pemex union leader, Joaquín "La Quina" Hernández Galicia, a corrupt *cacique* who at least defended workers, to replace him with another corrupt *cacique* who did not even defend workers (Camacho Solís). The Mexican Workers Federation consistently opposed democratization, from the anti-authoritarian protests in 1968 through the opposition campaigns of the 1980s, as democratization might threaten leaders' own careers (Cornelius and Craig 1991, 90). They were well advised to prevent general strikes, which could have led to their losing control over the rank and file (Middlebrook 1995, 268).

Though state control over society was never complete – there were eruptions, to be discussed – it was pervasive. Peasants and unorganized workers were notoriously the easiest to manipulate (Collier and Collier 1991, 582; Cornelius and Craig 1991, 85; Smith 1979, 53-54), but even presidents of professional associations such as the College of Architects could be bought off by being inducted into government (Gamboa). Protest could be manufactured, too; although proving any given case is difficult, the technique was widely recognized. For example, in 1966 President Díaz Ordaz told the then rector of the National University, Ignacio Chávez Sánchez, "You are going to make a terrific ambassador to France when you have finished at the end of the current year." Chávez said, "Thank you, but I am considering running for a second term." Díaz Ordaz turned to the person on his left and muttered, "This idiot doesn't understand." The government shortly organized a little riot that ended Chávez' career as rector.<sup>49</sup>

Media control was critical in containing protest: it could not spread since one pocket could never even learn that another existed. Here the state's principal leverage was economic. It bought print coverage by strategically placing government, state-enterprise, and party advertisements, which on average accounted for half of all newspaper ad revenue, while agencies that reporters covered often handed them monthly cash payments larger than their salaries (Lawson 2002, 31, 35). The state paper manufacturer, PIPSA, which controlled the importation as well as production of newsprint, could ignore accounts payable by friendly outlets and, on rare occasion, shut off supplies to unfavorable outlets (Lawson 2002, 33). On June 22, 1966, when new monkeys arrived at the zoo and the president inaugurated a new project, someone who must have had a perilous sense of

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<sup>49</sup> Suárez Mier. His source is the person who was on Díaz Ordaz's left.

humor in the layout department of *El Diario de México* switched captions, so the one under President Díaz Ordaz' photo read, "The zoo has been enriched." The newspaper was forced to announce its own demise (Krauze 1997, 687). Journalists could mouth all the nebulous Marxist rhetoric they wanted, providing a façade of diversity, but reporters who found out too many damaging facts could, as a last resort, be murdered (Lawson 2002, 46). Emilio Azcárraga, Jr., owner of the only important television network, Televisa, proclaimed that his "only boss" was the president of Mexico (Riding 1989, 313) and that Televisa "consider[ed] itself part of the government system" (Lawson 2002, 30).

### Labor insurgencies

If populist economic pressure caused economic crisis in Mexico, it should have done so in the late 1950s, not after 1970. In the authoritative *History of the Mexican Revolution* José Luis Reyna says that a 1958-59 strike wave led by the railroad union "was the first important proletarian social movement that, momentarily, reached the point of putting the political system in crisis. It is without doubt the most important movement that has arisen since 1935" (Pellicer de Brody and Reyna 1978), that is, since the corporatist system was consolidated.<sup>50</sup> Reyna could not have forgotten to compare 1958-59 with the so-called labor insurgency of the 1970s, since he wrote those words in 1978, just after it ended. But the powerful 1958-59 grassroots movement, far from provoking the macroeconomics of populism, only ushered in the most stable, rapid growth Mexico has known.

The strike wave began with pocketbook demands and only later became a threat to the political system. Initial labor protests arose in 1956 among electric-utility workers and Mexico City teachers (Carr 1991, 133). In 1957, after wages of the 60,000 railroad workers had been eroding for some years, especially as compared with those in other critical industries, several sections of the union successfully pressed corporatist leaders to convoke a study commission on the matter. But in May 1958, the leaders rejected the commission's proposal to raise salaries 350 pesos a month, a 38 percent increase for the average railworker intended to restore real purchasing power to what it had been in 1948,<sup>51</sup> and instead asked for only 200 pesos. With presidential elections approaching in July, Mexico City teachers, along with telegraph, oil, and electric-utility workers – all public-sector unions except for some of the electric workers – were now petitioning for raises, as well.

The fact that the rail and telegraph workers controlled communication lines was essential: they had more capacity to organize on a national scale outside the corporatist structure than practically any other Mexican unions at the time. A supine media could and did lambaste them, but press censorship could not prevent local sections from keeping each other abreast of developments. A group in the railroad workers salary commission led by one Demetrio Vellejo of Oaxaca not only sought the 350 pesos raise but began to take moves that threatened the corporatist leadership, telegraphing a wildcat strike plan to all sections: work should stop at ten o'clock on June 25 for two hours, two more hours the

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<sup>50</sup> I cite Reyna alone since he wrote the section of the history on the 1958-59 strike wave. Except where noted to the contrary, the account of the 1958-59 strikes is his from his account but is consistent with other histories such as Smith 1991, Krauze 1997, and Bizberg 1990.

<sup>51</sup> The raise was to be applied across the board, regardless of railworkers' differing pay levels. Reyna (175) cites a source as saying that the average railworker's wage was 916 monthly in 1957 and that the 350 peso increase (for a total of 1266 pesos) would have provided the same real purchasing power as in 1948.

next day, and so on until their demands were met – or the nation would be paralyzed just as presidential elections were to be held. The government and corporatist union bet the wildcat strike would not happen, but they bet wrong. It went like clockwork and spread across the nation, increasingly paralyzing transport. On June 30, President Adolfo Ruiz Cortines offered 215 pesos, and the insurgents accepted. They had won – the first round.

After another series of strikes, the government granted railworkers the opportunity to call a leadership vote in August, and Vallejo was elected, 59,759 votes to 9. But the union did not know when to stop. It made more demands: a 32 percent raise for train dispatchers, another 16.7 percent for all railworkers, 10 pesos a day for rent. It even petitioned to improve the inept rail management, for example, not charging U.S. mining companies 20 percent less than Mexican farmers. The “railroad workers effect” spread: electric utility and telegraph workers attacked their corporatist leadership; Pemex workers proposed to install “authentic labor democracy”; telephone workers cut off service briefly. Even Fidel Velázquez, perpetual leader of the official labor movement, noticed discontent and announced that social justice was just a “myth” in Mexico. When the railworkers union threatened more strikes before Easter 1959, the Federal Arbitration and Conciliation Board took the usual step of declaring them illegal, but this time the government meant it. On Holy Thursday 13,000 workers were fired; on Easter Sunday 10,000 railworkers were jailed (Krauze 1997, 635-6). In the end as many as 20,000 lost their jobs, means of subsistence, and in many cases company-supplied homes. Charged with “social dissolution” and half a dozen other crimes, Vallejo was locked up until 1971. The upshot was, the Mexican historian Enrique Krauze says, “the subordination – complete or partial – of virtually all groups within the society” (1997, 663).

Facing powerful strikes, wage demands, and a presidential election (which could not be allowed to descend into chaos, even if a loss was inconceivable), the government spent heavily in 1958 – real expenditures excluding debt service grew 14 percent (Table 3-1) – but long before the fateful 1959 Easter weekend that ended the strikes, the new president, Adolfo López Mateos, and his finance secretary, Antonio Ortiz Mena, agreed that inflation must be stopped (Ortiz Mena). As they cut spending 5 percent in real terms that year, inflation fell to a mere 2 percent, incredibly low for a developing country, and averaged about that level for the next five years. How politics among high officials and *grupos* in the central administration allowed those cuts to be enforced is a story for later chapters, but that they were made is clear. The only real, if temporary, threat to the political system since its consolidation in the 1930s produced no economic crisis.

Might the so-called labor insurgency of the 1970s, even if less powerful than the 1958-59 strikes, have contributed to the 1976 crisis? There are two problems with that idea. First, in contrast to much union activity in other Latin nations such as Brazil and Chile, Mexico’s labor insurgency was largely instigated by the administration, and it never overwhelmed the state’s resources to control it (Collier and Collier 1991, 601). Second, unlike in 1958-59, major disputes did not even originate in wage demands that could affect macroeconomic performance but rather sought union democratization, or at least the ousting of *charro* leaders. The relative lack of wage demands is not surprising, as the economy had been growing rapidly for years, and organized labor, corporatist though it was, had benefited handsomely from that growth. Indeed, today all studies agree that income distribution was improving at least slightly in the 1960s (Buffie 1990, 409), and migration studies indicate that new arrivals to Mexico City found jobs quickly, more than

**Table 3-1 Federal government spending growth and budget deficits, 1947-70**

	Real spending growth		GDP growth	Surplus or deficit (percent of GDP)	
	Total*	Excluding debt service		Total*	Excluding debt service
<b>Aleman</b>					
1947	12.7	12.2	3.5	-0.3	0.9
1948	26.1	27.8	4.1	-1.5	-0.2
1949	29.4	32.2	5.5	0.4	1.9
1950	-12.2	-14.0	10.0	0.0	1.3
1951	12.7	12.0	7.7	0.2	1.6
1952	28.4	32.5	4.0	-0.8	0.7
<b>Ruiz Cortines</b>					
1953	-14.4	-15.2	0.3	-1.1	0.2
1954	30.3	32.4	10.0	-2.0	-0.6
1955	-0.2	-8.0	8.5	-1.1	0.9
1956	8.1	13.7	6.8	-1.0	0.6
1957	3.1	1.0	7.6	-1.4	0.3
1958	11.4	14.1	5.4	-1.1	0.5
<b>Lopez Mateos</b>					
1959	-17.8	-5.3	3.0	-0.7	-0.4
1960	27.2	26.5	8.2	-1.4	-1.1
1961	-11.4	-14.2	4.9	-1.0	-0.4
1962	7.8	9.9	4.6	-0.8	-0.4
1963	11.3	10.8	8.0	-0.6	-0.2
1964	20.9	20.3	11.7	-1.6	-1.1
<b>Diaz Ordaz</b>					
1965	24.2	22.7	6.5	-2.5	-1.8
1966	-6.1	-8.5	6.9	-1.2	-0.4
1967	10.2	10.6	6.3	-1.4	-0.6
1968	9.3	8.3	8.1	-1.1	-0.1
1969	17.3	18.4	6.3	-1.9	-1.0
1970	5.8	4.9	6.9	-1.7	-0.7

\* Total spending figures and the resulting deficits from 1947-58 are problematic because they include amortization: see Appendix 2. Spending excluding debt service is not problematic, nor is data from 1959 on.

Fiscal data is from the same sources as Table 2-3.

GDP in current and 1970 pesos: Instituto Nacional de Estadística, Geografía e Informática (INEGI) 1994, *Estadísticas Históricas de México*, Table 8.1.



half of them in the formal industrial sector (Buffie 1990, 412).

Odd though it may seem, the labor insurgency was cultivated largely by President Luis Echeverría and petered out when he abandoned it. Even though he had been interior secretary during Tlatelolco, thus in charge of maintaining political order, during his campaign he sought to distance himself from Díaz Ordaz, promising “democratic opening” and “shared development.” In December 1970, two weeks after taking office, he proclaimed, “How are we going to talk of democracy in Mexico if, when union leadership is chosen, the process is not democratic?” (Tello 1979, 43). A new labor law was passed that theoretically allowed only 20 workers in a plant to demand a revote to determine which union should represent them (Pérez Arce 1990, 110). More important, since the law could always be skirted, in 1972 Echeverría appointed an anti-*charro* labor secretary, Porfirio Muñoz Ledo, who began recognizing important unions outside the corporatist federation, such as the National Iron and Steelworkers that came to represent employees at the Spicer and Zapata Consortium factories (Pérez Arce 1990, 111).

The core of the labor insurgency was the Democratic Tendency of the electrical utility workers. After the government had nationalized American Foreign Power in 1960 (really a takeover via the U.S. stock market), its relatively democratic union – the corporatist bureaucracy often left multinationals to handle their own labor affairs – and the larger *charro* union in the state-owned Federal Electricity Commission were legally required to combine.<sup>52</sup> The vote was delayed and delayed because the more democratic union, led by Rafael Galván, did not want to be swallowed up, and the *charro* union, which was allowed to sign up more new workers, wanted to be sure it would have an overwhelming majority. As Echeverría entered office and turned up the democratic rhetoric, so did Galván, and now the corporatist conciliation and arbitration board decided it was time to hold union elections. The *charro* union, led by Francisco Pérez Rios, easily won, but Galván said the ballots had asked which union workers belonged to, not which they wanted to represent them, and so fought the vote all the way the Supreme Court, of course futilely. Believing as Lombardo had under Cárdenas that labor should ally with progressive, Revolutionary currents within the state, he petitioned to strike, hoping that the president would himself step in. But only after the conciliation and arbitration board declared the strike illegal, and the *charro* union had signed a contract with the electric utility to represent all workers, did Echeverría decide enter the fray. First he called a congress to decide the matter (even if it had legally been decided) but then worked out a pact creating the Unique Electrical Workers of Mexico, whereby Pérez Rios would have the highest post, general secretary, but Galván would be second-in-command.

It is important that only the president’s extra-legal, if not illegal, intervention – after Galván lost the vote, the Supreme Court confirmed the loss, and the proposed strike was defeated – kept Galván’s Democratic Tendency afloat. This was not a powerful grass-roots revolt from below, like the railworkers’ in 1958-59, but the powerful hand of Luis Echeverría, reaching down to manipulate action like some *deus ex machina*.

Emilio Carrillo Gamboa, director of Telmex, which faced the largest actual strike under the administration, also over union control rather than wages and also decided by Echeverría rather than by legal procedures, says the president and labor secretary

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<sup>52</sup> Except where noted to the contrary, this account is from Bizberg 1990, 304-25. It is essentially consistent with others such as Pérez Arce 1990, 109-113, Hellman 1983, 244-246; Middlebrook 1995, 222-225; and Carrillo Gamboa interview.

supported dissidents because they wanted “to get rid of” long-time corporatist union boss Fidel Velázquez: “They felt that the real leader of the labor movement in Mexico should be the secretary of labor.”<sup>53</sup> And since the labor secretary served at the will of the president, Echeverría would really be in control.

By 1973, facing rising inflation and presidential succession – the choice of official candidate, of course, not the election *per se* – the government began to start favoring the corporatist structure (Bizberg 1990, 314; Pérez Arce 1990, 112; Franco G. S. 1991, 114). All Echeverría had to do was abandon the Democratic Tendency, and, to make a long story short, the corporatist labor structure destroyed it in 1976 and cleaned up the rest of the so-called labor insurgency within a couple of years (Pérez Arce 1990, 113). While 3.0 percent of strike petitions had been recognized as legal under the conservative Díaz Ordaz, only 1.9 percent were under Echeverría (Middlebrook 1995, 166). There were no remotely powerful enough “populist” economic demands to cause an economic crisis.

Under López Portillo from 1976 through 1982, unions continued to be dependent on the state, as no one recognized better than Carlos Tello, the leftist secretary of state industries whose nationalist economic project sought their support. He wrote in 1981:

On the one hand, union leaders say they will put organized labor at the service of the developmental project of the state. . . . On the other hand, . . . the labor movement has wandered off course, suffered bureaucratization, lost the impetus it had under Cárdenas, grown more slowly, failed to advance in its organizational structure, become depoliticized and divided, generally succumbed to antidemocratic and repressive practices, and allowed workers’ real salaries to fall. . . . This double character, with its ups and downs and changes at the margin, has continued for a long time. (Cordera and Tello 1981a, 72)

Real earnings suffered declines under López Portillo ranging from 7 percent in manufacturing to 20 percent in the public sector (Buffie 1990, 434),<sup>54</sup> and after peaking in 1978 and 1979, federal jurisdiction strikes (those in major national industries) fell sharply (Bizberg 1984, 181), long before the crisis approached.<sup>55</sup> Under de la Madrid (1982-88), even as real minimum wages fell by half (Middlebrook 1995, 257), the percentage of legally recognized strikes continued to decline (Middlebrook 1991, 12). Mexican labor quiescence contrasted with protest in other large Latin American nations (Middlebrook 1995, 265). This is not the way that populist demands cause economic crises.

#### Political elites’ spending cycle

Electoral spending in developing nations, as governments try to buy support at the polls, is widely supposed to cause macroeconomic instability that can lead to crises.<sup>56</sup> Stephan Haggard and Robert R. Kaufman argue that even authoritarian regimes often see elections as referenda and use spending to “legitimate their rule” (1992a, 31); Korea shows evidence of such an electoral cycle (1992b, 290). Barry Ames concludes that politicians in Latin

<sup>53</sup> Hellman 1983, 242, and Schmidt 1991, 78, reach the same conclusion.

<sup>54</sup> Bizberg 1984, 168, likewise shows real declines throughout the López Portillo administration, in both manufacturing wages and minimum wages, except for a roughly 2 percent increase in 1981.

<sup>55</sup> Middlebrook 1995, 165, shows a sharp increase in strikes from 108 in 1981 to 675 in 1982. These would have responded to rather than causing at least the first crisis (uncontrolled devaluation), in January 1981. But Bizberg says the overwhelming majority were one-day strikes at local radio stations; otherwise strike activity fell in 1982 (1984, 180). He calculates that the number of person-days lost per 1000 workers peaked in 1980, fell to only 16 percent that level in 1981, then rose to 50 percent that level in 1982 (183).

<sup>56</sup> Haggard and Kaufman, 1989, 272; Nelson 1990a, 23; Nelson 1990b, 340; Heath 1999, 10-11.

America, like their counterparts elsewhere, used a significant portion of expenditure – building infrastructure, recruiting state workers, or providing welfare benefits – as “a weapon for survival” (1987, 1): “Because governments running for reelection sought to buy support” spending rose significantly during election years (1987, 27, footnote 12).<sup>57</sup>

This argument does not fit Mexico. From 1952, when Miguel Henríquez Guzmán ran a powerful opposition presidential campaign, until 1988, when Cuauhtémoc Cárdenas again seriously challenged the ruling party, there was no meaningful electoral competition. Opposition parties never got more than 15 percent of the official vote (Aguayo 2000, 242). And as González Casanova (1970, 124) noted in *Democracy in Mexico* (democracy was for him a hope, not a contemporary fact), “Civil life has not reached the level at which authorities become compelled in their own interest to register carefully the votes of the opposition – that is, the level at which not doing so would provoke serious conflicts.” Even in 1988, when the official count showed the ruling party getting a bare 50 percent of the votes cast (Aguayo 2000, 242), the PRI was not concerned that things would go badly until election night itself.<sup>58</sup>

Ames suggests that there might have been an electoral spending cycle in Mexico anyway because the margin of victory mattered to “a host of lower-level politicians on their way up” (1987, 33). But no Mexico scholar believes that lower-down politicians controlled a significant portion of public spending. Why should the president, constitutionally prohibited from reelection, hazard massive expenditures on lower-down politicians? (A little for some favorites would hardly matter.) As for cabinet secretaries who played an important role in approving expenditures, they always rose through the central administration, never through elected posts. What would they care about armies of politicians running not only for electoral posts but lower-level ones?

Political succession was never decided in elections; the transfer of power was never in play then. The contest for the party’s nomination was the real one, no matter what the office. A precandidate had to demonstrate support not because the party feared it might lose the election but because it wanted him to prove he could maintain political order. Braulio Maldonado, a governor of Baja California who may have written the only inside account of the political system prior to the 1990s (and was duly ostracized), describes the candidate who secures the president’s endorsement:

[T]he contender has . . . given the shirt off his back, he has made countless promises, often at the price of his own dignity. He has been mercilessly exploited by hundreds of politicians, labor bosses, peasant leaders, and by mercenary journalists. . . . He has already made arrangements for the disbursement of the public budget, or even for his own salary, for the period of his incumbency. [But once he has secured presidential approval] the process is exceedingly easy, and battle is won, victory having been secured in governmental anterooms. Now the labor unions, the peasant organizations, the popular sector and the party declare him to be the Official Candidate. (cited in Smith 1979, 274-75)

Much as with this gubernatorial hopeful, cabinet secretaries vying in the big race, the presidential nomination, sought to demonstrate widespread support among political currents – high officials, governors and state delegations, labor – to show that they could maintain national political order.

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<sup>57</sup> Because of the way it is done, Ames’ regression does not determine a percentage by which spending rose. Remmer 1993 finds little evidence of an electoral cycle in Latin America from 1982 through 1991. The reason is that this was the disastrous decade following the 1982 crises: “By the time elections approached, Latin governments in the 1980s were often less than master than the victim of the economy” (405). Her data is not relevant to Mexico from 1970 through 1982, when there were plentiful resources.

<sup>58</sup> See chapter 8.

Electoral-year spending did occur in the 1950s (Table 3-1), but it never caused an economic crisis. As Henríquez Guzmán mounted the last serious opposition presidential campaign before the political system was fully consolidated in 1952, real government spending soared – 12 percent in 1951, then 32 percent more in the election year 1952, years when annual GDP growth averaged 6 percent.<sup>59</sup> The powerful strikes by rail and oil workers, teachers, and other public-sector unions that exploded during the 1958 election year were quelled with wage increases as well as repression. Most of those wage increases were borne by state-owned enterprises such as the railroads and Pemex, whose accounts for those years are not available in federal budgets, but teachers are on the federal budget, and other spending might have been an expedient to quell unrest. Having inched up only 1 percent in 1957, real government expenditure swelled 14 percent in the election year 1958. The political system was quite capable of wielding spending to keep peace at the polls if need be. However, spending was tightened after these two crises, falling 15 percent in 1953 after the election and 5 percent in 1959 after most strikes were quelled. Overall government deficits remained small, around 1 percent of GDP.

After 1960 public spending surges became increasingly concentrated in the pre-election year. A regression designed to capture how the political cycle affected public spending – as distinct from economic factors such as GDP (increases provide resources to spend) or foreign reserves (increases indicate that external resources are available) – shows that from 1961 through 1988, spending typically rose 11 percent in each administration's fifth year, when the pre-electoral contest over the nomination occurred, and fell 12 percent in the sixth year when elections took place. These figures are significant at better than the 99 percent confidence level (Appendix 1).

The data before 1965 are poor: federal *government* spending rose fastest in the election year 1964 and the post-election year 1965 (Table 3-1), but state-owned firms, comprising about half of total public-sector expenditures, were not incorporated in the budget, and Finance Ministry sources unanimously say that political spending was concentrated precisely in them (Ortiz Mena, Urquidi, and Izquierdo). The only figures (though approximate) on total *public-sector* spending, reconstructed by a Bank of Mexico-Finance Ministry working group, show the biggest increase of 16 percent in the pre-electoral year of 1963, then a slightly lesser increase of 14 percent in the election year of 1964 (Table 3-2). They show the largest deficit in 1964, but deficits including interest payments (as this data does) typically lag spending increases on actual programs.

Whatever the correct statistics are, it is clear that presidential hopefuls used public spending to build support for their candidacies. Donato Miranda Fonseca was secretary of Presidency, a ministry distinct from the president's actual office that allocated public-sector investment. According to Finance Secretary Antonio Ortiz Mena, Miranda Fonseca let the ministries of Public Works and of Communications and Transport undertake large investment programs, hoping to gain their support for his candidacy. But the most flagrant case was Benito Coquet, director of Social Security, the principal welfare program for workers.<sup>60</sup> A long-time ally of President López Mateos – indeed his former boss in the

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<sup>59</sup> Data excludes debt service. Excluding debt service highlights the current political uses of spending; moreover, the fiscal data net of debt service is more accurate (see table).

<sup>60</sup> The account of these events is taken from Ortiz Mena, Izquierdo, Urquidi (Finance), Romero Kolbeck (Bank of Mexico), and Moctezuma (Presidency). Some facts are taken from some interviews, others from others, but all stories are consistent.

**Table 3-2 Public sector spending growth and budget deficits, 1960-70**

	Real spending growth	GDP growth	Surplus or deficit (percent of GDP)	
			Federal government plus state enterprises	Public sector*
Lopez Mateos				
1960			-2.6	-2.9
1961	1.0	4.9	-2.3	-2.5
1962	7.3	4.6	-2.1	-2.7
1963	15.9	8.0	-2.9	-3.7
1964	14.3	11.7	-3.9	-4.8
Diaz Ordaz				
1965	3.7	6.5	-0.9	-0.9
1966	4.2	6.9	-1.2	-1.2
1967	12.8	6.3	-2.1	-2.4
1968	6.3	8.1	-1.6	-2.2
1969	8.0	6.3	-1.5	-2.2
1970	9.3	6.9	-2.1	-3.8

\*Public sector includes the federal government, state enterprises, Mexico City, other off-budget items, and the net deficit of state banks.

All spending figures include interest payments. Data gives revenue received and spending paid out during the course of the year (*gasto pagado*) as opposed to the amounts in final budgets (*gasto ejercido*), which may not actually be received or paid during the budget year.

Data is the same as in Table 2-4. As mentioned there, the data from 1960-64, reconstructed by a Finance Ministry-Bank of Mexico working group, should be treated with caution.

Education Ministry in the early 1940s – Coquet sought to build support for his presidential candidacy by taking out massive “floating” loans (contracted with foreign banks but not formalized on the books or even known to Finance) to speed construction of a national network of medical centers, housing complexes, movie theatres, and other projects. They came to light shortly after Victor Urquidi, the finance minister’s economic advisor, had painted a rosy picture to Washington financial circles, including the Treasury, IMF, and World Bank, of Mexico’s modest foreign borrowing requirements for the coming year, and embarrassed him for having appeared deceptive or incompetent (Urquidi). The Social Security budget, after averaging 225 million pesos annually from 1959 through 1962, soared to 892 million in 1963 and then 2,176 million in 1964 (Izquierdo 1995, 131), a \$200 million-dollar increase for the two years, or nearly a fifth of Mexico’s *total* accumulated foreign debt.<sup>61</sup> In 1965 authorized foreign borrowing jumped from \$92 million to \$360 million, as the “floating” loans were, perforce, put on the books (Ortiz Mena 1998, 145). This borrowing and spending was a principal factor posing a threat of economic crisis in 1965, according to Finance sources.

In this case, Social Security spending appears to have followed an electoral as well as a pre-electoral cycle, quadrupling in 1963 but then more than doubling again in 1964. The timing cannot be completely wrong: even if Coquet was trying to build support for his candidacy, medical centers and other construction could not be stopped dead just because he lost. But investment spending could also be registered on government books a year or more *after* actual construction (Moctezuma). Of course, contractors always receive lump-sum payments after corresponding portions of the work are completed, but peculiarities of the Mexican system could delay putting payments on the books much longer. For example, President Díaz Ordaz once asked Julio Rodolfo Moctezuma, then director of public investments, how much some recently built schools had cost. Moctezuma found that there was a *fideicomiso* for the schools (often confusingly translated as “trust fund”), an *ad hoc* construction fund backed by a public bank. As construction proceeded, the *fideicomiso* paid the contractors, but the Education Ministry, still lacking funds for the schools, paid nothing. Eventually the ministry would reimburse the *fideicomiso*, with interest, but it had not yet done so when Díaz Ordaz asked Moctezuma how much the schools had cost the government. Thus his answer was: so far, nothing.

The fact that some significant portion of physical investment, though just what proportion cannot be determined, was made substantially earlier than indicated by fiscal data reinforces evidence for a pre-electoral cycle. It means that some spending registered in the election year actually paid for investments made earlier; the spending with political impact during the election year was less than indicated. Some spending in the pre-electoral year likewise paid for investment made earlier. The nomination contest simply started somewhat before the data suggests, in an administration’s fourth or even third year.<sup>62</sup>

For the next two decades the pre-electoral cycle is clear and powerful (Table 3-3).<sup>63</sup> Under Díaz Ordaz, when economic growth averaged 7 percent a year, public spending

<sup>61</sup> I translated just the *increase* in Social Security spending to dollars at the exchange rate of 12.5, then divided by accumulated foreign debt in 1962 from Ortiz Mena 1998, 148.

<sup>62</sup> Ortiz Mena mentioned that Díaz Ordaz (who of course ultimately became president) was already concerned about rivalries for the candidacy in the third year of the administration.

<sup>63</sup> Except as noted, data excludes interest, but total spending is also provided in Table 3-3. In some sense public spending net of interest gauges the real political *effect*, while spending with interest measures the political *effort* to spend. In any case, the same pre-electoral spending pattern emerges if interest is included.

**Table 3-3 Public-sector spending growth and budget deficits, 1966-1988**

	Real spending growth		GDP growth	Surplus or deficit (percent GDP)	
	Total Spending	Spending excluding debt service		Total surplus or deficit	Surplus or deficit excluding debt service
1966	4	3	6.9	-1.4	-0.3
1967	9	9	6.3	-1.9	-0.7
1968	7	7	8.1	-1.5	-0.2
1969	13	13	6.3	-2.1	-0.7
1970	3	1	6.9	-1.4	0.2
1971	6	7	3.8	-2.0	-0.5
1972	21	21	8.2	-3.5	-1.8
1973	23	25	8.5	-5.2	-3.5
1974	11	10	5.1	-5.2	-3.3
1975	26	27	5.7	-8.5	-6.5
1976	2	0	4.4	-6.8	-4.2
1977	0	-2	3.4	-4.6	-1.8
1978	12	12	9.0	-4.5	-1.6
1979	17	17	9.7	-5.0	-2.0
1980	21	21	9.2	-5.6	-2.4
1981	26	22	8.8	-12.0	-7.2
1982	18	-8	-0.6	-14.7	-0.6
1983	-16	-17	-4.2	-7.4	6.1
1984	-4	1	3.6	-5.8	5.9
1985	-3	-7	2.6	-6.8	5.4
1986	0	-13	-3.8	-12.3	5.0
1987	10	-1	1.9	-13.4	7.4
1988	-13	-9	1.2	-9.9	8.4

Both the federal government and state enterprises are included in all figures; Mexico City and some other items not on the federal budget and not available in consolidated figures are not included.

All figures are net of amortization, the correct method (see Appendix 2).

Revenue is from Salinas 1992 (*Cuarto Informe de Gobierno*), 161 ("Ingresos presupuestales del sector público federal").

Spending is from Salinas 1992, 168 ("Gasto neto devengado del sector publico presupuestario").

GDP in current and 1980 pesos is from Cardenas 1996, 214-15, Table A.4.

(excluding interest) rose 7 percent in 1968, 13 percent in the pre-election year 1969, and only 1 percent in the election year 1970. The largest deficit, though small, at 0.7 percent of GDP excluding interest (2.1 percent of GDP including it), was also in the pre-election year, 1969. Under Echeverría, when growth averaged 6 percent a year, public spending rose 10 percent in 1974, 27 percent in the pre-election year 1975, and none at all in the election year 1976. Again the largest deficit, now serious at 6.5 percent of GDP excluding interest (8.5 percent of GDP including it), was in the pre-election year, 1975.

López Portillo pushed growth to 8 percent a year before the crisis hit, but public spending rose far faster, topping out at a 22 percent increase in the pre-electoral year 1981; the deficit excluding interest payments was also by far worst that year, at 7.2 percent of GDP (the next worst, in 1980, was only 2.4 percent of GDP). Although de la Madrid, then in charge of monitoring expenditure as planning and budget secretary, was known as a fiscal conservative, he did not enforce cuts agreed to early in 1981.<sup>64</sup> On the contrary, José Ramón López Portillo, son of president López Portillo and himself an official in Planning and Budget under de la Madrid, concludes that his former boss “proved to be flexible enough to . . . disguise his own economic position in order not to endanger his political future” (López Portillo Romano 1994, 147). As late as August, still relying on data from April – before world oil prices dipped, and before conflict over presidential succession caused Mexico to irrationally raise its price and drive half its customers away – Planning and Budget’s statistical director, one Carlos Salinas, estimated a deficit of 470 billion pesos. Only 45 days later, after de la Madrid’s nomination, his estimate rose by two-thirds (López Portillo Romano 1994, 168). Had de la Madrid slashed spending before the nomination, he would surely have undermined his support (Oteyza, Sáez Mier, López Portillo Romano 1994, 169; Castañeda 1999, 397-98). Budget cuts began immediately after the nomination, and in January, six months before the election, the peso was devalued. Public spending other than on interest actually fell 8 percent during the election year 1982, and the deficit excluding interest was a mere 0.6 percent of GDP. But because of enormous interest payments on debt contracted earlier and the economic crisis, the total deficit rose to 14.7 percent of GDP.

Though the next administration was mired in recession, economic manipulation followed the usual pattern. Real public spending (still excluding interest payments) plunged 13 percent in 1986; practically held its own, falling only 1 percent, in the pre-electoral year 1987; then sank 9 percent in the electoral year 1988. Some caution about this expenditure is in order. Though the worst total deficit was in 1987 (13 percent of GDP), the budget excluding the burden of interest payments was in substantial surplus (7 percent of GDP). Still, spending was concentrated in politically strategic areas. For example, public-bank lending soared from 22 percent of GDP in 1985 to 33 percent of GDP in 1987 (Table 7-1) – an increase conveniently not reflected in fiscal accounts. Moreover, the securities market posted a record run-up of over 500 percent in real terms from January through September (Basáñez 1996, 254), a financial adventure in which not only wealthy but middle-class Mexicans widely shared.<sup>65</sup> As economic czar since eliminating his chief rival in 1986, Carlos Salinas helped inflate that run-up – and along with it expectations about his ability as economic manager if nominated as the official presidential candidate – according disparate sources including Finance Secretary Jesús Silva Herzog and State

<sup>64</sup> Chapter 7 details the account that follows.

<sup>65</sup> Chapter 8 details these events.



Industries Secretary Francisco Labastida (also the party's presidential candidate in 2000). Beginning October 6, two days after Salinas won the presidential nomination and a week before the 1987 U.S. market crash, the Mexican market began to fall sharply, ultimately sinking further than any other in the world (Basave 1996, 154).

Many candidates for presidential nomination not only used spending, but hid it; the data itself, hard enough to analyze in a developing country before the advent of computers, became politicized. For example, in 1973 President Echeverría made his boyhood friend López Portillo finance minister. Sensing what this promotion meant, López Portillo boldly remarked in his first conversations with Bank of Mexico Director Ernesto Fernández Hurtado, "You understand that I am on a direct road to the presidency of the republic." Before long López Portillo's extravagant spending habits, helping him along that road, clashed with the Bank of Mexico's customary fiscal conservatism. Sergio Ghigliazza, then a third-ranking bank official, recalls that he became the primary liaison with Finance because higher-ups stopped even talking to each other. In one meeting López Portillo pronounced a figure for the public-sector deficit that Ghigliazza knew to be half the size of the real deficit because all government revenue was deposited in Bank of Mexico accounts and spending was withdrawn from them. Ghigliazza kept raising his hand to make this point, but the finance secretary refused to call on him, so he finally stood up and blurted it out. López Portillo banged his fist on the table and ended the meeting. Thus was the Finance Ministry's figure for the deficit determined.

Not only presidential hopefuls but the president himself had motives to inflate the economy as the nomination approached. The better it appeared to be doing when he designated his preferred successor, the less opportunity any potential opposition had to organize. This was a consideration of utmost gravity. Serious threats to the political system never came from below; they always arose when a disgruntled faction of the political elite rebelled, mobilized societal sectors, and waged an opposition campaign, as Henríquez Guzmán did in 1952 and Cárdenas did in 1988 (Hernandez Rodriguez 1992, 262; Langston, 1997b, 3).<sup>66</sup> Salinas, who in addition to being president of Mexico had grown up inside politics, says that the president's greatest responsibility during succession was "to keep confrontation between different *grupos* and currents from tearing the ruling party apart" (Castañeda 1999, 317). An inflated economy discouraged factions from splitting off – they would have had a harder time mobilizing support – and gave the president latitude to designate his preferred successor. Gustavo Carvajal, a former president of the PRI whose father was interior secretary, observes:

The moment of greatest spending was an administration's fourth and fifth years [not the sixth year when elections were held]. That was its strongest moment, when it consolidated projects; the whole government structure was involved in public works – ports, dams, irrigation. Investment strengthens the party; there is plenty of work to go around; the private sector has good profits. As a result, the nation is generally free of conflicts when the presidential candidate is named.

As soon as the presidential successor was "revealed," the traditional *cargada*, or cavalry charge, of party officials, labor bosses, peasant leaders, and anyone else who mattered – but particularly the losing candidates themselves – was obliged to congratulate the winner. At this point a political schism and opposition campaign became hopeless; everyone important had endorsed the winner, and anyone who broke off would look like a spoiler. Cárdenas and Henríquez Guzmán both split off well before the nomination – and

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<sup>66</sup> Chapters 5 and 8 detail these elite rebellions.

in conditions when important economic sectors had been hurt. It was the period before the nomination when economic troubles must not surface.

The economic logic of presidential succession is grim. Hopeful candidates, always high officials, had incentives to build support by spending and hiding that spending. Their *grupos* had the same incentives, only more so: the candidate himself had already achieved the pinnacle of any normal Mexican political career as cabinet secretary, but his followers' still incomplete careers depended on his advancement. Thus, their "low blows" (*golpes bajos*) attacking rivals notoriously occurred even when the candidate himself did not seek them. The president, ultimately in charge of spending, could not trust officials whose data he depended on. Anyway, he had good motives to spend or allow them to spend, if only to make them all think they were real presidential possibilities so they would not split off, launch an opposition campaign, and cause a political crisis. The puzzle is not that economic crises occurred – actors' self-interest tended toward producing them – but rather that the Mexican political system averted crises repeatedly during the 1950s and 1960s. The next two chapters take up the question of why it succeeded so well.

## Chapter 4

### The Crises That Didn't Happen

One problem with theories about socioeconomic pressures causing Mexico's crises is that they do not really have any way to explain economic stability, except as a somehow natural state that would obtain, barring specific problems.<sup>67</sup> The very terms themselves – the exhaustion of import substitution, fiscal crisis of the state, or macroeconomics of populism – focus on the problems, as if stability could be expected in their absence. But stability is not such a natural state; if anything, crises are the natural state of developing countries.<sup>68</sup> They may happen differently under democracies and military dictatorships, under statist or free-market regimes, but they repeatedly happen. As mentioned, even the Bretton Woods system of fixed exchange rates did not save developing nations from repeated crises in the 1950s and 1960s, and Mexico was unusually vulnerable since the peso was freely convertible to the dollar even when most European currencies, let alone developing nations' currencies, were not. The Mexican state's ability to control and dissipate pressures that could have erupted in crises is the biggest puzzle. Its crises of the 1970s and 1980s are not so hard to explain; its earlier stability is.

As well, understanding the political causes of Mexico's subsequent crises depends on understanding its macroeconomic success in the 1950s and 1960s. Crises can arise from any number of problems: external economic shocks that deplete hard-currency reserves, financial contagion from other nations, internal political shocks that provoke capital flight, politicians' efforts to inflate growth, confusion about how economies works. Any account that tries to trace a series of crises to one underlying cause is vulnerable to the criticism that the circumstances leading to each crisis differed. However, it is much less likely that a series of lucky accidents could have allowed a state to maintain economic stability in the face of various threats. If some constellation of political characteristics helped dissipate various threats that could have erupted in crises, then it must have been a key requisite of economic stability. If after it eroded, the nation succumbed to a series of different types of crises, then its loss is an important underlying causes of those crises, whatever conjunctural factors may have entered as well.

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<sup>67</sup> Arguments such as Haggard and Kaufman's that political systems that structure state-society relations in particular ways do better at resisting distributive (or populist) pressures – for example, that political systems do better if parties are based on multi-class coalitions rather than if they are based on sharp class divisions – do propose an explanation for economic stability. But they do not apply in the case of Mexico, since state-society relations did not significantly change circa 1970.

<sup>68</sup> Developed nations, too, suffer crises, but since the 1930s (when what we now call developed nations were considerably less developed), they have done so less often and have been less damaged. The 1992 crises of several European currencies did not particularly weaken growth, certainly not remotely to the extent that the crises beginning in 1982 harmed many poor nations. Britain did rather well after George Soros broke the British pound. One difference is that developed nations tend not to borrow so heavily; developing nations borrow precisely to develop, as the United States did in the late nineteenth century. When developed nations do borrow – as the United States has massively in recent decades – it is often by issuing bonds in their own currency. The British financial system did not collapse after the pound fell because it operated in pounds, not in dollars or instruments that had to be repaid in dollars. Another difference is developed nations' greater political stability, precisely elite cooperation in the sense that important political players expect to endure, whether they win or lose a particular election, rather fearing that they may be banished forever by some strong man's demagoguery or general's coup.

Since formal institutions in Mexico were often one thing, while power was really exercised in quite another way, it is not obvious who had authority over macroeconomic policy. There are two basic views as to who had that authority before 1970:

- Finance Ministry independence. A fiscally conservative Finance Ministry controlled the economy and was independent from some separate political realm, in particular from the contest over presidential succession. This theory comes in two distinct variants: one that Finance owed its independence to long-standing elite traditions and norms; the other that Finance maintained its independence from the rest of the political system via an alliance with the banking and financial sector. Both variants, instances of the general idea about state autonomy, seem possible: a Finance Ministry independent from the contest over political succession and staffed by well-educated, well-paid officials who enjoyed secure careers might well have had the capacity and incentive to maintain economic stability.
- Presidential authority. A powerful president with authority to determine policy – and orchestrate coherent state action to enforce that policy – defended the political system's long-term interests, high among them economic stability. This view seems plausible, too: a sufficiently powerful executive might also have the capacity and incentive to avert crises. As Mancur Olson argues, "A secure autocrat has an encompassing interest in his domain that leads him to provide a peaceful order and other public goods" (1993, 567).<sup>69</sup>

#### A banking alliance?

Many former officials as well as scholars see Finance Ministry independence as the basis of economic policymaking in the 1950s and 1960s. The consensus among scholars is that Interior, Labor, other political ministries, and the subordinate corporatist apparatus was in charge of maintaining political order, coopting groups that caused problems and if necessary repressing them, and that the interior minister's primacy in this political arena normally allowed him to become the next president (Centeno 1994, 77-78). In a separate arena, the *técnicos* in Finance and the Bank of Mexico managed the economy, says Miguel Ángel Centeno: "For all intents and purposes [the finance minister] had absolute control over the budget and general economic policy of the government. . . . [Finance] could even resist presidential efforts to curtail its autonomy" (1994, 78-79). The Mexican political scientist Miguel Basáñez goes to far as to say that "politicians were in charge of political problems; *técnicos* were in charge of economic and financial problems; and specialists [such as in the ministries of Education or Public Works] were in charge of general government services" (Basáñez 1996, 66).

Schematic as the idea seems – when have those in charge of political problems stayed away from the public purse, and when have investments in schools or infrastructure been managed by mere specialists? – it does have support among some former Mexican officials. José Andrés de Oteyza, the leftist minister of State Industries under López Portillo, concurs that political and economic management were separate before 1970:

The PRI never was a political party in the strict sense of the word; it was a political system that brought together distinct political forces and harmonized solutions among them. Under the umbrella of the PRI were currents of the center, center right, center left – not extremes, never fascists or communists, but a broad political compass – and that pluralism and its representation in the

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<sup>69</sup> Olson states his claim almost as a political theorem, with the caveat that the autocrat's mortality and the difficulty of managing political succession could undermine the economic order. I am only proposing the idea a political possibility: in the right circumstances, things might work as Olson suggests.

government allowed a *sui generis* form of democracy. I accept *sui generis*, but in the end it was democratic, plural, representative. It was why the system lasted for so many decades, for even though some express the opposite opinion, it never was a particularly authoritarian or repressive regime.

In a country where neither the legislative nor the judicial branches had much weight at all, the real equilibrium of forces was determined at the heart of the executive power, in the president's cabinet. Within it were secretaries or ministers who represented different interests. To caricature the situation, the agriculture minister represented modern, mechanized agriculture, while the agrarian reform minister represented the poorest peasants. The industry minister obviously advocated for his industrial concerns, while there were representatives of intellectuals, academics, progressives. And the president managed this whole political contest, reserving the last word for himself.

For decades this contest was basically political, not spilling into economic management. That was delegated to the treasury secretary, the secretary of finances, who had enormous force but really, really, never played a role in presidential succession. It was only the *políticos políticos* who really could reach the presidency. There was an unwritten rule that to truly be a presidential candidate you had to have a certain electoral experience. All the presidents of that era had it – Cárdenas, Alemán, Ruiz Cortines, López Mateos, Díaz Ordaz – they had been governors, senators, deputies. The real competition for the presidential candidacy took place among those political ministers such as interior or labor. Finance had enormous economic power – uncontested economic power – but precisely the contest for the presidency took place among the key political figures.

Manuel Suárez Mier, a former high Bank of Mexico official at the other end of the Mexican political spectrum from Oteyza, concurs that an unpoliticized Finance Ministry before 1970 was critical to economic stability:

There was a firewall between financial and political management. Political leaders trusted financial managers and left them fairly free; the *quid pro quo* was that they didn't have a political future. It was perceived that for economic success, you couldn't mingle the checkbook with political power.

This separation derived from the administration of Porfirio Díaz [before the Mexican Revolution]. His so-called *científicos* had a great deal of status and income, but no access to political power. After the Revolution, Adolfo de la Huerta was the last finance minister who aspired to be president. [His 1923 revolt was brutally quashed.] Look at President Lázaro Cárdenas – he was very leftist but throughout his administration maintained a conservative finance minister.

Both factors seen as giving Finance independence from the political arena – economic leverage derived from the ministry's alliance with a powerful, fiscally conservative domestic banking sector, and simply the force of elite traditions and norms – could of course have contributed to the same end. The argument about economic leverage is particularly intriguing because it seeks to explain not only the Finance Ministry's independence before 1970 but its loss of independence afterward. The idea is that politicians need financing to cover budget deficits, so as long as foreign loans were relatively scarce in the 1950s and 1960s, either they had to borrow from the domestic banking sector, or they had to rely on Finance's connections with the World Bank, IMF, and other international agencies to secure funds. Thus, Finance had substantial leverage vis-à-vis the political arena. However, after the first oil shock, when First World banks courted Latin American borrowers to lend out the multi-billion-dollar deposits they received from OPEC, Mexican politicians could ignore Finance (Maxfield 1990, Centeno 1994, 83).<sup>70</sup> As Mexico's own oil exports boomed – new oil fields that made the nation a net exporter came on line in the mid-1970s – the *políticos* could really sideline Finance.

It is true that Finance maintained close ties with private banking. Antonio Ortiz Mena, finance minister from 1958 through 1970, writes:

Right from the start of the López Mateos administration [in 1958] I organized frequent meetings with the principal businessmen to explain economic policies. . . . I maintained permanent contact both with

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<sup>70</sup> The argument about the source of Finance-Banking strength comes from Maxfield, but she uses it to explain the state's ability to promote investment, not its ability to sustain economic stability.

individuals and with organized groups. My relationship with the Bankers Association of Mexico and the Mexican Association of Insurance Companies was most significant, as they had great economic importance of their own and exercised influence over other business groups as well. (1998, 83-84).

This close relationship between Finance and private bankers preceded the Revolution, and during the 1920s, Agustín Legorreta, Sr., owner of one of the largest banks, the Banco Nacional de México (now Banamex), cemented an enduring relationship between Finance and his family by helping to settle foreign debts and secure new loans (Maxfield 1990, 41).

Logical as the theory sounds, it runs into problem after problem. If it were right, Finance should have been weak from the 1930s through the early 1950s. Its expertise was not needed to secure foreign loans because none could be had: Mexico was in default. As a result, argues Sylvia Maxfield, a principal proponent of the theory, during this period “Mexico followed a policy of loose money and high deficit spending” (1990, 76). Though Eduardo Suárez, finance minister from 1934 through 1946, considered himself Keynesian (Maxfield 1990, 78), this widely held view about his macroeconomic policies is incorrect (Cárdenas 1993, 675): both fiscal and monetary policy was conservative.<sup>71</sup> From 1934, when President Cárdenas took office and appointed Suárez, through 1954, when Maxfield says the “inflationary system of deficit financing” (1990, 76) came to an end, government budget deficits never exceeded 1.6 percent of GDP and were often balanced by surpluses; they averaged a mere 0.3 percent of GDP (Cárdenas 1994, table A.25).

Could fiscal deficits have been small precisely because, in the absence of foreign lending, powerful Mexican banking interests would not lend to the government either? Until 1936 the Bank of Mexico, which had the authority to create money, was a quasi-private institution with real independence, but in 1938 Suárez achieved its submission to the administration (Cárdenas 1993, 680). Until the mid-1990s, the government had the legal and practical authority to overdraw its accounts in the Bank of Mexico as it saw fit, that is, to write checks no matter how much they exceeded its deposits (Ghigliazza). The Bank of Mexico found out about the checks when they were presented for payment, and at the end of the year overdrafts were converted into government bonds. In short, the government could print money.<sup>72</sup>

Maxfield goes on to argue that the Finance-banking alliance gained strength in the 1950s when Mexico regained access to foreign loans: “[Finance] was finally able to impose its preference for tight monetary policy, with the assistance of foreign allies: international creditors” (Maxfield 1990 16, see also 83 ff.). The problem here is that Finance expertise was not needed to get foreign credit: the whole debacle of the “floating” loans that provoked inflation and might have led to crisis in 1964 occurred precisely because Social Security and other state enterprises managed to go on a foreign borrowing spree without even letting Finance know.

Finally, idea that loans from American banks recycling petrodollars allowed Echeverría to circumvent Finance and spend massively after 1970 is not quite right, regarding either the timing or precise mechanisms. The Echeverría administration went on its first spending spree in late 1971, before the energy shock, hence before banks could possibly have been recycling petrodollars. And even after banks were pushing loans, 75 to

<sup>71</sup> Cárdenas argues that private banks, the public, and external shocks, rather than the state, contributed to sometimes expansionary monetary growth.

<sup>72</sup> Likewise Romero Kolbeck says the Bank of Mexico always had to honor government overdrafts. Córdoba 1994, 253, notes that the Bank of Mexico only achieved “full autonomy” via a constitutional amendment passed in April 1993, though just how complete even that autonomy was has been debated.

85 percent of the expansion of the monetary base that contributed to inflation consisted of printing money domestically (Cárdenas 1996, Table III.3, 99). What changed was that the long-standing political possibility to run large deficits was now being abused.

#### Elite norms of Finance independence?

Finance independence could instead have depended on elite norms respecting an economic arena distinct from the political. Some evidence suggests that this might have been the case. For one thing, high economic officials of the era did consider themselves *técnicos*, as opposed to *políticos*: Ortiz Mena speaks of his predecessor, Antonio Carrillo Flores, as “a *técnico*, not a *político*.” Carrillo Flores comments in his private diary on a dinner with the Federation of Bureaucrats (March 16, 1954): “I am convinced that it is difficult to understand ‘the *políticos*’ [his quotation marks]. The devil himself wouldn’t tempt me to that side.”<sup>73</sup> President López Portillo, an economic official outside of Finance in the 1960s, as well as subsequent finance minister, says that Finance was seen as “owner of all the intimate secrets of an exclusive area, which no one, not even the Presidents, dared enter” (cited by Centeno 1994, 80). In the 1920s and early 1930s, when Plutarco Elías Calles, first as president and then *jefe máximo* behind the scenes, forged a collection of warring generals into the ruling party, he deferred to this tradition. Finance Secretary Alberto J. Pani brought in financial experts from the pre-revolutionary administration, and Miguel S. Macedo, who wrote the legal framework for banking, was a protégé of the pre-revolutionary finance minister (Maxfield 1990, 39-40). Cárdenas, who decisively ended Calles’ *de facto* reign, made Finance Secretary Suárez arbiter in distributing public funds, and Suárez’s successors continued to play this role (Camp 1993, 134).

A well-educated, well-paid, secure staff doubtless strengthened Finance. Mario Ramón Beteta, finance secretary under Echeverría, says, “Officials in Finance and the Bank of Mexico knew their business. If in any part of the government there was a true public-sector career, it was there. We rose rung by rung – there were no subsecretaries just 30 years old – and we gained respect for knowing about economic matters.” Rodrigo Gómez, director of the Bank of Mexico from 1952 through 1970, would hire promising graduates and send them abroad to study further. On their return, he would place them in low-level jobs for a few years so they could learn how Mexico worked (as distinct from how economic theory worked); they were paid generously and had good prospects for advancement in the bank or Finance Ministry (Beteta). These financial areas of government moreover were considered clean. In *Distant Neighbors*, Alan Riding regales readers on a chapter full of corruption stories but parenthetically notes that in “the Foreign Ministry, the Bank of Mexico, and parts of the Finance Ministry, officials enjoy a solid reputation for honesty and professionalism” (1989, 121). Luis Jiménez Cacho, a steel-industry entrepreneur, says that under President Miguel Alemán, whose administration from 1946 through 1952 was regarded as corrupt, if one got a public-sector loan, one was expected to hand over a known percentage of it in the form of a briefcase of hundred-dollar bills. But the briefcase did not go to the Bank of Mexico officials who competently assessed alternative projects and decided on loans. It went to three “buddies” of the president, who presumably distributed the contents through the political machine.

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<sup>73</sup> The diary for 1954, minus some personal references, was provided by his son, Carrillo Gamboa.

If Finance independence depended on elite norms, first, it had to be cordoned off from some separate political arena, especially from the contest for the presidency. Was it really? Ortiz Mena denies that he was a presidential candidate. At the beginning of López Mateos' term in 1958, he handed the president a letter renouncing presidential ambitions in exchange for full confidence in his economic management, and as the 1963 nomination contest approached, he assured then Interior Secretary Díaz Ordaz that he was not a rival (Ortiz Mena).<sup>74</sup> But Ortiz Mena's two top advisors, Victor Urquidi and Rafael Izquierdo, insist that he was a candidate, despite the famous letter.<sup>75</sup> They say, for example, that his 1962 Plan of Action, presented as Mexico's response to President John F. Kennedy's Alliance for Progress, was in effect a campaign platform. Julio Rodolfo Moctezuma, director of public investments under Díaz Ordaz and subsequent finance secretary, sees the letter as evidence that Ortiz Mena was not a candidate, but then adds: "You never could tell for sure. Ortiz Mena was such a clever politician, denying interest in the presidency could just have been a way of angling for it." Carrillo Flores records an intriguing discussion about his own possibilities for the presidency in his diary (23 February 1954). "What an awful burden Finance can be!" he muttered to President Ruiz Cortines. The president replied, "And you think this is such a lovely chair? I wouldn't recommend being a candidate for it." Replied Carrillo Flores, "I'd rather be dead." The president's reaction: "Oh, don't take every word I say so seriously. You know how I talk with you."

Whether Ortiz Mena was really a presidential contender is unanswerable (Carrillo Flores is not considered to have been). No doubt each source, Ortiz Mena included, recalls the situation as he sees it, but there never was nor could be a definitive list of presidential precandidates. Whatever the president was actually thinking, he had to persuade everyone that there were several powerful contenders so as to keep them and their *grupos* playing within the system, not splitting off to challenge it from the outside. Names of supposed precandidates, realistic or far-fetched, were leaked to the press or whispered among the political elite. The president sent supposed candidates to talk with the private sector or carry messages to former presidents as hints that they were in the game. Like Alfonso Coronal del Rosal, head of the Federal District under Díaz Ordaz, they would deny that they were candidates even though everybody else thought – and acted – as if they were. Then the president picked one. If the president had tricked a few into thinking they were real candidates when they were in fact just "filling," he would take the secret to his grave because, having been forced to deceive close collaborators, he had no other choice.

As far as the political system went, a widespread *impression* that someone was a candidate was equivalent to being a candidate, and too many people saw Ortiz Mena as at least an outside possibility for Finance to have had true institutional independence. If he assured Díaz Ordaz he was not a rival, it was only because Díaz Ordaz *thought* he was a rival, and Díaz Ordaz was no political innocent.

Ortiz Mena's very letter renouncing his candidacy actually raises doubts about the notion of Finance independence from the presidential succession. If such independence had been *institutionally* accepted, why should he write the letter? The letter seems more like one finance minister's strategy to distance himself further than the norm from presidential succession, and therefore build more confidence about his policy decisions.

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<sup>74</sup> José Patrocinio González Blanco, director of public investments under López Mateos, subsequently interior minister, and Ortiz Mena's son in law, concurs that Ortiz Mena was not a candidate.

<sup>75</sup> So does Romero Kolbeck, former director of the Bank of Mexico.



Any debilities that the finance minister was thought to have as a presidential precandidate were, at best, provisional. There was a hesitancy in some quarters to make him the candidate, until one fine day, September 22, 1975, to be exact, Finance Minister López Portillo was named the candidate, and everyone accepted him. If some norm of the 1950s and 1960s had kept Finance at the margins of the arena where “*políticos políticos*,” as Oteyza calls them, contested for the presidency, it was tenuous.

Even if Finance did maintain some distance from political succession, would the president grant it “absolute control over the budget and general economic policy of the government,” as Centeno says? There is no doubt that budget authority legally belonged to the president (Ortiz Salinas 1988, 10-12). The annual budget had to be approved by the Chamber of Deputies, but it passed everything that the president gave it. Further, during the course of the year the executive regularly approved massive increases without even informing the Chamber. For example, budget *increases* approved in 1965 were 106 percent of the original budget (Izquierdo 1995, 62). Such increases fell principally under three rubrics: investment, public debt, and a catch-all called “additional expenditures” (*erogaciones adicionales*). This last category regularly exceeded its budgeted level by more than 100 percent, indeed, by 305 percent in 1970 (*ibid.*)

The question is to what extent presidents delegated their legal budget authority to Finance. Those who held high economic posts in the 1950s or 1960s do not dispute that presidents before 1970 showed great deference to finance ministers’ expertise, but they do not speak of Finance as controlling economic policy independently.<sup>76</sup> President Miguel de la Madrid, who began his career in the Bank of Mexico in 1960, says:

I saw up close that Presidents López Mateos and Díaz Ordaz placed complete confidence in their finance secretaries’ technical management. But presidents also shared the same basic views as their finance secretaries – Antonio Ortiz Mena, and before him Antonio Carrillo Flores and Ramón Beteta and Don Manuel Suárez. The presidents established the political framework.

If the president decided not to listen to his finance ministry, no one was going to force him to. When President Echeverría fired his finance minister in 1973, infamously proclaiming that “the economy is managed from Los Pinos,” the presidential office, de la Madrid doubts that it was any change in ultimate authority: “I think the economy had always been managed from Los Pinos, but in a different manner.” Budgets were balanced or slightly in deficit under President Cárdenas because himself, though a political leftist, was a fiscal conservative, probably in reaction to runaway inflation during the Revolution (Cárdenas 1993, 689), when rival factions printed increasingly useless paper money.

In Ortiz Mena’s book about economic policymaking under his stewardship, on every single occasion when he describes controlling spending or curtailing other ministers’ spending authority, he says needed presidential backing (1998, 97, 99, 142, 168, and 169-72). Carrillo Flores’s diary notes daily discussions with the president about major expenditures. January 20, 1954: “Meeting with the president, long and cordial. . . . He approved the public-works projects, except for Communications.” April 7, 1954: “Meeting last night in the presidential office with [Agriculture Secretary Gilberto] Flores Muñoz about the [financial resources he sought for two agricultural] banks. No decision reached, but as I left the president told me I should be ‘more firm.’” Fernando Solana, an official in the National Finance Bank and the Ministry of the Presidency in the 1960s (later holding

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<sup>76</sup> Ortiz Mena, Urquidi, Izquierdo, Moctezuma, Fernández Hurtado, and Beteta. Suárez Mier and Oteyza, who belong to a later generation, did not see how the system worked as high officials in the 1950s or 1960s.

several posts as cabinet secretary), suggests that, for example, when the navy secretary would ask Ruiz Cortines for a million pesos, the president would say, “Of course! Just go see the finance secretary.” Then he would pick up the telephone and tell Carrillo Flores, “The navy secretary is going to ask you for a million pesos. Don’t give him anything.”

Perhaps more telling, since stories about how fiscally responsible presidents were might just be evidence of political deference, Ortiz Mena says that without presidential backing he could not control spending. In 1963 the public deficit needed to be cut, he explained to López Mateos: “The president told me that such a fiscal adjustment could be premature at the moment and that we had to wait to be sure there was no risk of economic slowdown. . . . In 1964 it was even more necessary to adjust public finances. . . . Again I proposed that measure to President López Mateos, and again he rejected my proposal. He said that since it was the last year of his administration, it was extremely important to end things well” (1998, 97). Spending approved by the president – along with surreptitious spending by Social Security and other state enterprises – contributed to the inflation that might have caused a crisis in 1964. Gustavo Romero Kolbeck, director of public investment under López Mateos (later director of the Bank of Mexico), says that the president, sometimes backed by Finance, would allocate money for political reasons. For example, the always powerful Ministry of Water Resources would plead for an allocation to finish a dam a year early, on the pretext that it might get washed away if the rains came, before the ministry had even built canals to irrigate fields. Inaugurating a big dam would provide a political boost for Alfredo Del Mazo, a friend of the president and precandidate to succeed him.<sup>77</sup> If the president wanted to support Del Mazo’s campaign, he would approve the money, according to Romero Kolbeck.

As for the other side of the budget, fiscal reform, it would have been inconceivable without the president’s backing. In the late 1960s Finance developed a tax proposal that would have provided needed revenue, but it never went through. Even Ortiz Mena’s former economic advisor Victor Urquidi did not know quite why until the late 1990s, when Ortiz Mena explained: “I went to Díaz Ordaz and said, ‘Here I have prepared my full, comprehensive, tax reform.’ The president said to me: ‘I have to deal with two big reforms, the labor law and taxes. I think you’ll have to keep your tax reform for a later stage.’”<sup>78</sup> That was the end of it. Julio Rodolfo Moctezuma, director of public investments for much of the 1960s and finance secretary under López Portillo, says that the exact sequence of decisions leading up to a devaluation – but it could be any major economic issue – are difficult to know: “All of us” – he means finance secretaries, directors of public investment, and other high officials – “can reconstruct little parts of the story, but only [the president] knows the complete history.”

### How the president prevented crises

The president, beginning with Ruiz Cortines in 1954, was the one who marshaled state responses to avert crises. The government had spent heavily in 1952 as part of the effort to defeat Miguel Henríquez Guzmán, the revolutionary general who split from the system the previous year to wage an independent campaign, and the Korean War had produced a

<sup>77</sup> Camp 1995b, 196, corroborates that he was a friend of the president and precandidate.

<sup>78</sup> Ortiz Mena 1998, 163, corroborates the reason Díaz Ordaz rejected the reform.

boom-and-bust cycle.<sup>79</sup> Over the two years 1950 and 1951, Mexican exports to supply the U.S. war buildup had grown 40 percent; the economy had grown 18 percent; and inflation had hit 30 percent. The inflating peso, fixed at 8.65 to the dollar, became overvalued, and as the war ended and the United States entered recession, Mexican exports dwindled. Extraordinary efforts to stabilize the economy failed. Banks were prohibited from lending out any new deposits at all, or, to put it another way, the reserve requirement was set at 100 percent. The government ran a budget surplus, and growth slowed to a mere 0.3 percent. Still the Bank of Mexico was losing reserves, \$21 million in 1952 and \$42 million in 1953 (Cárdenas 1994, table A 21), and \$43 million in the first several months of 1954 (Alemán Velasco 1997, 247), numbers that were worrisome then.

From the moment he was appointed finance secretary in December 1952, Antonio Carrillo Flores told the president, with a sad feeling, that he thought Mexico would need to devalue before too long (Carrillo Gamboa), and during the summer of 1953 he started talking in earnest with the president about devaluation (Carrillo Flores diary). In February 1954 Ruiz Cortines agreed to raise tariffs 25 percent to conserve dollars, but still the Bank of Mexico kept losing reserves. Carrillo Flores' diary records daily movements: "Today we lost \$1.6 million dollars" (February 24), "lost 1.2" (February 26); "still losing dollars" (March 1), "dollar tranquil" (March 2), "serious dollar problems" (April 9), "still bad" (April 10), "much better today" (April 11); "\$10 million plundered" (April 14). Carrillo Flores and Bank of Mexico Director Gómez became convinced that devaluation was inevitable and wanted to carry it while a cushion of reserves remained.<sup>80</sup>

All involved knew that, no matter how successful, devaluation would have serious political consequences. No one knew better than the secretary of Interior, Angel Carvajal, in charge of maintaining domestic political order. When he learned about the plans, he called Carrillo Flores: "He begged us to hold off the measure, he said the impact would be terrible," the finance minister notes in his diary (April 14). Carrillo Flores himself was deeply concerned. Shortly before the devaluation, he played golf with his friend Juan Sánchez Navarro, president of Grupo Modelo, a conglomerate that produces beers including Corona and a variety of industrial products. Sánchez Navarro recalls:

Carrillo Flores played golf horribly that day. He always played badly, but this time his clumsiness was unbelievable. "Tonio, what's the matter?" I said. "No, nothing. I'm tired." He played right to the end. To raise his spirits, I invited him to a match where an extraordinary Mexican boxer, "the Rat" Macías, was playing against a black American. Macías' style was elegant, and he dominated opponents rapidly, but during the match Carrillo Flores seemed absent. The spectators loved the way the Mexican played, and by the eighth round, they began to scream, "Finish him off!" They were screaming, no? The Rat knocked him out, and Carrillo Flores didn't even notice. A week later the peso was devalued.<sup>81</sup>

Easter Saturday, the beginning of the Holy Week and a bank holiday, the President himself displayed "concern and sadness," recalls his press secretary, Humberto Romero Pérez.:

<sup>79</sup> The conventional view is that excessive spending was the problem (Ortiz Mena), but Cárdenas (1996) argues persuasively that it was not, and the Korean War boom-and-bust cycle was. My account of the economics of the episode is from Cárdenas 1996, 44-47. In any event, the cause of the problem does not matter to my argument that the president provided the authority to control it.

<sup>80</sup> Carrillo Flores diary. Also Carrillo Gamboa, Fernández Hurtado, Ortiz Mena.

<sup>81</sup> Sánchez Navarro said the next day, but Carrillo Flores' diary shows that the boxing match was Saturday April 10 and the devaluation was Saturday April 17.

Ruiz Cortines asked me, "Humberto, how long will it take to assemble the radio and television press?" I imprudently remarked, "Señor President, it must be very important." He said, "Look, I'm not going to tell you why. Simply and without ado, how long will it take?" "Two hours," I said. When I had radio and TV journalists assembled, he said they should come in – I saw Carrillo Flores there – and the President said to me, "This is the hardest thing I have ever had to do in office." I kept wondering what it could be: there hadn't been any earthquakes, Popocateptl hadn't erupted, nothing. He was conscious how the consequences of a devaluation would impoverish people. Even if the situation may improve later, the poverty is serious. He said to me, "I am going to devalue the Mexican peso." But he said that after everyone was assembled, so I couldn't have committed an indiscretion.

Ruiz Cortines announced that, whereas 8.65 pesos had bought a dollar the day before, it would now take 12.5.

Representatives of the president's office, Interior Ministry, Finance Ministry, Bank of Mexico – so-called *políticos* and *técnicos* alike – as well as the private sector agree that unified action of the political elite was crucial to the devaluation's success.<sup>82</sup> It was crucial both to maintain secrecy before the devaluation and to resolve protests afterwards. A number of officials knew about it in advance. Besides the president, finance secretary, director of the Bank of Mexico, and interior secretary, those in the know included Industry and Commerce Secretary Gilberto Loyo; National Development Bank Director Hernández Delgado; Public Works Bank Director Manuel Sánchez Cuen; and Finance Ministry officials Raúl Ortiz Mena, Raúl Salinas Lozano, and Raúl Noriega (Carrillo Flores diary, Ortiz Mena 1998, 36-37). Given the central role Labor Secretary Adolfo López Mateos would later play holding wages down, it seems inconceivable that Ruiz Cortines would have blindsided him while informing Interior Secretary Angel Carvajal. But complete secrecy was maintained. Sánchez Navarro only found out why his friend the finance minister had been so distressed when the devaluation was publicly announced.

No doubt the image of seamless unity glosses over inside discords. For example, Victor Urquidi, then director of the U.N. Economic Commission for Latin America, recalls that after the devaluation, Benito Coquet, the president's confidential secretary (later the big-spending Social Security director), called a secretive meeting to seek advice. Having confirmed years later that the meeting was concealed from the finance secretary, Urquidi concludes, "Coquet's fear was that Carrillo Flores might be deceiving the president about what was going on." When there is only one real policymaker, deception is a principal means to affect policy.

But if there was less than unity of thought within the political elite, the unity of action was impressive. Political ministries immediately set about controlling the "three or four months of terrible crisis" that followed the devaluation, as Sánchez Navarro describes that tense period. Some 50,000 strike petitions – so fragmented was Mexican labor – kept Labor Secretary Lopez Mateos working around the clock, living and sleeping in the ministry, hammering out salary agreements (Romero Pérez). He had been told by the financial authorities that he could raise salaries up to 15 percent without provoking enough inflation to endanger economic stability; raises would have had to be almost 50 percent to restore the former dollar value of salaries. The labor secretary's constituency is precisely organized labor – and even if officials could not mobilize external support against the political system, they always wanted to show that they had broad support within it – but he

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<sup>82</sup> Romero Pérez; Gustavo Carvajal (son of the Interior Minister and subsequent president of the PRI); Carrillo Gamboa (finance secretary's son); Fernández Hurtado (Bank of Mexico); Sánchez Navarro.

kept the average raise to 10 percent.<sup>83</sup> Interior Secretary Carvajal was deployed to calm the private sector – the dollar value of everyone’s bank account had, of course, plummeted – as well as labor and *campesino* leaders (Gustavo Carvajal). His job was to make sure the devaluation would not produce political conflicts, says Romero Pérez: “He used political manipulation, political experience. Above all he attended to the state governors.”

Only the president could have marshaled this broad response, but while demanding that his secretaries support him, he reciprocated by supporting them. Carrillo Flores was under enormous pressure. Public anger at the devaluation forced him for the first time ever to go around with a bodyguard; his father said he should be “ashamed” (Carrillo Gamboa). The atmosphere when he addressed the Bankers Convention was “icy” (Carrillo Flores diary, 26 April 1954), while the U.S. Treasury’s attitude was “harsh and disagreeable” (diary, September 15), and in its useful fashion, it said it would give Mexico a loan only after it restored confidence (December 16). Agustín Legorreta, the president of Banco Nacional de México who maintained close relations with Finance, told Carrillo Flores that the talk in the street saw a cabinet shake-up as inevitable (December 15), while ex-president Alemán, playing golf with the finance secretary, said the government had “lost prestige” and needed “changes” (December 18). Rumors circulated that the exchange rate would not hold, even that another devaluation had occurred (Carrillo Gamboa), and in three months reserves sank 50 percent (Ortiz Mena 1998, 37). Four times the finance minister offered to resign, for example, telling the president that people had lost confidence in him and he needed to go (diary, November 1). But Ruiz Cortines did not like the idea of changing secretaries. He finally told Carrillo Flores, if he resigned, “What will people say about *me*? ‘That old *pendejo* [not polite Spanish], why didn’t he fire him before?’ If I thought you were not capable, I would have thrown you out earlier. Now don’t come to me and say it’s time to go” (Carrillo Gamboa). By the end of 1954, reserves were returning, Carrillo Flores notes in his diary: “we got 2 1/2 [million] dollars” (December 16); “we got 1 1/2” (December 18). Mexico ended the year with \$205 million dollars in reserves, just clearing the magic \$200 million Carrillo Flores had promised in September. The basis was set for sustained, stable growth.

Finance played an important role in assuring that the militant 1958-59 strike wave did not erupt in economic crisis. For one thing, continuity across administrations helped ensure expert financial management. Ortiz Mena, a close friend of Carrillo Flores since school days (Ortiz Mena), had been his designated successor for some time (Carrillo Gamboa). When Carrillo Flores had represented Mexico at the Finance Ministers of the Americas Conference in late 1954, he brought Ortiz Mena as an alternate delegate and even said openly to the U.S. delegation that if he were to leave, Ortiz Mena would take his place (Ortiz Mena 1998, 38). After López Mateos took office in December 1958, Ortiz Mena – surely working with Carrillo Flores, who became ambassador to Washington<sup>84</sup> – secured a \$90 million dollar stand-by loan from the IMF and \$100 million from the Export-Import Bank, on top of the Bank of Mexico’s existing \$356 billion in reserves and a pre-arranged \$75 million stabilization fund (Ortiz Mena 1998, 86-87). Though there is no available data for total public-sector spending, the government, at least, ran a budget surplus of 0.5 percent of GDP in 1959 (Cárdenas 1996, 51).

<sup>83</sup> Carrillo Gamboa interview, on financial authorities’ approving 15 percent raises and López Mateos’ keeping average raises to 10 percent.

<sup>84</sup> I do not have specific evidence for this supposition, but I cannot conceive that it is incorrect.

However, none of these financial measures would have done any good had the presidents – first Ruiz Cortines, then López Mateos – not organized a powerful, united front against the strikers. Here was a project that Finance would have lacked all authority or ability to carry out, even if it had been politically independent. At a minimum, the secretaries of Labor, Interior, Industry and Commerce, and Communications and Public Works were deployed to end the strikes; military units and police were mobilized nationwide. For example, the Industry and Commerce secretary announced to the wives of railworkers that they would lose their government-supplied housing if the strikes continued (Salinas Lozano). Communications and Transport managed to prevent the two railroads it ran, the Southeast Line and Sonora-Baja California Line, from joining the strikers (Bracamontes). The way the authorities bought off some workers with raises, fired many, evicted families from their houses, provoked violence, filled jails to overflowing, and locked up ringleaders for a decade was not a pretty picture. But it certainly was a concerted effort to maintain economic stability; no government official provided support to the strikers (Salinas Lozano, González Blanco, Carrillo Gamboa). Krauze writes:

The political system, in chorus, lined up behind the actions of the government. In the Lower House the deputies repudiated 'the foreign elements which the union leadership supported. . . .' The judicial power maintained a prudent silence. Big business enthusiastically approved. The Church did not open its mouth but breathed easier after the blow had been delivered to the enemies of Christianity. Even *Siempre!*, the least dependent magazine among the 'not so dependent' elements of the press, criticized the 'unbelievable blindness' of Vallejo. . . (1997, 638)

When López Mateos took office in December 1958, in the midst of this turmoil, he also faced an internal dispute over budget authority among Finance, State Industries, and the so-called Ministry of the Presidency, a new ministry distinct from the president's office. Finance's ultimate victory is often interpreted as demonstrating its political independence: Centeno says that López Mateos himself tried to limit its budget authority but "failed to control [its] power" (1994, 80). In fact, it was López Mateos who rescued Finance's primacy over the budget.

The administrative reorganization plan (*Ley de Secretarías*) that caused all this trouble started out as an attempt to solve several problems that had cropped up under Ruiz Cortines. Carrillo Flores had felt he lacked adequate information to decide on investment priorities for the whole public sector, so, in consultation with the president, had established an Investment Commission within the Finance Ministry. It investigated and had to approve not only all federal government investment, as when Education built schools or Hydraulic Resources dams, but also state-enterprise investment, as when Pemex drilled oil wells or Altos Hornos smelting ovens. However (further evidence that Finance alone could not have managed the economy), ministries and enterprises would withhold information from the commission, so Carrillo Flores suggested that it be placed directly under the president, who could enforce cooperation (Moctezuma, Romero Kolbeck).

With this problem in mind, president-elect López Mateos asked Eduardo Bustamante, a former finance undersecretary, and Manuel Moreno Sánchez, a Mexico City lawyer and politician, to draft an administrative reorganization. Adapting French ideas about medium-range planning and Italian ideas about control of state enterprises – enterprises which, in Mexico, had been treated as quite autonomous from the government itself – they proposed a new Ministry of Planning and Budget and a renamed and

strengthened Ministry of State Industries (Moctezuma).<sup>85</sup> As the name implied, Planning and Budget was to plan and manage the budget (Carrillo Castro 1981, 494). Meanwhile, also at the president-elect's request, Antonio Ortiz Mena and his brother, Finance Undersecretary Raúl Ortiz Mena, developed an economic plan for the administration (Ortiz Mena 1998, 40-45; Moctezuma). Julio Rodolfo Moctezuma, Raúl Ortiz Mena's private secretary at the time and later director of public investment, says it laid out Mexico's most pressing problems clearly, organized data that had not been available in useful form, and projected development in different economic sectors for some years to come: "Probably no one at that time but Don Antonio [Ortiz Mena] had such a complete vision of the public sector. Everything that would be known as his program of Stabilizing Development was based precisely on that planning effort." On the other hand, Moctezuma says, Bustamante's administrative reorganization plan was "well done and well drafted."

There was just one little problem: who was going to have budget authority? Bustamante's proposal gave Planning and Budget that authority and strengthened State Industries because he thought he would be named secretary of an economic ministry other than Finance (Ortiz Mena 1998, 46; Romero Kolbeck, Izquierdo).<sup>86</sup> When the plan came to light shortly after the new administration took office, Ortiz Mena was obviously concerned (Ortiz Mena 1998, 47; Moctezuma). A cabinet dispute ensued, and what emerged, says Moctezuma, was a "rather strange plan." The proposed Planning and Budget Ministry was renamed Presidency and given some of the former responsibilities of president's private secretary and the old Investment Commission, as well as medium-term planning functions and a rather unclear authority over spending. Rafael Izquierdo, economic advisor to Ortiz Mena, writes: "There was no way to reconcile Presidency's responsibility for the 'public spending program' with Finance's responsibility for 'the general expenditure budget'" (1995, 46). The patched-together bill of course sailed through the Chamber of Deputies. Bustamante was named state industries secretary, and Donato Miranda Fonseca, an experienced politician with no economic policymaking background, was named secretary of Presidency. This appointment was surely a strike in Ortiz Mena's favor.

The powerful strike wave, threatening the government without but lacking support within, turned out to be just what Ortiz Mena needed to persuade the president to continue delegating authority to the fiscally conservative Finance Ministry. He appealed to López Mateos, arguing that splitting budget authority between ministries, as the law seemed to, would only cause excessive spending, inflation, another devaluation, wage erosion, and – a point that resonated with the new president from his previous job as labor secretary – more strikes. Ortiz Mena handed over his famous letter renouncing presidential ambitions and asking for full confidence in his economic management. López Mateos agreed: "For me

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<sup>85</sup> This ministry was called the Secretaría de Bienes Nacionales before 1958, the Secretaría de Patrimonio Nacional after 1958 (Ortiz Mena 1998, 46), and later changed its name several more times. To avoid unnecessary complications I have called it State Industries throughout – it managed state industries.

<sup>86</sup> José Patrocinio González Blanco, who was subdirector of public investments in Presidency from 1960-61 and director from 1961-64 – and is, moreover, Antonio Ortiz Mena's son-in-law – but was chancellor in the London embassy when these events took place, says that Bustamante designed a *strong* Finance Ministry because he thought he would be finance minister. This is the only account I heard that conflicts with the history laid out in the text. I find it hard to believe, not only because Ortiz Mena, Izquierdo, and Romero Kolbeck disagree, but also because Antonio Carrillo Gamboa, Carrillo's Flores's son, is so confident that Ortiz Mena was the principal if not exclusive candidate to succeed Carrillo Flores.

avoiding devaluation is a political problem; for you it is an economic problem.”<sup>87</sup> Each budget request would now require a signature from Finance as well as the president.

Even once budget authority was thus delegated, the system required continuing support from the president. Some ministers would try to pressure Enrique Caamaño Muñoz, the legendary finance undersecretary who actually signed requests, by getting the president’s signature first, so Ortiz Mena went to the López Mateos again. To avoid this sort of problem, the president now agreed to require Finance’s signature before he would look at a budget request, and Díaz Ordaz did the same (Ortiz Mena 1998, 168). The Directorate of Public Investment, under Presidency, continued to allocated investments as the Investment Commission had, but Finance would approve the total investment budget (Ortiz Mena 1998, 47; Moctezuma, Romero Kolbeck).

However, as mentioned, the president could always decide to override the system. If López Mateos wanted spending to exceed the level Ortiz Mena thought prudent because his presidential term needed to end well, he had his way. If the president wanted to finance some big dams to support a hopeful candidate to succeed him – or just to make that candidate think he had a chance – the dams would be financed. Finance retained budget authority as long as the president delegated that authority.

When Ortiz Mena became concerned about runaway public-enterprise spending, he had to appeal to the president again, now Díaz Ordaz. Finance had approved transfers from the government to decentralized enterprises, but they had enjoyed considerable autonomy, like the major businesses that they were, with their own income and ability to borrow abroad – as Social Security under Benito Coquet (institutionally a public enterprise, not a ministry) so vividly demonstrated. Pemex had even begun refusing to turn over to the government the gasoline taxes it collected at the pump (Ortiz Mena 1998, 170-71). Running from flagrant to surreptitious, state enterprise spending was big enough to help inflate the entire economy and contribute to the danger of crisis in 1964.

Ortiz Mena did not turn to banking-sector connections or invoke political tradition to control state-enterprise spending; as always, he went to the president. Shortly after taking office in December 1964, Gustavo Díaz Ordaz agreed to pass a requirement that all state enterprises should deposit revenues and other receipts – such as from foreign loans – in Bank of Mexico accounts and should withdraw all expenditures from those accounts (Ortiz Mena 1998, 99, 172), thus effectively submitting Social Security, Pemex, electric utilities, steel mills, railroads, and the rest to Finance oversight.<sup>88</sup> Even Díaz Ordaz, that Interior Ministry operative who repeatedly provoked violence to destroy grass-roots protest (Krauze 1997, 634, Aguayo Quezada 1998, 213), called Ortiz Mena’s scheme ensure compliance “machiavellian.” Once a year, without warning, in one of his regular meetings with each major state enterprise director, Ortiz Mena would pull out the enterprise’s books. If the purpose of some expenditures had not been verified, he would remind the director about the embezzlement laws and ask for an accounting. The procedure was not machiavellian but “simply realistic,” Ortiz Mena told the president (1998, 173).

Economic stability could not have depended on Finance Ministry independence, not only because Finance repeatedly had to resort to the president to guarantee its budget

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<sup>87</sup> All information about Ortiz Mena’s discussion with the president, and the strike’s use in supporting his argument, is from the interview with him; his book (1998) is consistent but offers less detail.

<sup>88</sup> There is data on all public-sector spending, including state enterprises, after 1965 precisely because of this new system.



authority and restrict that of other ministries, but also because its sphere of action, though broad, was still far too narrow to manage an entire economy and avert crises. Why should labor and interior ministers, those *políticos políticos*, risk their political capital controlling strikes and pacifying governors, just to back up *técnicos* at Finance? Unless the finance minister controlled them, a notion no one has ever suggested, the idea is nonsensical. The very concept of politically independent management over an entire economy seems detached from any realistic picture of how things could work. An independent central bank might plausibly manage monetary policy and the exchange rate, but how could the political arena somehow cede control over the whole spectrum of economic management to some separate technical sphere? What is politics without money? Authority for managing the economy rested with the president.



## Chapter 5

### The Unwritten Rules of Elite Cooperation

If presidential authority averted economic crises in the 1950s and 1960s, why was it unable to do so in the 1970s and 1980s? To put it another way, aside from Aztec and Spanish traditions of concentrated authority, constitutional powers of the executive, the apparatus of the party and corporatist sectors, and the threat of the secret police – aside from powers that the president controlled throughout those decades – what additional lever or incentive might presidents have controlled before 1970 and lost after 1970? What did the authority consist of that allowed presidents before 1970 to marshal the whole panoply of state to make devaluation work; to take away the Ministry of the Presidency's budget oversight even if it existed on paper; to require ministries to solicit the signature of Finance's notorious spendthrift, Señor Caamaño, on all budget requests; or to force state enterprises to make earnings and expenses transparent by passing them through that most rigorous accounting system, the Bank of Mexico? What requisite did the political system have earlier, and lose later, so that it did not need to use expenditure to buy compliance?

The unwritten rules of elite cooperation – prohibiting *grupos* from mobilizing or overtly organizing interests to challenge the president's authority, and in exchange assuring them of political survival – were the critical requisite. In the promise of survival, the president wielded a political currency more powerful than the monetary currency of pesos. When *grupos* began to fear for their survival after 1970, budget control eroded. *Grupos* who feared permanent banishment had every incentive to spend – and disguise that spending – to win their candidate's nomination and assure continued access to power. As the moment arrived for the president to nominate his successor, political blindness closed in on him because his cabinet secretaries – on the one hand, his eyes and ears and, on the other hand, competitors to sway his biggest decision – had every incentive to mute and hide developments. And even if the president knew what was happening – and he did in gross terms if not in all specifics – as *grupos* feared for their survival within the political system, he feared that they might split off and threaten the system from without. He thus had every incentive to avert this threat by using pesos to buying them into the system.

#### Mexican political elites

Before turning to the unwritten rules, it is useful to consider, first, who Mexican political elites were and, second, what *grupos* were and how they worked. Particularly old-time “dinosaurs,” as the technocratic generation of Carlos Salinas dubbed its predecessors, have been caricatured out of all proportion. A typical enough *político* is Augusto Gómez Villanueva. In his private office in an old row-house in Mexico City – many politicians maintain consultancies, law firms, or other businesses for periods when they are out of public office – he even keeps, beside his heavy wooden desk, a three-foot-high plastic dinosaur. Son of a railroad worker and small-time politician, he attended the National Preparatory School by taking night classes, received a political science degree from the National University at age 35, and later taught there. He rose to become secretary of Agricultural Reform in the 1970s, the ministry overseeing redistribution of land from large *hacienda* owners to peasants. He met in initial informal dinners with the Democratic

Current that later split from the PRI in 1987 to run a powerful opposition campaign, but his sense that the group was plotting behind President de la Madrid's back angered him deeply – and still does – as if were a fundamental moral violation. In his 70s he represents Aguascalientes in the Chamber of Deputies and seems quite unwilling to forsake politics.

The political event of overwhelming importance, at least for elites who were born before 1940 and dominated high office through the early 1980s, was the Revolution and its violent aftermath, roughly from 1910 through 1930 (Camp 2002, 113, 250). Numerous interviews with officials of the 1950s and 1960s persuaded Roderic Camp that the most powerful lesson they had drawn from that experience was the importance of “nonviolence and the need to promote cooperation” (Camp 1984a, 153). One thing the Mexican Revolution did *not* bequeath, so unlike other powerful social revolutions in France, Russia, and China, was any demand for ideological homogeneity (Camp 1995a, 100). One could legitimately espouse a range of beliefs from being nineteenth-century liberal to socially oriented Catholic and “heterodox Marxist,” as Finance Undersecretary Jesús Silva Herzog called himself (Camp 1984a, 121 and chapter 6). Perhaps the unifying theme was a fervent yet pragmatic nationalism (1984a, 100).

The political elite, which has always enjoyed more prestige than the private sector (Camp 1990, 86), was forged in the National University of Mexico, particularly the Law and Economics Faculties. More than 70 percent of high officials in the 1960s and 1970s had graduated from “the university” (Camp 1980, 78); one did not even bother to mention its name. In a country where no more than 2 percent of the population had a university education (Camp 1980, 197), the *licenciatura*, or primary professional degree, was a virtual requisite for the political elite. It carries such distinction that even former presidents of Mexico are properly addressed as *licenciado*. Politicians contacted by Camp identified professor-politicians as their most important socializing influence: each generation taught and recruited the next (1980, 94). Of 34 most influential Law Faculty professors that politicians identified, 24 held high office, including Antonio Carrillo Flores and two earlier finance ministers, while only three had held no public office (Camp 1980, 178). Of the 12 most influential Economics Faculty professors from 1929 through 1950, 11 held government posts, including, for example, Industry and Commerce Secretary Gilberto Loyo. Half of all high officials were professors at one time or another (Camp 1980, 169). For all their academic leanings – Mexican presidents spoke clear, formal Spanish, for they had to perform as both symbolic sovereign and working chief executive – political elites saw themselves as intensely Mexican. Their homes and offices display a devotion to Mexican art, which in some real measure they created. There would have been no Rivera, Tamayo, Orozco, or Siqueiros had the political elite not commissioned their public murals.

The “political class,” as that common Mexican phrase for it suggests, was essentially self-contained. It is well established that there was no unified power elite in Mexico; there was a separate political elite, business elite, and church elite. Among the two hundred persons Camp identified as members of the Mexican political or business elites, only *one individual* belonged to both groups (2002, 12). After speaking with numerous politicians in the early 1960s, Raymond Vernon characterized their view of businessmen as “ruthless, money grabbing opportunists, utterly devoid of social consciousness, without culture or refinement, imitating the worst in North American society, extravagant without limits.” The point could be overdone, since some prominent politicians and businessmen were friends, and business certainly had continual and powerful access to the highest

political authorities (González Casanova 1970, 50; Ortiz Mena 1998, 83-84), but the groups were sociologically distinct. More than 80 percent of high Mexican public officials were middle class, from families of teachers, lawyers, doctors, and the like, and essentially all were native-born (Smith 1979, 197). If not the National University, they attended other public universities. By contrast, more than half of entrepreneurs were upper class, from families of entrepreneurs or large landowners, and almost half were of recent foreign origin (*ibid.*), often from Germany, Spain, or other European nations. They studied at the few prestigious private universities, such as the Catholic Ibero-American University in Mexico City or the Technological Institute of Monterrey.

### *Grupos* within the political elite

Political *grupos*, close-knit groups of high public officials based on personal loyalties between leader and followers, constituted an informal but essential structure principally within the central administration. Forged from contending battlefield factions during the Revolution, though antecedents go back to the nineteenth century (Camp 1990, 85, 90), they came increasingly to be bound together by family, career, and – especially – educational ties, principally from the National University classroom.<sup>89</sup> A body of work by Peter Smith, Marilee S. Grindle, Roderic Camp, Rogelio Hernández Rodríguez, Joy Langston, Francisco Suárez Farías, Miguel Ángel Centeno, and other scholars concurs in seeing these *grupos* as a rational response to the Mexican political environment. They generally use the term *camarilla*, but it connotes more nearly a mafia than a political group in everyday Mexican (Hernández Rodríguez 1984, 101). *Grupo*, the word mostly used by politicians themselves, the media, and nearly everyone else including taxi drivers, seems preferable.<sup>90</sup> In a system where elections never decided who held power, there was no civil service to determine advancement in the bureaucracy, and formal rules counted for little, if *grupos* had not existed, they would have had to be invented.

An important societal characteristic underlying *grupos*' formation is Mexicans' comparative lack of diffuse social trust. One author writes: "Whether or not circumstances justify it, there is nothing in the universe which the Mexican does not see and evaluate through his distrust. It is like an a priori form of his oversensitivity. The Mexican does not distrust any man or woman in particular; he distrusts all men and all women" (Ramos 1962, 64, quoted in Camp 1980, 15). Even if this characterization may be exaggerated, survey studies have consistently found low levels of social trust in Mexico (Craig and Cornelius 1989, 372). The society-wide response is to entrust critical tasks to people who are intimately known and thus trustworthy, *de confianza*. Both villain and hero in the soap operas have their circle of trusted (and often armed) men, *hombres de confianza*; if one returns home late at night in Mexico City, one's middle-class friends insist on calling their taxicab driver *de confianza*. *Confianza* is the basis of *grupos* (Camp, 1990, 88). For example, when a new manager was appointed in 1970 to one of the subsidiaries of CONASUPO, the state enterprise that distributes basic grains, he installed his trusted team: "I found that although I had many friends, there were few I trusted enough to invite them

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<sup>89</sup> There were somewhat similar mentor-disciple relationships in the Catholic Church and military (Camp 2002, 21-22).

<sup>90</sup> Langston 1998, 19, also notes that politicians she interviewed generally talk about *grupos políticos* rather than *camarillas*, though she uses the latter term.

to help me. There are three people I brought here whom I trust blindly . . . I trust them with my prestige, with my signature and with my honor” (Grindle 1977, 49).

Aside from the matter of trust, in a bureaucracy with practically no formal rules for advancement, forming *grupos* was rational for leader and followers alike (Langston 1995, 255). In a mere collection of atomistic individuals, how could the president and top officials, confronting queues of job aspirants, have the remotest idea who would be competent, let alone trustworthy? And competence was essential: sustaining political and economic stability in the 1950s and 1960s was no mere accident. Likewise, how could those job aspirants, especially at an intermediate or lower level, establish their good reputation? *Grupos* answered the problem for both parties. They were tight-knit enough for an individual to prove his capacity for hard work – 16-hour days are not uncommon for high Mexican officials – competence, and trustworthiness (Langston, 1995, 256). Developing a competent *grupo* gave the leader an advantage because his prospects depended in good part on how well his area of government ran (Langston 1995, 257-58); for example, de la Madrid says López Portillo gave him the presidential nomination in good part because he had built an efficient and cohesive *grupo*. In exchange for followers’ good performance, the leader was responsible for their advancement (Langston 1995, 256; Centeno 1994, 146; Camp 1993, 103). Thus, when he went from one post to another, they followed him or moved, on his recommendation, to work for one of his allies.

This system could produce enormous turnover. For example, when Ernesto P. Uruchurtu was forced out as head (*jefe*) of Mexico City partway into the Díaz Ordaz administration – he lost control of a squatters’ riot (Camp 1995b, 710) probably instigated by Díaz Ordaz himself in a move to oust him – his replacement in this key cabinet post, Alfonso Corona del Rosal, replaced almost the entire top management. General and *licenciado* Coronel del Rosal, a graduate of the Military College and the National University born two years before the Revolution broke out, had enjoyed an unusually varied political career during the period when the regime was still being consolidated – as military officer, state bank director, political campaign manager (when campaigns still mattered), federal deputy, senator, state governor, president of the PRI, and secretary of State Industries – and had made unusually varied contacts.

On September 20, 1966, with four years to go in the administration, out went Mexico City’s second-in-command, *licenciado* Arturo García Torres – “whose resignation the President of the Republic accepted,” notes Corona del Rosal (1995, 160) – to be replaced by *licenciado* Rodolfo González Guevara, Corona del Rosal’s second-in-command from State Industries and from the PRI before it. Out went the chief administrative officer, *licenciado* Luis Coudurier, “who also resigned his post,” to be replaced by Corona del Rosal’s candidate, *licenciado* Guillermo Lerdo de Tejada.<sup>91</sup> As the comptroller who would monitor expenditures, Corona del Rosal installed a colleague from the National Bank of the Army and Air Force; as labor director, a long-time friend from the Law Faculty; as public works director, a Pemex engineer he had worked with in State Industries; as medical director, a doctor who was a personal friend; as director of social action, an orator whose ability to express “the spirit of the Revolution” he had admired in the PRI. The director of interior, of transit, of administration, and of markets were likewise replaced. The police chief, a general fortunate to have known Corona del Rosal from the Military College, stayed in his job. Corona del Rosal only kept two individuals in their

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<sup>91</sup> The remainder of this paragraph is from Corona del Rosal 1995. 160-63.

posts with whom he does not specifically mention a connection: the “honest and capable” treasury director (who collected revenue, but did not spend it) and the director of the Mexico City judiciary.

The wave of personnel change when a new secretary or director installed his team in second-level positions would reverberate, as his appointees likewise brought in theirs in third- or fourth-level positions. When Jorge de la Vega Domínguez, who had parlayed his presidency of the College of Economists into political office (Langston 1995, 265), followed his former boss Carlos Hank González as director of the food-distribution company CONASUPO, even though he was Hank’s *hombre de confianza* (Langston 1995, 268), he appointed his own team of 28 new directors and managers, who in turn brought in their teams. By the time all the shuffling was over, of 78 mid-to-high-level administrators that Grindle interviewed for her detailed study of careers in that state enterprise, only 12 had survived the transfer of power, and even those were in different positions (1977, 39). Bureaucrats below the managerial level were generally protected by law and union contracts (Grindle 1977, 62, footnote 5), but they occupied the other side of a great divide marked by authority, prestige, education, and income.

Unlike factions of the Japanese Liberal Democratic Party, which required career-long commitments, published official membership lists, and had established headquarters (Langston 1998, 23), Mexican *grupos* were fluid, defined by degrees of friendship, trust, and mutual benefit, not a binary mathematical function. The leader has his *equipo*, his immediate team of subordinates who are *de confianza* (Grindle 1977, 40), but over time he places *equipo* members on other areas of the administration, creating a broader and somewhat less tight-knit *grupo* (Grindle 1977, 50). There is some overlap among *grupos*, and all successful politicians end up belonging to several different *grupos* during the course of their careers (Camp 1990, 106).

In particular, followers were explicitly allowed to abandon a *grupo* and join another with which they had secondary ties if the leader’s career was blocked (Langston 1995, 255; Camp 1976, 63-64). Jorge Gamboa, a high official under Manuel Camacho Solís when he contended for the presidency at the end of the Salinas administration, confirms: “One is with a leader as long as he keeps rising and opening new opportunities; when he ceases to, one has to look elsewhere.” For example, after Echeverría defeated Coronal del Rosal for the presidential candidacy in 1969, he invited Corona del Rosal’s second-in-command, González Guevara, to accompany his electoral campaign; candidates often sought to mend bridges with their rivals’ *grupos*. Knowing that he could no longer promise advancement, Coronal del Rosal urged his friend and long-time collaborator to take the offer, but he refused, saying that he felt doing so would be “opportunistic” (Corona del Rosal 1995, 278). González Guevara’s refusal, says Corona del Rosal, “demonstrated his rectitude and loyalty, but I continue to think he made a political error.” José López Portillo, who supported the other principal losing candidate in 1969, Secretary of Presidency Emilio Martínez Manatou, avoided the same error. For abandoning his boyhood friend Echeverría during the nomination contest – understandably because Martínez Manatou was his boss – he suffered a demotion, but soon enough Echeverría began to resurrect López Portillo’s career, right up to the presidency of the republic. Was López Portillo in Martínez Manatou’s *grupo* or Echeverría’s? The question is meaningless. First he was in one, then, when it could get him nowhere, he joined the other. And when he became president, he reached back to appoint his old leader Martínez Manatou secretary of public health.

Politicians were somewhat secretive about *grupos*. In the course of research on them, when Joy Langston informally raised the topic with a Mexican graduate economics student at MIT – particularly since the 1970s an advanced economics degree from a prestigious U.S. university has been an excellent route into the political elite – he blushed, told her to read Roderic Camp, and left the room (1994, 18, footnote 42). More experienced politicians will talk about *grupos*, especially what they looked like decades ago, but precisely because of their fluidity and the measure of secrecy that surrounded them, they can give only a very partial picture of who belonged to which one. There was a reason for caution: just as presidents did not want cabinet secretaries mobilizing peasants, bankers, or university rectors, they did not want *grupos* openly organizing to promote candidates. By contrast, Japanese Liberal Democratic Party factions publish membership lists because the prime minister did not choose his successor; a vote of officially listed faction members did (Langston 1998, 28-29).

The political *grupos* that mattered were concentrated in the national administration, both federal ministries and state enterprises, the only real branch of government. Just as there was a division between public and private sectors, so there was one within the state between, on the one hand, the political elite in high administrative office and, on the other hand, the electoral and corporatist apparatus. This division was deep and powerful, even if *grupos* did spill over into a few top party posts such as president of the PRI or elected offices such as governor. Among all cabinet secretaries from 1946 to 1982 – the highest officials after the president and the only ones eligible to succeed him – 60 percent had *exclusively* administrative careers (possibly combined with professorships or other outside positions), and essentially all the rest combined administrative with electoral or party experience; only one had just electoral experience, and none at all had experience just in the party (Hernandez Rodriguez 1984, 42). In a study of public-sector careers, Peter Smith concludes that a background in elective office was “something of a liability in the quest for admission to the upper-level circles of power and prestige, whose ranks have become dominated by lifelong bureaucrats” (1979, 186).

While electoral office did not offer a career at all since there was no reelection, the corporatist sectors did provide a career for labor and peasant leaders, with money and opportunities for graft, but it was a separate track from that of the political elite, requiring effective work in the trenches to control unrest and mobilize support, rather than a *licenciatura*. Here the electoral branch served its useful function; a term as deputy or in some other electoral office was typically awarded corporatist leaders to repay their labors (Hernández Rodríguez 1992, 244); there were even informal quotas for each sector in the Chamber of Deputies, which changed over time with the sectors’ perceived importance.

### The unwritten rules

There were two unwritten rules of elite cooperation. The first was that if *grupos* challenged the president’s authority by overtly mobilizing either their own members or societal groups, they would be destroyed. To put this rule another way, *grupos* could not act as factions; they could not reach out into society at large. There was an underlying logic here: if such mobilization were once initiated, since elections could not decide who won, there would be no way short of violence to end it. The other rule was that as long as *grupos* stuck by the system – pitching proposals to the president, criticizing alternatives, even



impugning opponents' motives, but ultimately accepting presidential authority and not challenging it via external pressure – they could expect to survive. Jorge Gamboa, director of Mexico City development under Manuel Camacho Solís, says there were two means for controlling conflict: “One was the absolute power of the President. The incumbent president decided, and that was that. The other was that, as long as you behaved well, were loyal to the system, and maintained discipline, you were guaranteed a political post.” Political survival was the incentive the president could offer if he curtailed ministers' spending or limited their reach, the coin other than money available to buy loyalty.<sup>92</sup>

Some authors such as Sylvia Maxfield divide the Mexican state between a “Cárdenas coalition” – workers, peasants, small industry, and ministries tending to them such as Labor and Agrarian Reform – and a “bankers alliance” among Finance, the Bank of Mexico, and private-sector finance (1990, 56, 85). This view is not necessarily wrong from a certain perspective: significant ideological differences and policy disputes existed within the state; bankers and the private sector did exercise great influence, with Finance as well as directly with the president; and there were high officials who sought to defend the interests of workers and peasants. But *grupos* that contended over presidential succession were not necessarily united by ideology at all. For example, José Andrés de Oteyza, the most powerful leftist minister under López Portillo, supported the conservative planning and budget minister, de la Madrid, for the presidential nomination. And, most important, no minister in his right mind would have openly mobilized workers or peasants or bankers to promote a presidential candidacy. As Victor Bravo noted, if his father the education minister had so much as enlisted university rectors to support his preferred presidential successor, President Echeverría would have fired him on the spot.

It is universally agreed that presidential hopefuls could not even openly declare their own candidacy, much less mobilize support for it.<sup>93</sup> Asked whether, as governor of Sinaloa in 1987, he would have directly told President de la Madrid that he supported one presidential contender or opposed another, Francisco Labastida, himself the PRI's presidential candidate in 2000, replied, “No, no, no, no, no.” If he had done so and picked the wrong candidate, it would have been destructive not only to his own political career but to the state of Sinaloa. De la Madrid likewise says no one would pointblank express support for or opposition to any presidential hopeful. There was just one telling exception in 1987. After a faction calling itself the Democratic Current tried to build overt support for Cuauhtémoc Cárdenas, the president of the PRI announced at a party assembly that doing so was prohibited by the rules, and the group was expelled.<sup>94</sup>

Dr. Salvador Nava's attempt to build a coalition supporting his gubernatorial candidacy in 1961 had the gravest consequences. Having served as a reform mayor within the PRI, the medical doctor rallied a following and naively registered as a candidate for a position that mattered, governor of San Luis Potosí. He was called to Mexico City to talk with the then president of the PRI, Corona del Rosal. The following dialog took place:

Corona del Rosal: Doctor, you are not going to be the PRI candidate for your state's governor.

Nava: General, you must be mistaken; the party hasn't even held its convention yet in San Luis Potosí.

Corona del Rosal: With or without the convention, you are not going to be the party's candidate, doctor, . . . because in addition to votes, you need something else.

<sup>92</sup> For other statements of much the same rules, see Camp 1980, 17, and 1976, 62; Langston, 1995, 247; 1997a, 8; and 1997b, 27; Suárez Fariás 1988, 306.

<sup>93</sup> Langston, 1997a, 8; Cornelius and Craig 1991, 37; Urquidi, Bracamontes.

<sup>94</sup> The story is detailed in chapter 8.

Nava: What else? The President's benediction?

Corona del Rosal: No, doctor, the President doesn't need to get mixed up in this.

Nava: Then I need your good graces?

Corona del Rosal: Let's suppose so, doctor.

Nava: I don't accept that, because you are not the party; the party is its members, and it is their votes I seek.

Corona del Rosal: Wait a bit, doctor, and later it will be another matter. For the moment, I will make you federal deputy from the first district, and I will give you back the money you spent on your campaign.

Nava: General, I am not looking for employment. The people called me to seek the candidacy for governor because they have confidence in me. (Aguayo 1998, 207-8, citing court testimony).

Nava was backed into running an opposition campaign and fraudulently defeated. Groups that supported him were destroyed. Some supporters were killed in violence provoked by federal agents (Aguayo 1998, 208-13), others jailed, and the rest terrified.

The unwritten rules not only prohibiting societal mobilization but also assuring political survival in return were consolidated during the tumultuous 1951-52 presidential succession. Miguel Alemán, president from 1946 to 1952, had marginalized two important and overlapping political currents: revolutionary generals and the left. The portion of military men in national political office had declined from some 30 percent in the 1930s to 19 percent in the early 1940s, but Alemán slashed it to a mere 8 percent (Camp 1995a, 49, 126) – and since military men had to run the ministries of Defense and of the Navy, that was probably as close to a bare minimum. Alemán filled his administration with classmates from the Law Faculty of the National University; it was said in the Law Faculty, “Here you study to be president” (Krauze 1997, 586). He reversed agrarian policies of distributing large *haciendas* to peasants and fought the not-yet-supine labor movement. In 1948 when a coalition representing workers in railroad, petroleum, and electrical industries protested falling wages, the government threw its support behind a pliable rival leader, the infamous *El Charro* himself. Instigating baseless legal challenges and seizing headquarters with the help of a hundred Federal Security police disguised as workers (Middlebrook 1995, 140), *El Charro* broke the labor coalition. Under Alemán real minimum wages fell by a third (Middlebrook 1995, 214).

But Alemán's mistake was trying to retain power beyond his constitutional term (Servín 2001, 119-27; 204-8). His propaganda to that end was recognized by U.S. State Department and British Foreign Service dispatches (Servín 2001, 122). He bombarded the nation with publicity for “prolonging” his tenure; political figures ranging from a state governor to a labor federation publicly proposed the idea; the party president called for Mexico to be “Alemanized”; the official labor congress declared him “worker of the fatherland”; all state legislatures rendered homage to him (Cosío Villegas 1975, 118-19). Generals – the political faction most likely to oppose him – were pressured to sign a statement agreeing to any constitutional amendment that might support lengthening the presidential term or allowing reelection (Cárdenas 1973, 399-400).

Alemán's own finance secretary, Ramón Beteta, privately expressed fears that if the Korean War should spread to a U.S.-Russian confrontation, a political current would try to extend Alemán's term in office and “take extreme measures against the left” (Cárdenas 1973, 417). Abelardo Rodríguez, a former president of Mexico, spoke out against reelection, and when Alemán's private secretary sent intermediaries to ask Gen. Lázaro Cárdenas, perhaps the most revered Mexican president of the twentieth century, what he thought of re-election, he said they were welcome to make his opinion public:

“Only the false friends of President Alemán desire his reelection” (Cárdenas 1973, 440).<sup>95</sup> Finally, Gen. Cándido Aguilar, Alemán’s former political mentor, warned the president against seeking reelection: “It’s going to cost you your life” (Krauze 1997, 559).

Alemán’s backup strategy (proceeding in parallel with the reelection plan) was to establish a dynasty by installing Fernando Casas Alemán, a cousin (Smith 1991, 345) who had practiced law with him, served under him before he became president, and, according to the historian Enrique Krauze “owed everything to him” (1997, 559). By September, a month before the official candidate was to be selected, a Unity Group for Casas Alemán, a Group of a Million Workers, and a Federation of University Affiliates and Workers – whoever exactly they might have been – and numerous statewide organizations declared support for Casas Alemán (Cosío Villegas 1975, 114). Organizations beholden to the government do not lightly come out for a candidate: a mistake can bring enormous political harm. Even *Newsweek* declared Casas Alemán the president’s choice (Krauze 1997, 559). Then Casas Alemán lost the nomination.

The campaign against President Alemán’s plans had actually begun a year earlier. Gen. Miguel Henríquez Guzmán, backed by military officers, peasant groups, and labor unions, sought the official party’s nomination – the last time in almost four decades when powerful currents within the PRI would openly mobilize to threaten its internal machinations. Gen. Marcelino García Barragán, whom Alemán had forced out of the governorship of Jalisco, was a campaign leader; many others had held high posts under Cárdenas, including the director of agrarian reform and secretary general of the National Peasant Federation (Cosío Villegas 1975, 127). They protested the corruption of Alemán’s “group of intimates” and demanded a democratic process for selecting the candidate (Pellicer de Brody and Reyna 1978, 46-47). When the PRI leader warned that party members were prohibited from engaging in electoral “propaganda,” *henriquistas* countered that “the president of the party does not have the authority to indicate the exact date when free party members can voice their support” (Pellicer de Brody and Reyna 1978, 47). But by March 1951 they saw they had no chance within the party, broke off, and mounted an opposition campaign.

Here the role of one individual, ex-president and general Lázaro Cárdenas, seems to have been critical, both in dooming the *henriquistas* challenge and in blocking Alemán’s dynastic ambitions. The former president was Henríquez’ friend, and his wife and son Cuauhtémoc Cárdenas (the same who would split from the PRI in 1987 to run the next powerful opposition campaign) openly supported his campaign, but the general would not. He told his friend: “You only get to national office by one of two routes: the unanimous support of the people, so clear that the government is forced to recognize the triumph, or government sympathy for the candidate” (1973, 452). Of course, it was inconceivable that “unanimous support of the people” could even be recognized, so controlled was the press. Henríquez’ presidential bid was defeated amid electoral fraud, legalistic maneuvers, and bloodshed. His party was falsely accused of supporting a violent demonstration, and, officiously citing articles 29 and 41 of the electoral code (suitable articles could be found to justify almost anything), the Interior Ministry dissolved it. Olga Pellicer de Brody writes in the *History of the Mexican Revolution*: “From that time on, members of the political bureaucracy fully accepted that the unique manner of arriving at the cusp of power was to

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<sup>95</sup> Raúl Scelinas Lozano, a high official in the 1950s and 1960s and father of Carlos Salinas, says Cárdenas forced Alemán to back down by threatening to run himself.

submit to whatever decision the incumbent president might make” (Pellicer de Brody and Reyna 1978, 60).

However, factions within the party who feared Alemán’s dynastic ambitions used the external *henriquista* challenge to force the president to abandon them. According to Krauze, Cárdenas threatened to join Henríquez and even take to the battlefield unless Alemán backed down (1997, 559-560). Frank Brandenburg, an American political scientist who spent ten years interviewing Mexican political figures in that era, says that ex-presidents Lázaro Cárdenas and Ávila Camacho “forcefully stepped back into Revolutionary Family leadership” to block Casas Alemán’s nomination (1964, 106):

Toppling [him] required the firm action of these two senior members of the inner circle. . . . Through a process of back-scratching and log-rolling that involved former presidents, military men, regional strongmen, and other individuals, a *modus vivendi* emerged. . . . [A]ll factions . . . would lend support to the candidacy of Adolfo Ruiz Cortines, a noncontroversial career civil servant. (1964, 107)

Cosío Villegas, who was one of the most acute observer of Mexican political elites, and lived through those events, ridicules this story as having been told for years without a shred of evidence (1975, 16), and indeed neither Krauze nor Brandenburg cites a source.<sup>96</sup> However, Cosío Villegas concedes “the grave danger that Cárdenas and other public figures would take their opposition to the field of arms” to prevent Alemán’s personal reelection (1975, 120). Why would his attempt to appoint a crony and establish a dynasty not face the same threat? Cárdenas’ political prestige, his past as a revolutionary general, his close relationship with Henríquez, and the roster of military officers in the *henriquista* campaign, posed an enormous peril to Alemán and the political system. Even if the actual events did not occur as reported by Krauze and Brandenburg, their functional equivalent did: political elites understood that Alemán was forced to compromise with other factions. Gustavo Carvajal, whose father was interior secretary under Ruiz Cortines and who was himself later president of the PRI, says that Casas Alemán generated powerful opposition within the political system:

Ex-President Ávila Camacho, who had great force and moral authority with the political class, used a bit of a strong arm behind the scenes, and ex-President Cárdenas was a figure of stability for the country. . . . The majority of cabinet secretaries said: ‘Ruiz Cortines is the man, the most institutional, the most respectful, the one who will not generate conflict.’ When the president opted for him, everyone supported him. . . . The president had to make consultations. He didn’t say, ‘I’m going to pick my friend so-and-so.’ He consulted with power groups, ex Presidents, the private sector, the labor federation, the church, and so on. And from those consultations the candidate emerged.

In office Ruiz Cortines coopted the symbols of Henríquez’ campaign, attacking the Alemán administration as corrupt, prosecuting ex officials, launching a campaign against private-sector “monopolizers” for driving up prices of necessities, and even fining some 16,000 firms for that infraction (Pellicer de Brody and Reyna 1978, 20). Of critical importance for the political system, Pellicer de Brody notes, once the renegade party was destroyed, “whichever [*henriquistas*] wanted to participate in exercising power and opted for reconciliation were permitted to obtain high positions in the administration almost immediately” (Pellicer de Brody and Reyna 1978, 56).<sup>97</sup> The portion of military men in national office rose from 8 percent under Alemán to 14 percent under Ruiz Cortines (Camp 1995a, 126).

<sup>96</sup> Both Suárez Farías (1988, 317) and Camp (1976, 52-53) tell essentially the same story, but Suárez Farías does not cite a source either, and Camp cites Brandenburg. Nor does Cárdenas himself say anything in his diary (1973) about participating in the episode.

<sup>97</sup> Likewise Langston 1997b, 23, citing additional sources.

The promise of political survival gave presidents the leverage they needed to handle economic threats. Gustavo Carvajal notes that the way the system handled the 1951-52 presidential succession produced “great unity within the government. That is why the secret of the [1954] devaluation was kept with enormous caution.” Humberto Romero Pérez, press secretary to President Ruiz Cortines, likewise sees government unity as critical to the devaluation, and Ernesto Fernández Hurtado, a bank of Mexico official since the late 1940s and its director from 1970 through 1976, says that an essential factor in its success was a “clear, sustainable agreement with the government, that it was not going to give in, as it always used to when devaluations caused prices to rise, that it would not allow excessive salary increases, nor would it increase the fiscal deficit as a percentage of GDP. . . . It was important that there was no Ministry of Planning and Budget” – that is, no rivalry between ministries, such as did emerge after 1970, over budget authority.

The 1958-59 strike wave also highlights how important the rules of elite cooperation were to the political system. The point is not just that, as mentioned in the last chapter, ministries including Labor, Interior, Communications and Transport, and Industry and Commerce, as well as police forces and military units, collaborated in ending the strikes. As well, the context of falling wages in key government sectors and labor unrest boiling up a year before the 1957 presidential nomination among the electrical-utility workers and Mexico City teachers (Carr 1991, 133) was favorable for a dissident political *grupo* that might have wanted to launch an opposition campaign, as had happened in 1952 and would happen again in 1988. But no faction did; no political *grupos* reached out to support the strikers (Salinas Lozano, González Blanco, Carrillo Gamboa); the political system closed ranks behind the president (Krauze 1997, 638). Though the societal context was propitious for an external challenge, the rules of elite cooperation prevented it.

#### Elite cooperation and economic stability

One principal reason to believe that elite cooperation was the crucial political requisite that allowed Mexico to avoid crisis in the 1950s and 1960s is the timing: It was an important characteristic of the Mexican state that existed in the 1950s and 1960s and was lost in the 1970s and 1980s. While the relationship between state and society did not significantly change from the 1950s through the 1980s – the corporatist structure remained very much intact; unions never posed any real challenge; the official party kept winning elections by landslides; and the opposition was not even capable of seriously protesting electoral fraud until 1988 – the relationship among *grupos* did change.

The two decades before 1970 were a period of unusual elite cooperation, when *grupos* had high and realistic expectations of political survival, while the next two decades were an era of mounting struggle, as *grupos*' survival became increasingly unpredictable. It is widely accepted that the incoming president always appointed cabinet secretaries from *grupos* that were not his own, assuring a post not only for appointees themselves but for their followers (Camp 1976, 57-58; Smith 1979, 51; Suárez Farías 1988, 306; Langston 1997a, 8) – until Echeverría disrupted the pattern in 1970 (Centeno 1994, 153; Schmidt 1991, 154; Cosío Villegas 1974, 20-21). It would be ideal to directly gauge whether *grupos* enjoyed more continuity and stability in the 1950s and 1960s than before that era or after, but it is extremely difficult to trace changes in their makeup over decades. Extensive interviews would be required to determine who belonged to which one at which moment,

and answers might well conflict because of *grupos*' fluidity, informality, and secrecy. As Langston, who has done extensive interviews about *grupos*, notes (1994, 5): "1. Everyone is in a group. 2. Most deny it vigorously. 3. Most have ties with other groups, whether competing or not, whose affiliation, however casual, is denied as well."

A practical alternative is to gauge the stability of cabinet secretaries' careers. As in the case when Coronel del Rosal was governor of Mexico City (one of the most important cabinet posts), when cabinet secretaries moved, a long train of officials normally followed (Hernández Rodríguez 1987, 21). For example, in a mid-administration shake-up in 1979, López Portillo fired the secretaries of Planning and Budget, Interior, and Foreign Relations on one day. That year turnover among high officials (subsecretaries, director generals, and directors) was 58 percent in Planning and Budget, 50 percent in Interior, and 45 percent in Foreign Relations (the only area of government with a true civil service); by comparison turnover in Agriculture was 15 percent and in Presidency (an office, not then a ministry) was 19 percent (Bailey 1988, 78).<sup>98</sup> If more cabinet secretaries' careers ended prematurely, their *grupo*'s and followers' promise of a political futures thus became more uncertain.

Cabinet secretaries enjoyed unusual stability precisely during the 1950s and 1960s. In studying cabinet careers, Rogelio Hernández Rodríguez traced what portion of the original group of secretaries in each administration was replaced. There was considerable instability before 1952, as Alemán replaced 35 percent of his original cabinet in the course of the administration (Hernández Rodríguez 1992, 254). That figure understates the real threat to political factions, since it does not count Alemán's exclusion of leftists and former revolutionary officers who led the *henriquista* mutiny. From 1952 and 1970, when by all accounts diverse factions were included in the cabinet, so that instability would be captured in data on secretaries' careers, dismissals fell dramatically. Only about a tenth of the cabinet – from 5 to 16 percent – was replaced in the course of each administration (Hernández Rodríguez 1992, 254). In the 1970s dismissals surged, as practically two-thirds of each cabinet – 58 percent under Echeverría and 65 percent under López Portillo – was replaced (*ibid.*). In reaction to the infighting under López Portillo, de la Madrid says he sought to name a well-functioning, homogeneous cabinet, and his was the most stable after 1970, but still he replaced 52 percent of his secretaries.<sup>99</sup> Salinas replaced 62 percent of his – often two, three, and even four times. As he himself said, apparently referring to his tenure, "In that tremendous battle [for political power], it is very difficult to think that whoever accedes to the responsibility of cabinet secretary at the start of an administration will still be in the same position by the middle or the end" (Castañeda 1999, 239-40).

A different gauge of instability reveals interesting subthemes. While Hernández Rodríguez counted whether original appointees survived the administration, turnover counts how rapidly officeholders were changed, from a low of one-third change per administration (one director of the Bank of Mexico over three administrations from 1952 through 1970) to a high of five per administration (Salinas went through almost an attorney general a year). Average turnover during an administration then provides a gauge of instability. Two different groups of officials are counted as a cross-check: first, all cabinet

<sup>98</sup> Bailey also includes turnover in Defense, where the secretary did not change – it was 24 percent – but he notes that the figure is inflated, as a number of the changes are the same individuals shifting among positions in the ministry. Also, Defense was its own area, outside the normal political circuit.

<sup>99</sup> Hernández Rodríguez does not provide comparable data for de la Madrid and Salinas, so I used his criteria (1984, 21) and data from Camp 1995b, 904-40, and Aguayo 2000, 274-77, to calculate the figures.

members plus the directors of the Bank of Mexico and of the largest state enterprises (Social Security, Pemex, and the Federal Electricity Commission); second, the highest posts, as designated by one of the best informed observers of the entire period, Victor Urquidi, an economic official in various positions from 1940 through 1964, president of the Colegio de Mexico until 1985, and advisor to several presidents (Tables 5-1 and 5-2).<sup>100</sup> In both cases, a turnover of about 1.3 under Alemán (1946-52) drops moderately to about 1.0 under Ruiz Cortines (1952-58) and López Mateos (1958-64), then rises moderately to about 1.3 under Díaz Ordaz (1964-70). Though underrepresenting instability under Alemán as before, the data suggests that something began to erode before Echeverría took office. But there is a sharp discontinuity after he entered office in 1970, as turnover surges to 2.0. It declines under de la Madrid, most dramatically among the highest officials designated by Urquidi, no doubt reflecting de la Madrid's efforts to achieve more stability. However, his exclusion of the left, provoking the first elite split since Alemán, means that real instability was higher than the figures indicate and was not at all easy to control. Instability then reaches record levels under Salinas.

Contemporary officials were well aware of the unusual stability in the 1950s and 1960s. For example, José Patrocinio González Blanco rose from director of public investment under López Mateos in the early 1960s to interior secretary under Salinas in the 1990s; his father was labor minister from 1958 through 1970; his father-in-law was Ortiz Mena; and he is related through his wife to the Salinas family. He says:

Even though the Constitution talks of secretaries, [during the 1950s and 1960s] common usage and the newspapers referred to the labor minister, the finance minister. Under the López Mateos and Díaz Ordaz administrations, the labor secretary stayed on 12 years; the finance secretary was in office 12 years; and it appeared that the head of Mexico City would do likewise, but he finally left because of a personal quarrel with the president. Interior enjoyed continuity, too, since the secretary ascended to being president. The idea was to provide continuity in areas of risk.

"That stability ended with Díaz Ordaz," says Luis Enrique Bracamontes, undersecretary of public works from 1958 through 1964 and secretary of public works from 1970 through 1976. "Afterwards came instability among high officials, which continued in all administrations."

Numerous other members of the political elite agree that the 1950s and 1960s were an era of unusual stability in office, and that instability surged after 1970 (Romero Pérez, Beteta, Ortiz Mena, González Blanco, Carrillo Gamboa, Suárez Mier). Javier Alejo doubts that the change under Echeverría was significant, noting that many of his replacements were explained by special circumstances such as illness. However, Alejo was one of the younger officials who rose to prominence after 1970 and did not hold high office beforehand. If one takes special circumstances into account in the 1950s and 1960s, turnover is practically zero. Doing so would require investigating departures one by one, as an official story that someone left for health reasons is not infrequently a cover-up. Thus, none of the data used take special circumstance into account. It seems safe to assume that officials did not get sick more often after 1970 than before.

Elite cooperation is a logical reason why Mexico could have maintained economic stability in the earlier decades, and its subsequent loss is likewise a logical reason why Mexico would have succumbed to crises. It is clear enough why the president could have

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<sup>100</sup> I also include in Table 5-3 the highest posts as designated by Enrique Cárdenas, an economic historian who has written about the entire period. This table points to the same basic trends, but to avoid needless complexity I have not discussed it in the text.

**Table 5-1: Turnover in high posts, 1946-94**

	Alemán 1946-52	Ruiz Cortines 1952-58	López Mateos 1958-64	Díaz Ordaz 1964-70	Echeverría 1970-76	López Portillo 1976-82	de la Madrid 1982-88	Salinas 1988-94
Attorney General	1	2	2	2	2	1	1	5
Director of Bank of Mexico	1	0.33	0.33	0.33	1	3	0.5	0.5
Director of Federal Electric Commission	1	1	1	1	3	2	2	1
Director of Social Security	1	1	1	2	2	1	1	3
Director of Pemex	0.5	0.5	1	1	1	2	2	1
Governor of Mexico City	1	0.5	0.5	2	2	1	1	2
President of PRI	1	2	1	3	3	4	2	3
Secretary of Agrarian Reform					2	4	2	1
Secretary of Agriculture	1	1	1	1	2	1	2	2
Secretary of Commerce and Industry	2	1	1	1	2	2	1	1
Secretary of Communications and Transport			1	1	1	1	2	2
Secretary of Education	1	1	1	1	1	2	2	4
Secretary of Finance	1	1	0.5	0.5	2	3	2	1
Secretary of Fisheries								2
Secretary of Foreign Relations	2	1	2	1	2	2	1	3
Secretary of Health and Welfare	1	1	1	2	2	2	1	1
Secretary of Interior	3	1	1	1	1	2	1	3
Secretary of Labor	1	1	0.5	0.5	3	3	1	2
Secretary of Presidency/Planning and Budget			1	1	2	3	1	1
Secretary of Public Works/Social Development	1	2	1	1	1	1	4	2
Secretary of State Industries	3	1	1	2	2	1	3	2
Secretary of Tourism						2	1	3
Secretary of Water Resources	1	2	1	1	2			
<b>Average turnover in high posts</b>	<b>1.31</b>	<b>1.13</b>	<b>0.99</b>	<b>1.27</b>	<b>1.86</b>	<b>2.05</b>	<b>1.57</b>	<b>2.07</b>



**Table 5-2: Turnover in highest posts, 1946-94 (Urquidí)**

	Alamán 1946-52	Ruiz Cortines 1952-58	López Mateos 1958-64	Díaz Ordaz 1964-70	Echeverría 76	López Portillo 1976-82	de la Madrid 1982-88	Salinas 1988-94
<b>Highest posts after president</b>								
Governor of Mexico City	1	0.5	0.5	2	2	1	1	2
Secretary of Finance	1	1	0.5	0.5	2	3	2	1
Secretary of Interior	3	1	1	1	1	2	1	3
Secretary of Labor	1	1	0.5	0.5	3	3	1	2
Secretary of Planning and Budget						3	1	1
<b>Average turnover in highest posts</b>	<b>1.50</b>	<b>0.88</b>	<b>0.63</b>	<b>1.00</b>	<b>2.00</b>	<b>2.40</b>	<b>1.20</b>	<b>1.80</b>
<b>Next highest posts after president</b>								
Secretary of Health and Welfare	1	1	1	2	2	2	1	1
Director of Social Security	1	1	1	2	2	1	1	3
Secretary of Water Resources	1	2	1	1	2			
<b>Average turnover in all posts listed</b>	<b>1.29</b>	<b>1.07</b>	<b>0.79</b>	<b>1.29</b>	<b>2.00</b>	<b>2.14</b>	<b>1.14</b>	<b>1.86</b>

**Table 5-3: Turnover in highest posts, 1946-94 (Cardenas)**

	Alemán 1946-52	Ruiz Cortines 1952-58	López Mateos 1958-64	Díaz Ordaz 1964-70	Echeverría 1970-76	López Portillo 1976-82	de la Madrid 1982-88	Salinas 1988-94
Director of Bank of Mexico	1	0.33	0.33	0.33	1	3	0.5	0.5
Director of National Development Bank	1	0.33	0.33	0.33	2	2	2	2
Director of Pemex	0.5	0.5	1	1	1	2	2	1
Governor of Mexico City	1	0.5	0.5	2	2	1	1	2
Secretary of Commerce and Industry	2	1	1	1	2	2	1	1
Secretary of Communications and Transport								
Secretary of Finance	1	1	0.5	0.5	2	3	2	1
Secretary of Interior	3	1	1	1	1	2	1	3
Secretary of Presidency/Planning and Budget								
Secretary of Public Works/Social Development	1	2	1	1	2	3	1	1
Secretary of State Industries	3	1	1	1	1	1	4	2
Secretary of Water Resources	1	2	1	1	2	1	3	2
<b>Average turnover in highest posts</b>	<b>1.45</b>	<b>0.97</b>	<b>0.81</b>	<b>1.01</b>	<b>1.58</b>	<b>1.91</b>	<b>1.77</b>	<b>1.59</b>

Tables 5-1 through 5-3, Turnover among high officials, notes

Tables 5-1 through 5-3

All cabinet secretaries are included except for Defense and Navy, who are outside the ordinary political circuit. Directors of the three largest parastatals – Pemex, Social Security, and the Federal Electric Commission – are included in the full group of high officials, as are the director of the Bank of Mexico and president of the PRI.

When an official stayed in the same post for more than one administration, the appropriate fraction of his tenure is allocated to each administration.

The presidential candidate's replacement (when he leaves to campaign) is not counted in the turnover of any administration.

Adjustments are not made for special cases, e.g., when a secretary is thought to have retired for health reasons (often a debatable claim). No turnover is included (spaces are left blank) when a ministry did not exist in an administration.

Sources for occupants of high posts: Camp 1995b, 904-40; Aguayo 2000, 274-77

Table 5-2

Designation of highest and next highest posts (after president): Victor Urquidi.

Table 5-3

Designation of highest posts (after president): Enrique Cárdenas

relied on elite cooperation – the promise that *grupos* would survive in exchange for not taking disputes outside the system – to check or curtail spending. If what *grupos* wanted was continuing to share in political power, as attempts to explain politically motivated spending assume (Ames 1987, 1), the cooperative rules assured them of it directly. Such assurance was worth more than the uncertain chance of trying to grab more power at particular junctures by manipulating the public purse, particularly given the small chance that the power grab would succeed. Of course, no system is perfect, *grupos* could have more power or less power, and there were attempts to use the public purse, as in presidential hopefuls' 1963 investment spree. But once the president found out what was going on, he could clamp down on the problem – in the 1964 case by forcing state enterprises to pass income and expenditures through the Bank of Mexico where they could be supervised – because he had a powerful incentive to assure obedience and was not intimidated into having to buy it.

Loss of elite cooperation could erupt in spending because, though *grupos* could not *openly* mobilize support for a candidate, they could and did contend *covertly*.<sup>101</sup> As Bracamontes says, they built support for their preferred candidate “with great discretion, through intimates, friends *de confianza*, no? Someone would say to me, ‘I would like to introduce you to [Agriculture Secretary] Gilberto Flores Muñoz.’ I would say, ‘Thank you, but I already know him.’ Since he was a secretary and I was an undersecretary, I had had dealings with him on occasion. Or partisans of [Public Health Secretary] Ignacio Morones Prieto would say the same. The idea was to keep building supporters.”

Though campaigning was *sub rosa*, the president was well aware of it – and far from oblivious to the results. He knew he could not impose a powerfully disliked candidate without risking a crisis such as had erupted in 1951. In fact, a former PRI secretary and cabinet minister told Roderic Camp, the cost of imposing the wrong candidate could be no less than destruction of the political system (1976, 82). Thus, in everyday discussions with political actors in Mexico – and outside; the candidate could not be strongly opposed by the United States or the Catholic Church either (de la Madrid) – the president performed what was called an *auscultación*, the medical procedure of listening to a patient's heartbeat. It was a subtle matter of culling information, not stirring up unwanted opinions and pressures. For example, de la Madrid has said: “When I became President, I know that López Portillo had not made explicit consultations [as to which candidates different groups favored]. Yes, he had been checking the lay of the land, making an *auscultación*, asking. But express consultation, I think not” (Castaneda 1999, 159-60). The president of the PRI helped with the *auscultación* (de la Madrid). Says Rafael Moreno Valle, cabinet secretary under Díaz Ordaz and the president's closest friend late in his life:

I believe that the president of the party [based on his discussions with political groups] exchanged opinions with the president. As well, the Interior Ministry had agencies to investigate political questions [Moreno Valle probably means the Federal Security Directorate] and provided reports to the secretary, who passed them to the president: there are political currents in this state leaning this way, in another state leaning that way. In other words, they would go along performing an *auscultación* of national opinion.

There were of course no official results of the *auscultación*, and whatever conclusions the president drew he guarded closely, so as to keep all contestants hopefully

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<sup>101</sup> Camp 1976, 73; Langston, 1995, 249; Grindle 1977, 52; Cornelius and Craig 1991, 37; Newell and Rubio 1984, 71; Suárez Farías, 1988, 316; and de la Vega Domínguez. Castañeda 1999, from beginning to end, is about such conflict.

playing the inside game of presidential succession – and not splitting off for fear of losing. In his *Political Memoirs* Corona del Rosal, president of the PRI in 1963, describes the curious and secretive process that led to the *destape*, or the uncovering of the winner, Gustavo Díaz Ordaz. Corona del Rosal discussed with President “some of the members of his cabinet, who the public [a euphemism for political elites] considered possible candidates. I will say that I presented my viewpoint with care, because we were talking about persons who merited my respect” (1995, 141). He proceeds to list practically the entire cabinet, as if, thirty years later, it was still necessary even for the president of the party to preserve his impartiality, not to cast his lot with a candidate who might in the end lose. But, political survivor that he was, he ferreted out the successful candidate’s identity:

As for the interior minister, Gustavo Díaz Ordaz, I remembered that years earlier, when we were senators, *licenciado* López Mateos called him “Gustavito” and, along with other members of the Senate, used to comment on his intelligence and ability. . . . For his part, President López Mateos kept indicating his recognition of and affection toward *licenciado* Díaz Ordaz, that master of juridical knowledge and vast culture, whom he tacitly indicated as his successor (1995, 141-42).

The *destape* of the candidate was a strange dance of president and political elites, all aware that things could go terribly wrong if some line were crossed, no one quite sure just where that line might be. President López Mateos called Luis Gómez Z., a Railroad Workers leader who had tried to foment an independent federation but had been defeated and coopted back into the system, along with Napoleon Gómez Sada, leader of the Mining and Metalworkers, to make speeches lauding the winning candidate at the public *destape*. They emerged from the president’s office brimming with enthusiasm – but in the dark as to who that candidate was (Corona del Rosal 1995, 142). Corona del Rosal claims he was not even given a specific name, but he knew. Standing before the National Executive Committee, he announced that “the majority of statewide party committees, labor leaders, and labor federations have expressed their solidarity for the candidate, *licenciado* Gustavo Díaz Ordaz” (Corona del Rosal 1995, 143). He notes: “My words were received with a unanimous public approval: the whole [executive committee] and all who had come as spectators stood up and applauded” (*ibid.*).

The executive committee and the spectators had no option but to applaud. If opponents had wanted to organize so much as a discussion of the winning candidate, or of the *auscultación*, they would have had to read each others’ minds in a split second. Anyway, members of the executive committee did not even occupy the second rung of power below the president, but the third or fourth, and were in no position to object. When that committee later announced the result to the much larger party convention, it had no alternative but to applaud, either. Immediately the *cargada* of all important groups in the PRI, and above all the losing candidates, had to hail the new dauphin (Langston 1997a, 8). All danger of an elite split and political succession crisis had passed.

Problems could occur during the *sub rosa* campaign for the presidential nomination because it was not always as polite as the intimate chats Bracamontes describes. There were *golpes bajos*, low blows aimed at competitors. News leaks were a favorite form, as when a report prepared by presidential contender de la Madrid’s Planning and Budget Ministry, detailing administrative disorder and corruption in Pemex under presidential contender Jorge Díaz Serrano, made its way into the feisty weekly *Proceso* (Castañeda 1999, 185). In addition to building alliances with governors, senators, or labor unions, says David Ibarra, finance secretary under López Portillo, candidates might “win the favor of the president, say yes to him even when he was wrong.” Of course, one of the principal

issues to humor the president about was the level of public expenditure. And one could use that expenditure to strengthen alliances. Ibarra notes: "If I have a governor who sympathizes with me, I give him more to spend, or if I'm the finance secretary, I increase his credit line. There are any number of different methods, the same as in any country." Except, of course, that the goal was to win the official party's nomination, not popular votes. And entire *grupos* had an incentive to deliver *golpes bajos* or spread money around even if the leader did not explicitly direct them to, since they would prosper if he did. For example, a member of Jorge de la Vega's *grupo* in CONASUPO told Grindle that if de la Vega supported the winning presidential candidate and thus became a cabinet secretary, "his entire [team] will follow him and we'll all have positions in the Ministry."<sup>102</sup> The campaign for the presidency, though *sub rosa*, could perfectly well affect economic policymaking. The next chapters discuss how it repeatedly did so.

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<sup>102</sup> Grindle never identifies de la Vega Domínguez by name, only as the director of CONASUPO, but he was the only person who held that position from 1971 to 1976 when she was doing her research.

## Chapter 6

**The End of Stability**

Luis Echeverría's presidency was a transition, ending an era of stability and beginning one of crises, but different in many ways from both. The question of why it broke from the past turns, first, on a clear account of just how it broke from the past. At least three principal features are widely agreed on as marking that break, even if their underlying causes are disputed: massive spending increases and fiscal deficits; conflictive and erratic policymaking; and unprecedented dismissals and turnover of high officials, all by comparison with the 1950s and 1960s. Pointing to policymaking conflict and high turnover does not automatically implicate elite politics as the cause. Fundamental, unresolved socioeconomic problems could perfectly well provoke policy conflict, as well as frequent dismissals, as one official after another failed to solve them. However, it turns out that the problems lay in ideological escalation directly disrupting the political elite, as well as Echeverría's own obsessions and errors.

The massive spending increases and budget deficits have been discussed: the state's weight in the economy swelled from the 1960s norm of 20 percent of GDP to 30 percent of GDP, at the same time that the public sector's deficit rose from 3 percent to 10 percent of GDP. These deficits contributed directly to the 1976 economic crisis.

The way high officeholders started churning far more rapidly through posts has also been discussed, but its particularly dramatic character in the economic area is worth noting. Díaz Ordaz changed only one economic minister, promoting the state industries secretary, not an especially important cabinet position at the time (Finance had extended its sway over state enterprises via its budget control), to a more prominent post as governor of Mexico City.<sup>103</sup> Echeverría went through three ministers of Finance, two of Presidency, two of State Industries, two of Industry and Commerce, and three of Labor.

Left and right alike saw policymaking under Echeverría as conflictive, even if they diagnosed its underlying causes differently. Many authors describe the conflict as an ideological rupture between "monetarists," led (until he was replaced) by Hugo Margáin in Finance, who sought to control monetary growth, budget deficits, and inflation, and "structuralists," led (until he too was replaced) by Horacio Flores de la Peña in State Industries, who sought to boost public spending in an effort to solve underlying structural problems (Basáñez 1996, 83).<sup>104</sup> Says Javier Alejo, state industries secretary after Flores de la Peña, "Clearly, there had been conflicts between the left and right for a long time, but during the Echeverría administration, they became more radicalized and more intense."<sup>105</sup> Mario Ramón Beteta, principal finance undersecretary and then finance secretary, says: "I had to have it out frequently with the president [to try to control spending], and not so much the president, because he and I had a good relationship, but with Flores de la Peña and his team. I had a very bad relationship with them; they were very irresponsible." Says

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<sup>103</sup> Finance Minister Ortiz Mena was replaced within the last six months of the Díaz Ordaz administration, but in a sign of things to come, it was at the behest of president-elect Echeverría. Also within the last six months, Rodrigo Gómez died and was replaced.

<sup>104</sup> Likewise Luna 1983, 457; Tello 1979, 91-92; López Portillo Romano 1994, 96-97.

<sup>105</sup> Officials who likewise saw policymaking under Echeverría as highly conflictive include Zapata (who specifically speaks of it as ideological), Moctezuma, Mancera, Suárez Mier.

Flores de la Peña, “There was constant, daily conflict over how to manage economic policy.” David Ibarra, Mexico City director of the U.N. Economic Commission on Latin America and a participant in important administration economic discussions, sees those conflicting interests and pressures in policymaking as arising from structural economic problems: “The old economic model was deteriorating; it had reached its limit in terms of foreign trade; it required a more equitable income distribution to be sustainable.”

Policymaking is also agreed to have been erratic and inefficient. Not to mince words, the historian Enrique Krauze says that “inconsistency, contradiction, and sheer unconsciousness reigned supreme” (1997, 748). Leopoldo Solís, director of economic planning in the Ministry of Presidency and considered conservative by the left, describes how, after carefully planning investment priorities, the administration suddenly dropped them in 1971, making “drastic” 23 percent across-the-board investment cuts to pursue an ill-advised anti-inflation effort promoted by Finance (1981, 47-48). Then, when it turned out that the cuts only aggravated a recession that had already been in the making, other ministries led the attack on Finance, and joined a race to invest in whatever projects could be slapped together fastest, yet again ignoring planned priorities as investment rose more than 100 percent in two years (1981, 64, 67-68). Carlos Tello, a left-leaning economic official under Echeverría and state industries secretary under López Portillo, describes the episode in strikingly similar terms: “To reverse its success in creating a recession, the public sector had to move full speed ahead with programs to improve employment and income distribution. Haste combined with inexperience, since many of the efforts were entirely new. . . . The resulting investments were sometimes inefficiently implemented and not productive” (1979, 78).

Economic policy was, as Tello repeatedly argues, caught in a cycle of “brake and accelerate” (1979, 81, 87-89, 109):<sup>106</sup> expenditure grew less than 10 percent in 1971, 1974, and 1976 – within the 1960s norm – but surged more than 20 percent in 1972, 1973, and 1975 (Table 3-3). Management was also erratic and inefficient at the ground level. For example, Victor Urquidi saw the Lázaro Cárdenas steel mill as useful. “But they built it at great speed with six or eight suppliers from different countries. I went to visit the plant when it was just beginning operations, and I was told, ‘That’s the British group; that’s the German group – they don’t like each other – and the French are down there.’”

A persuasive explanation as to why the Echeverría administration’s economic policymaking broke so decisively with the past needs to account for at least these principal aspects of the break – massive spending and deficits; conflictive and inefficient policymaking; and rapid turnover among high officials. Aside from socioeconomic theories discussed in chapters 2 and 3, the principal candidates focus specifically on this administration. They are:

- The state’s loss of political legitimacy at Tlatelolco. Perhaps the most common account sees Mexico’s economic development and modernization during the 1960s as creating a middle class that began to demand a greater share in governance and more democratic institutions. When the state violently repressed these demands in October 1968 at Tlatelolco, it lost political legitimacy. Echeverría changed the course of government to regain that legitimacy or, at least, to buy off dissent.

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<sup>106</sup> Oteyza, also on the left, agrees about that policymaking turned conflictive and erratic under Echeverría. Solana calls it “badly managed” and “highly unproductive.”



- A split within the political elite over Tlatelolco. An argument that complements the previous one holds that factions of the political elite themselves split over Tlatelolco. Impelled in part by sons and daughters who had been on the streets, an important faction broke with Díaz Ordaz, who turned on them as his enemies. This elite fracture, reinforcing societal pressures, made it impossible for contending *grupos* to compromise on a presidential candidate, so Echeverría was the first in decades not backed by consensus. He spent massively to build support within the “revolutionary family” and reunify it.
- A different generation’s entrance into the political elite. Echeverría is widely seen to have ushered into office a new generation of the political elite: it was younger, more *técnico*, less politically experience, and further left. Sociological change in the makeup of the elite could decisively alter policymaking.
- Ideological escalation (Hirschman 1979, 85). A polarized external climate – evident, for example, in Paris 1968, Prague Spring, riots at the Democratic Convention in Chicago, and, of course, Tlatelolco – infected already polarized Latin American economic thinking. Marxists were demanding that “the periphery” break its “dependency” on the capitalist core, while neoliberals were just beginning to make their call for ever freer markets. It is hard to demonstrate that anyone moved left or anyone else moved right on some clear ideological scale (as noted, ideologies within the Mexican political elite had long ranged from liberal to Marxist anyway), but the mere fear that decisive change would occur, and that losing the contest to shape it might be decisive, could have disrupted policymaking.
- Echeverría’s dynastic ambitions. After Plutarco Elías Calles, known as the *jefe máximo*, created a dynasty in the 1920s and early 1930s, three Mexican presidents are widely said to have tried to do much the same: Miguel Alemán failed; Carlos Salinas failed; but Luis Echeverría did a little better. His obsession to ensconce his brand of policies and a continuing share of power by installing as his successor a weak politician indebted to him, his boyhood friend José López Portillo, could have disrupted the political system.

### Political legitimacy

The story about the macroeconomics of populism – pocketbook demands for welfare benefits and other income redistribution – is less often espoused by Mexico scholars than the idea that demands were for democratization, and spending was a response to the state’s loss of political legitimacy at Tlatelolco (Newell and Rubio 1984; Bazdresch and Levy 1991, 237, 252). An “environment for a political and economic crisis” was brewing in the 1960s, according to Newell and Rubio, as the middle class acquired a higher standard of living, better education, and more democratic values (1984, 109-110). This very progress increasingly alienated that class from the authoritarian state “to the point where political institutions had begun to lose their credibility and legitimacy as representative . . . It became evident, through the explosion and later repression of the student movement in 1968, that the political system faced a dilemma of its own creation: it had organized and coalesced new social forces, but it had denied them access to institutions or representation” (Newell and Rubio 1984, 111). When he came into office, Echeverría sought to “restrain the erosion of legitimacy” through aggressive spending that would provide “economic benefits for virtually everyone” (Newell and Rubio 1984, 122). He tried to buy political legitimacy, or at least acquiescence, and caused economic crisis.

Did social movements emerging from Tlatelolco threaten the Mexican states' political legitimacy, and (on the assumption that it was not going to accept real democratization) force it to buy support? The fateful summer of 1968 is often seen as the most important turning point in Mexican history after the Revolution and before the democratic elections of July 2000. Joe Foweraker (1990, 9): "If 1968 is a historical watershed, then the subsequent popular movements can be seen as a rising tide of popular organization, with the thousands of leaders of the generation of 1968 providing the principal of continuity between tens of apparently separate movements."

This idea that 1968 played a critical role in promoting social movements is debatable, quite aside from the question of whether such movements forced Echeverría's break from the past. Neither were Mexicans so docile before that year, nor were their protests so powerful afterwards. Uprisings during the economic stability of the 1950s and 1960s included the powerful railroad, telegraph, petroleum, and teachers strikes from 1956 through 1959; land invasions and mobilization of the General Union of Mexican Workers and Peasants in the northwest; Dr. Nava's electoral confrontations with the PRI in San Luis Potosí; and the Guerrero Civic Union's 1959 protests and two-month strike ousting a corrupt governor (Knight 1990, 89, 94). On historical balance, admittedly anecdotal since no better data exists, Alan Knight concludes that "the *continuity* of social protest [before and after 1968] is striking. The powerful social movements of the recent past [the 1980s] rarely lack precedents, and these precedents often display notable similarities: genuinely innovative social movements (gays and greens, for example) are relatively few and feeble. This is true not only for peasant movements but also for sindical insurgency or middle-class democratic demands" (1990, 93). Foweraker himself sees the most important movements in the 1970s in the insurgent unions (1990, 7). Many of their leaders had been involved in 1968, but, as discussed, Echeverría promoted this insurgency until he decided it was no longer useful, whereupon he let the official corporatist sector destroy it.

Where were the organized groups that would have had to challenge political legitimacy? It is easy to imagine in retrospect more concerted demands than actually existed after 1968. The fact that writers such as Octavio Paz, Carlos Fuentes, Elena Poniatowska, and Carlos Monsiváis later told of the wrongs committed tends to obscure the extent to which public quiet was restored and the student movement disintegrated in the aftermath of the repression (Hellman 1983, 184). The Olympics proceeded as if nothing had happened (Aguayo 1998, 265). Only one radio station, broadcasting in English, covered Tlatelolco (Krauze 1997, 726), and though the international press (there for the Olympics) told much of the story, the Mexican press widely purveyed the version fed by the administration: foreigners and subversives were behind the protests; soldiers and demonstrators alike were shot; and about 25 people sadly died (Aguayo 1998, 262, 268). Even the leftist press such as *Siempre!* lined up behind the government, blaming Tlatelolco on "foreign agents" who destabilize poor countries like Mexico, driving them to "the protection of – or more properly, submission to – the government of the continental power" (Aguayo 1998, 271-72). The United States has its political uses.

Most of Mexican society either supported the government during 1968 or paid no attention to it. Asked whether labor and peasants were involved, Echeverría says, "No, no, that did not occur. Of course, there was a student explosion, but it was very concentrated in Mexico City and two or three other cities, not nationwide. And the students did raise important social and political problems." The private sector's relations with the president

steadily deteriorated because it saw him as anti-business, but not because it cared about Tlatelolco. Unions supported the government in 1968, and peasants, that bastion of ruling-party support, had nothing to do with it at all. Like the labor insurgency, peasant land invasions were largely orchestrated by Echeverría himself (Schmidt 1991, 98-102; Riding 1989, 186-87). Says Díaz Ordaz's friend and cabinet secretary, Rafael Moreno Valle, "[Agrarian Reform Secretary Augusto] Gómez Villanueva promoted land invasions. And there were not only peasants but sometimes workers, tailors, vendors who went to see if they might get a little piece of land. The law was not rigorously respected." A rural guerrilla movement centered in the poor, southern state of Guerrero, finally crushed by the army, always remained isolated from any base of mass support and limited compared with other Latin American movements (Collier and Collier 1991, 607; Carr 1991, 136).

No polling data on political attitudes shows a decline in the state's political legitimacy after 1968; Mexicans' traditionally negative attitudes toward an often corrupt bureaucracy, along with simultaneous pride in national political institutions and especially the presidency, have turned up in every pertinent study and serve to "legitimize" the regime Craig and Cornelius note (1989, 354). A survey of low-income adults in Mexico City taken in 1970, thus after Tlatelolco had erupted and before Echeverría had entered office to try to buy back support, found that 59 percent approved the government's repression, 15 percent opposed it, and 26 percent had no opinion (*ibid.*). Nearly 80 percent in that survey said that the system of government was "good for the country," and only 8 percent considered it "bad for the country" (Craig and Cornelius 1989, 377, 393, footnote 159). This is not the stuff of which legitimacy crises are made.

Whatever exactly political legitimacy means (did it exist in 1961 when secret police instigated violence and killed demonstrators supporting Dr. Nava?), the state did in some real sense lose legitimacy in 1968 in the eyes of many students and intellectuals, as well as much of the Mexico City middle class<sup>107</sup> (that loss would not have been reflected in polling data on low-income residents just mentioned). But there was no organized response that could have threatened the regime at all seriously. Student protests, surging before the 1970 election, were the most important continued expression of 1968, but placating them did not cost Echeverría a massive, 10 percent of GDP, public-spending increase: it cost 1 percent of GDP. Victor Bravo, son of the education minister, notes that "in 1970 half of the universities were in full revolution, and it was my father's role to moderate them. He said to Echeverría what any cabinet secretary in his place would have: 'I will take charge of calming the movement, but you have to raise my budget.'" Echeverría increased the budget dramatically – by 1 percent of GDP during the administration, a lot of money for schools and universities but not nearly enough to cause the crisis. There was no major student protest after a deadly clash on Corpus Christi day, June 10, 1971 – sometimes blamed on the machinations of conservatives within the government to humiliate Echeverría (Hellman 1983, 204), other times blame on Echeverría's machinations to oust his conservative rival, Mexico City Governor Alfonso Martínez Domínguez (Krauze 1997, 752), but never blamed on mere grass-roots conflict – and no student demonstrations at all after 1973. Crises do not erupt years after the supposed provocation has been quieted.

For loss of political legitimacy to threaten the regime, it would have had to be expressed at the polls. Not only did the PRI machine continue to flatten the opposition, but turnout in presidential elections, which fell after 1952 (when there had been something that

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<sup>107</sup> Zapata particularly emphasizes this point.

looked like a real choice in Henríquez), increased steadily from 49 percent in 1958 through 69 percent in 1976 (Smith 1979, 55). In the 1973 midterm congressional elections, middle-class opposition to Echeverría's leftism outweighed any concerns about Tlatelolco, as the aggressively conservative National Action Party (Riding 1989, 109) made substantial gains, winning 29 percent of urban votes (Newell and Rubio 1984, 198). Even when more organizations independent of the corporatist apparatus emerged in the 1980s, they concentrated on securing immediate needs for land, water, and housing, while avoiding the dangers of allying with national opposition parties (Cornelius and Craig 1991, 58).<sup>108</sup> Of course, there was electoral fraud, but the PRI would have won anyway, and fraud was not politically important because the opposition lacked the clout to seriously dispute results. The overwhelming official electoral victories indicate that Mexicans had no *channels* to challenge the state's political legitimacy.

Echeverría himself says his policies derived not from political problems or loss of legitimacy caused by Tlatelolco but from his long-held beliefs – he recalls a conference he helped organize as a student on “Critiques of the Mexican Revolution” – and problems he learned of during his electoral campaign. He went to the remotest villages in jeeps; a map of his campaign that hangs in his house looks, as his former National University professor Cosío Villegas put it, like a military plan to occupy the nation.<sup>109</sup> Says Echeverría:

I was a candidate a year after the events of 1968, and I didn't have any problem because of them. . . . That was the reality, and my political campaign was practically without opposition. But I understood that the 1968 movement had raised many problems and demands emerging from the national situation, channeled through that neurological center of conscience and reflection, the universities and technical institutes. I traversed the country minutely [and saw that] higher education needed help; rural development demanded contact with peasant groups; and labor policy had to be a priority. . . . Political officials were shut up in their offices, never taking off their ties to go out.

The Echeverría administration's spending was ill timed if it had really been meant to buy political legitimacy with the middle class. When new democratic administrations or military regimes try to shore up support, they boost spending the *first* year when they come into office, then let it taper off (Ames 1987, 26-28). Spending in the Echeverría administration's first year was austere – too austere, even in the opinion of former finance officials (Urquidí, Solís, Moctezuma). The big spending surge, 5 percent of GDP, that set the economy up for crisis came in 1975, years after student protest fell quiet.

The administration's spending priorities are not well calculated to regain legitimacy, either. Politicians try to buy societal support by increasing social welfare, not building new steel mills, but as Newell and Rubio themselves point out, Echeverría did the opposite (1984, 137). Total social sector spending rose from 5 percent of GDP in the last year of the Díaz Ordaz administration to 8 percent in the last year of the Echeverría administration, that is, by 3 percent of GDP (Table 6-1). But a third of that amount was paid for by employers' and employees' contributions to Social Security, so social sector spending from general revenues and borrowing rose by 2 percent of GDP. Half of this was the 1 percent of GDP increase in education spending. The rest of social-sector spending, a 1 percent of GDP increase, covered all government contributions to Social Security, the Labor Ministry, Health and Public Assistance, and quasi-public entities ranging from the

<sup>108</sup> As discussed in chapter 8, these opposition groups finally did join the Cuauhtémoc Cárdenas campaign in 1988, but only late, cautiously, and reluctantly as they were afraid of being coopted (Bruhn 1997, 112-13).

<sup>109</sup> Though the analogy is borrowed from Cosío Villegas, Echeverría showed me the map before I interviewed him.

**Table 6-1 Social sector spending, 1970-82 (percent of GDP)**

	Total social sector spending	Social Security with employers' and employees' contributions	Employers' and employees' contributions to Social Security	Social sector without employers' and employees' contributions
<b>Echeverria</b>				
1970	4.8	2.2	1.7	3.1
1971	5.3	3.0	2.5	2.8
1972	6.3	3.2	2.7	3.6
1973	6.3	3.0	2.5	3.9
1974	6.7	3.5	2.9	3.8
1975	7.3	3.6	2.9	4.4
1976	8.1	3.6	3.0	5.0
Growth 1970-76	3.2	1.5	1.4	1.9
<b>Lopez Portillo</b>				
1976	8.1	3.6	3.0	5.0
1977	7.8	3.3	2.5	5.3
1978	7.9	3.2	2.6	5.3
1979	8.4	3.1	2.5	5.9
1980	8.1	3.2	2.6	5.4
1981	9.2	3.0	2.5	6.6
1982	9.1	3.2	2.6	6.5
Growth 1976-82	1.1	-0.5	-0.4	1.5

Total social sector spending and Social Security spending from Salinas 1992, 173.

Social Security includes formal-sector workers (IMSS) and government workers.(ISSSTE)

Government transfers to social security (IMSS plus ISSSTE) from Salinas 1992, 177.

Employers' and employees' contributions to social security are calculated as total Social Security spending minus government transfers

National Commission for Free Textbooks (of course, government-approved) to Integral Family Development.<sup>110</sup> The big money went not to social welfare but to industrial development. State enterprises, which rose ten-fold from 84 in 1970 to 845 in 1976 (Cornelius and Craig 1991, 110),<sup>111</sup> accounted for over half the total increase, or more than 5 percent of GDP through 1975, before falling back in the crisis year of 1976.<sup>112</sup> In addition to Pemex, these included, for example, electric generation, railroads, airports and airlines, petrochemical plants, steel mills, and truck, bus, and railroad manufacturers.

Finally, in the face of powerful external political pressures, the state might spend heavily to regain support, but why should such pressures decisively disrupt internal economic policymaking mechanisms? Why should a coherent budget mechanism under Finance break up in conflict and inefficiency? Why should it cause dismissals of cabinet secretaries to surge? Societal pressures could produce elite conflict if elites belonged to societal factions, but the political *grupos* in Mexico did not. The powerful strike wave surrounding the 1958 presidential election did not produce erratic policies, inefficiency, and elite struggle: why should far weaker grassroots pressures do so after 1970?

#### An elite split over Tlatelolco?

For doubts about political legitimacy to infect the state's internal operation, indeed for them to have any important effect on policy, some mechanism has to transmit them into the state. Mexico had nothing close to a free press or independent polls that would even provide concrete indication of declining legitimacy. If the story is just that Luis Echeverría perceived a loss of legitimacy – when, it bears repeating, not business, nor organized labor, nor peasants, and nor those middle-class voters attracted by aggressive conservative rhetoric in 1973, did – then it is really about the president's belief. If loss of legitimacy was more than an supposition in Echeverría's mind, if it was an external political fact he had to act on, it had to be transmitted to him via some intermediate level of the pyramid of state.

A split in the political elite would be an intermediate mechanism transforming a notion about loss of legitimacy into a fact Echeverría had to address. The 1968 movement might have found a powerful alliance with a group of high officials. If one political-elite faction decisively rejected the authoritarianism bared at Tlatelolco, while another steadfastly defended the repression, the ensuing internal split could explain a great deal of what happened under Echeverría. In fact, the more plausible accounts about loss of legitimacy turn on such a split. Newell and Rubio argue that Tlatelolco “caused a split in the political family,” infecting the usual agreement about presidential succession:

[The 1969 nomination] appears to have been the first time since Plutarco Elías Calles [in the 1920s] that a president unilaterally chose his successor, a feature that would . . . weaken the political system's legitimacy. Díaz Ordaz's handling of the 1968 crisis created a vacuum in the political system. Since the Family was very divided as to the actions taken by the government, it could not accommodate or compromise on the issue of succession. Thus, the apparently unilateral decision regarding the succession had to be upheld by an ex post coalition, one that the nominee would have to create on his own; it was this or confront the problems of a rapidly disintegrating political system. (1984, 124).

<sup>110</sup> Public Works, a large budget, was also included and should not have been: by the 1990s when the data for Table 6-1 were compiled, it had evolved into Urban Development and Ecology and was properly classified as social welfare, but under Echeverría it built infrastructure. Its secretary, Enrique Bracamontes, was nicknamed Rapamontes, or mountain-leveler, for his ambitious earth-moving projects.

<sup>111</sup> Smith 1979, 281, says they rose from 86 to 740 under Echeverría.

<sup>112</sup> Calculated from the same data as used in Table 3-3.

It was once widely accepted that, with many high officials' children in the streets, the political elite split over Tlatelolco. Moreover, the idea seems plausible, given the National University's central role in shaping political elites and in the events of 1968. Not only were students and professors involved in the protests, but the university was occupied by the military, and its rector, a former cabinet secretary, Javier Barros Sierra, openly broke with the president, leading mass protest marches and threatening to resign. Yet the theory of a serious elite split – in fact, any split that went much beyond Barros Sierra himself – has lost credibility as the old Mexican regime has eroded and information about its workings has begun to emerge. After examining countless official archives not available until recently, Sergio Aguayo concludes that after Tlatelolco “the ‘revolutionary family’ closed ranks behind the president” (1998, 270, 150). Even ex-president Lázaro Cárdenas, who was deeply troubled by Tlatelolco, publicly blamed it on “international and foreign elements” (1998, 271) – hence the leftist press' line. As for professors, having taught politicians was one thing, influencing current policy quite another. Camp concludes in a study about intellectuals' relationship with the political system that Tlatelolco only ended up isolating the National University: intellectuals “did not have much influence on the state in the aftermath of 1968” (1985, 209).

Officials from Finance, the Bank of Mexico, and the Foreign Ministry (Beteta, Fernández Hurtado, Carrillo Gamboa regarding Carrillo Flores), as well as Díaz Ordaz' confidants at the time (Moreno Valle, de la Vega Domínguez), agree that, tragic as the events of 1968 were, political elites supported the president. Says Beteta: “I don't mean to say that afterwards – I speak for myself – we were in agreement with what happened. I think we all lamented it, and none of us felt indifferent about it, but I think that Díaz Ordaz had the complete support of his government, including the principal cabinet secretaries.” Least of all did Echeverría, the interior minister, see any dissent: “I didn't have a problem with people in the government who were dissidents. No, no, no, not that I remember. There was a realism about the issue. [Anyone who lacked that realism] wouldn't have accepted a public post.”<sup>113</sup> Perhaps most telling is the testimony of Fernando Solana, at the time second in command to the National University Rector Javier Barros Sierra. He says everyone but Barros Sierra stuck by Díaz Ordaz.

Among former high officials interviewed, only three, Javier Alejo, Fausto Zapata, and Victor Urquidi, saw anything at all resembling an elite split. Alejo points to Emilio Martínez Manatou, the secretary of presidency who was regarded as a softliner and had a group of intellectuals under him, including Pablo González Casanova, who wrote a long essay criticizing authoritarianism in Mexico: “They transmitted the state of mind of the political class and the nation in general.” However, Alejo was not at the time a high official, but a professor at the National University and economist in several economic agencies. Urquidi, former advisor to the finance secretary and at the time president of the Colegio de Mexico, whose offices were machine-gunned by government police, says there were no blocs of protest, only individuals who “sympathized with the students and maybe protected them if they could.” He was summoned by the supposed softliner Martínez Manatou: “He treated me as if my obligation were to keep a check on professors and students of the Colegio, as if I were responsible for what they did as citizens. I never had

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<sup>113</sup> Likewise Ibarra, who was in ECLA at the time (“the government itself closed ranks behind the president, for good reasons or bad”), and Bracamontes, who was outside the government but had been an undersecretary for twelve years and would be public works secretary under Echeverría.

such an unpleasant interview with a high government official before.” Zapata, at the time a federal deputy from San Luis Potosí, agrees that, though Díaz Ordaz “lost moral authority,” any protest within the government was “minimal and silent.”

Furthermore, the 1969 political succession did not work as it should have for an elite split to have occurred. Echeverría, who as interior secretary ran the state espionage and repression apparatus and published innumerable diatribes supporting Díaz Ordaz and condemning the students (Aguayo 1998, 161), was universally regarded as a hardliner (Newell and Rubio 1984, 123-24; Carrillo Gamboa).<sup>114</sup> Neither the president nor the rest of the political elite thought the presidential nominee was a compromise candidate, but rather a successor close to Díaz Ordaz’ own way of thinking (Moreno Valle, Carrillo Gamboa). When during the campaign Echeverría “came out of the closet” as a leftist, as Manuel Suárez puts it, no one was more surprised and angered than the president himself (Bracamontes, Beteta, Zapata). The rupture between the two rapidly became bitter and – extraordinary for the time – public. The president even considered replacing Echeverría as the candidate, saying to a confidante, “We’re going to make this swine sick, and this time he’s really going to be sick” (Castañeda 1999, 347).

Suppose Díaz Ordaz picked Echeverría because he considered the only supposed softliner, Martínez Manatou, to have betrayed him. Still, Echeverría, a consummate politician even in the estimation of his worst enemies, should have tried to build support, reaching out to the dissident *grupo* and giving some members good posts. He did not. He demoted José López Portillo, Martínez Manatou’s undersecretary, to an unimportant undersecretariat of State Industries (Muñoz Ledo), despite López Portillo’s having been his close friend since adolescence. Two prominent economists in Presidency who would become cabinet secretaries after López Portillo’s subsequent meteoric rise were marginalized: Julio Rodolfo Moctezuma was briefly an advisor to Presidency; Carlos Tello was made a subdirector general, the fourth level down. Two economists under Martínez Manatou who played key roles in shaping intellectuals’ views were left out, at least for the time: Ifigenia Martínez, known for her work on income inequality, and Victor Flores Olea, known for his argument about structural problems. Pablo Gonzalez Casanova, the prominent sociologist, became rector of National University for two years. It makes no sense that the only important current within the government seen as sympathetic to students could have forced the whole political system to change, yet the individuals involved should have done relatively badly during the succession.

A new and different generation?

The entrance of a new and different generation of high officials could cause a political break, and such a generation seemed to many contemporaries to burst upon the scene in 1970. Though not everyone lists quite the same set of characteristics, the new officials were widely seen as different – younger, more *técnico*, more leftist (Echeverría, Ortiz Mena, Urquidi, Carrillo Gamboa, Izquierdo, Beteta; Smith 1979, 281). They were not just politically inexperienced but unknown, according to the acerbic but knowledgeable Cosío Villegas: “President Echeverría invented them, fabricated them out of nothing as if it were a magic act. . . . In his original cabinet, one could barely point to two exceptions, [Mexico

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<sup>114</sup> Echeverría’s role in Tlatelolco may have been much more marginal than was thought at the time (Aguayo 1998, 303). This reassessment does not affect to the argument: at the time he was widely *seen* as a hard-liner.



City Governor] Alfonso Martínez Domínguez, who had some political capital, and [Agrarian Reform Secretary] Augusto Gómez Villanueva, who had saved ten or fifteen cents. And remember the sad end that the first one met” – deposed six months later after the Corpus Christi riots, whoever instigated them (1975, 39). Mario Moya Palencia catapulted at age 37 from director of state cinematography to interior secretary, the top political post after the president; Emilio O. Rabasa from director general of the Cinematographic Bank to foreign minister – Cosío Villegas notes that he had undertaken the diplomatic mission of attending the Oscars – and so on (1974, 22-24).

It is important to distinguish what was and was not different about high officials under Echeverría. There was no underlying generational change, in the sense of a sociologically distinct cohort that would enter office sooner or later and reform how the government worked. Or, to put it another way, such a change was on the way, and it was precisely the generation of young professors and students born after 1940 who protested in 1968 (though it was not necessarily the protesters themselves), but it would not reach high office until the 1980s under Carlos Salinas (Camp 2002, 235). As for officials who entered in 1970, they were indistinguishable from their predecessors in socioeconomic origin (mostly middle class, from families of teachers, lawyers, and other professions), educational level (the *licenciatura*), and the portion who had attended the National University – 70.5 under Díaz Ordaz, 68.1 percent under Echeverría (Camp, 1980, 78). The portion with *licenciaturas* in economics rather than law rose from 10 percent under Díaz Ordaz to 20 percent under Echeverría (Smith 1979, 91), and the Economics Faculty’s orientation had been more leftist since the 1930s (Camp 1984a, 58).<sup>115</sup> But not too much should be made of this shift. Though Economics was the smaller faculty, many of its left-leaning professors had held high government office, such as the self-proclaimed “heterodox Marxist” and finance undersecretary Jesús Silva Herzog (Camp 1984a, 121). It had been a division of the Law Faculty until 1935, when it split off to become independent (Camp 1980, 160); the Law Faculty continued to teach some political economy (neither department was much like what Americans think of as a law or economics school); and they remain side by side on the National University campus.

Those who saw differences in Echeverría’s cabinet (himself included) were not wrong. For all the president’s talk of a “generation of youths” (Cosío Villegas 1974, 20), his cabinet itself was a mere year younger than Díaz Ordaz’s, 49 years instead of 50 years on average (Table 6-2); however – a critical difference – it had much less political experience. Officials’ average length of time in the public-sector when named cabinet secretary had risen steadily from 10 years under Alemán (he had ushered in real sociological change, replacing a generation of military men with lawyers) to 17 under Díaz Ordaz, then fell abruptly to 11 years under Echeverría. The effect was more pronounced than the numbers suggest, as secretaries in more technical areas were often experienced, despite what Cosío Villegas says – Enrique Bracamontes, public works secretary, had been in the public sector for 20 years and a undersecretary in that ministry for 12 – while top political appointees like Moya Palencia, if they did not quite emerge from the magician’s hat, were relative newcomers to politics. These choices were the president’s; they were not forced upon him. Echeverría himself says he sat at his dining-room table, pencil in hand, and freely selected them without interference (Castañeda 1999, 71).

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<sup>115</sup> Beteta notes that it had this same bent in the 1970s.

**Table 6-2: Political careers of cabinet secretaries, 1952-82**

	Average age when named cabinet secretary	Average number of years in government until named cabinet secretary
Miguel Alemán Valdés (1946-52)	44.6	9.8
Adolfo Ruiz Cortines (1952-58)	50.0	11.6
Adolfo López Mateos (1958-64)	51.7	15.0
Gustavo Díaz Ordaz (1964-70)	50.8	17.5
Luis Echeverría Alvarez (1970-76)	49.8	11.2
José López Portillo (1976-82)	49.1	15.3

Source: Hernández Rodríguez 1984, 37

Informed impressions about the makeup of the political elite outside of the cabinet itself are remarkably at odds. Miguel Mancera, subsequently director of the Bank of Mexico, says “all the top bureaucracy continued almost as it had been. Ortiz Mena left, but the rest of the Finance *grupo* stayed.”<sup>116</sup> Moreno Valle, who would seem likely to notice change since he was close to Díaz Ordaz, says, “The secretaries, subsecretaries, and some department heads changed, but in general the bureaucracy was the same.”<sup>117</sup> Yet Fausto Zapata, who rose to high office under Echeverría, believes that the Díaz Ordaz *corps* was marginalized and changes among high officials were significantly sharper than in 1958 or 1964: much about Echeverría’s administration can be explained by his “almost obsessive fixation not to repeat the errors Díaz Ordaz had committed. Thus, one of the things he did was to keep out people he identified as too close to the former president.” Carrillo Gamboa, director of Telmex and son of the former finance minister, says that a whole generation of experienced officials was shut out of the public sector, more decidedly than the norm, and the difference was not just in numbers but in their ways of thinking.<sup>118</sup>

Camp found that, unlike cabinet secretaries, a group of some hundred-plus high officials under Echeverría – including not only the cabinet but undersecretaries, directors of large state enterprises, senators, governors, ambassadors, and Supreme Court justices – actually was a younger generation than it should have been according to the norm:

A single generation has dominated each two successive presidential administrations in Mexico since 1935. . . . In 1970, however, this pattern was suddenly broken, and the impressionistic assumptions of most observers that President Echeverría was appointing young persons to high-level offices is borne out rather clearly in our data. Echeverría neglected his own generation (1920) for the younger 1930 generation, selecting 50 (or 40 percent) of his collaborators from this group. This is the first time since 1935 that a single generation did not dominate two successive administrations. (1980, 50)

Prematurely retiring the 1920 generation could well create tension within the elite, if not a decisive split. But if so, like the inexperience of the cabinet, the youth of this broader group was the president’s choice, not a necessity dictated by sociological change. López Portillo brought the slighted generation back (Camp 1980, 50), but it might have been too late. Conflict once triggered is not so easy to reverse.

### Ideological escalation

The Echeverría administration broke with the past for two related reasons: the president’s decisions – on matters that go beyond his initial appointments – and the broader climate of ideological escalation. Albert O. Hirschman, an American economist intimately familiar with Latin America political economy during the 1960s, saw “ideological escalation” in the challenges that economists, many of them his friends, increasingly posed to the state (1979, 84-86). In the 1940s and 1950s a consensus including the U.N. Economic Commission on Latin America and World Bank had called on Latin American governments to promote industrialization, long-term planning, and economic integration among each other. As if these goals were not enough, in the 1960s economists proclaimed that to get to the root of economic problems, Latin America also must overcome “fundamental” problems, maldistribution of wealth and “dependency” on the First World –

<sup>116</sup> Alejo, finance undersecretary and state industries secretary under Echeverría, emphasizes the same point.

<sup>117</sup> Moctezuma, director of public investment under Díaz Ordaz and finance secretary under López Portillo, does not think there was such unusual change, or at least that whatever change there was mattered much.

<sup>118</sup> Beteta, who considers himself an *echeverrista* though he was in Finance, agrees.

problems the region had faced for 500 years and was not likely to resolve any time soon. These more difficult and antagonistic challenges – redistributing wealth threatened propertied classes and breaking dependency threatened First World governments and multinationals – “may well have contributed to that pervasive sense of being in a desperate predicament.” Hirschman argues that this pervasive sense may have been a “precondition” for military coups in South American nations in the 1960s and 1970s.

Though the Mexican political system differed importantly from those in South American (which of course differed importantly from each other), and though Mexico had no coup, much the same pervasive sense of being in a desperate predicament could have contributed to the Echeverría administration’s sharp breaks from the past. Two powerful lines of thought took aim along remarkably parallel lines at the political and economic system, one focusing on economic “dependency,” the other on authoritarianism. André Gunder Frank, a researcher in the late 1960s at the National University of Mexico and one of the principal authors of dependency theory, wrote that the metropolis (advanced capitalist nations) extracted resources from the dependent periphery (poor nations such as Mexico) via a neocolonial economic, political, and social order: “The periphery . . . can develop only if it breaks out of the relation which has made and kept it underdeveloped, or if it can break up the system as a whole” (1969, 354). Quite a challenge! Victor Flores Olea, dean of the School of Political and Social Sciences, wrote that “the capitalist system, since its earliest phases, shows us precisely the machinery of domination, a chain of metropolis and satellite nations, which in turn ‘satellitizes’ other sectors of their population, creating their own internal colonies” (1972, 471). The most prominent critic of the authoritarian Mexican state, Pablo González Casanova, wrote:

The only basic decision for development possible at present would be for an effective democracy which would expand the internal market, accelerate national decolonization and integration, and intensify those measures encouraging national independence and negotiation at a level of equality with foreign powers, particularly the United States. (1970, 147)

These challenges to the economic and political order, impossible to get far with any time soon no matter how morally justified, were nevertheless accepted at some of the highest levels of the state. State Industries Secretary Horacio Flores de la Peña was undisputedly the leader of the economic left but was far from alone. Labor Secretary Muñoz Ledo wanted to restructure the “exhausted” economic model and corporatist political system (Muñoz Ledo).<sup>119</sup> Carlos Tello, a finance official (later Planning and Budget secretary), wrote: “Our people are conscious that their misery produces others’ wealth. The accumulated rancor against political colonialism is now reborn against economic colonialism” (1979, 53).

Even Leopoldo Solís, a prominent economist who was chief economic advisor in the Ministry of Presidency and mentor to many subsequent high officials, including President Ernesto Zedillo,<sup>120</sup> illustrates how economic thinking shifted in about 1970. In 1967 he wrote an essay debunking the idea that import substitution was exhausted and criticizing Raymond Vernon’s *The Dilemma of Mexico’s Development* for the notion that the country faced “inescapable obstacles” to continued growth: “In reality, his book is just

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<sup>119</sup> Ibarra, Mexico City director of ECLA but also an advisor in important administration economic debates, saw the economic model of the 1950s and 1960s as deteriorating.

<sup>120</sup> Camp 2002, 216, describes the mentor relationship with Zedillo and other economic technocrats. It is widely agreed that Zedillo’s administration, more than de la Madrid’s or Salinas’, was the epitome of neoliberal policies, “holier than the Pope” in its attitude toward free-market ideology.

one more of a series of studies that . . . end by raising alarm about this or that problem impeding the country's economic development. Despite everything, development continues at a secular rate of 6 percent a year" (Solís 1967, 86). By 1973 Solís had turned around. In introducing the section on economic development in *Readings: The Mexican Economy*, he says it is "accepted almost unanimously by national economists . . . that import substitution, as the key element of growth, can no longer continue," and says that the economic model must be changed to keep income inequality from worsening. He proceeds to discuss a selection arguing that Mexico's underdevelopment "is rooted precisely in political, social, and economic subordination imposed by colonial expansion" (1973, 449-50). Gustavo Romero Kolbeck, ambassador to Japan under Echeverría (previously director of public investment and subsequently director of the Bank of Mexico), wrote in 1969 about the "structural problems present in the economy for thirty years" (quoted in Tello 1979, 35).

One must be cautious about discovering ideological escalation in Mexico. Several officials expressed doubts that it occurred (Urquidí, Bracamontes, Flores de la Peña). A poll of political leaders taken just after the Echeverría administration showed them equally divided between those who thought that the state's role in the economy was sufficient and those who thought it should be expanded, but none thought it excessive (Camp 1984a, 147). As discussed in the last chapter, the political elite had held views ranging from pragmatic Marxist to pragmatic market liberal since at least the 1930s, and it was a tight-knit group, without the class-based antagonisms found in much of South America. Bank of Mexico Director Fernández Hurtado, the anchor of fiscal restraint under Echeverría, and State Industries Secretary Flores de la Peña had known one another since they were classmates at the National University and each in interviews spoke respectfully of the other. Such friendships were common and moderated ideological conflict (Camp 1980, 208). Hirschman argues that Colombia avoided a military coup in the 1960s and 1970s, despite the continent-wide ideological climate, because of similar relationships. Political elites there were divided between defenders of business and the "entrepreneurial function" and defenders of workers and the "reform function." But unlike counterparts in Argentina, Chile, or Brazil – elites sociologically linked to external sectors such as the landed oligarchy or the working class – Colombian elites all belonged to one coherent network: "Communication between the two groups was often strained, but was never quite cut off, in part because of personal relationships and in part because, after a while, it became obvious that the reformers . . . were by no means revolutionaries, but were acting in the best interests of their brethren (1979, 95).

One would also have to be cautious about arguing that fading memories of the Mexican Revolution, which had helped forge the elite ethic of cooperation, allowed old ideological differences to erupt. The widespread violence did not really end in 1920, the usual date for the end of the Revolution, but in 1930, with the quelling of the last serious military revolt against the state and of the bloody Cristero religious insurrection. The typical cabinet secretary under Echeverría (the median-aged cabinet secretary) was 9 years old in 1930, not far at all from the violence.<sup>121</sup> Moreover, the ethic of cooperation could be transmitted through the National University. A poll taken in 1978 of young working-class women born from the mid-1950s through the 1960s – thus much further from the

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<sup>121</sup> The median birth date of Echeverría's cabinet secretaries was 1921, the mean was 1923. Both figures calculated from data in Camp 1995b.

Revolution in age and social origin than high officials under Echeverría – showed that 45 percent of their immediate family members had fought in it, 59 percent had heard stories about it in childhood, and 54 percent feared the eruption of violence (Stevenson and Seligson 1996, 66-67). When will the American South to forget the Civil War?

Nevertheless, both officials and scholars widely see relations within the Echeverría administration as far more conflictive than in earlier administrations, and specifically so in ideological terms, often described as structuralist versus monetarist. Here the Tlatelolco massacre, surely the most powerful Mexican political symbol after the Revolution, even if it produced no powerful societal movements (there were none) and no effective split within the political elite (there was none), may have acted as a second social convulsion, in some measure overspreading the legacy of the Revolution. Tlatelolco crystallized broader ideological and social calls for change – the progressive Vatican II Council, Marxist dependency theory, criticisms of authoritarianism, anti-Vietnam War protests, Paris 1968, Prague, Chicago – and broadcast those calls from the Mexico City streets. Cosío Villegas wrote that fundamental economic and political criticisms academics had raised about Mexico's development “did not just spread from some erudite essay, article, conference, or street gossip. Rather, the 1968 student rebellion gave them spectacular public standing” (1974, 50). People do not march in the street demanding that the import-substitution model be replaced, but Ibarra insists, nevertheless, that 1968 provoked the “intellectual ferment” and “winds in favor of change” that pushed that idea to the fore.

Ideological escalation does not require that there be some lineal scale on which officials' view move simultaneously left or right, only that they should believe *some* fundamental change is coming, however clearly or confusingly envisioned. All sides, whether for change or against it, whatever exactly it may mean, can see the stakes rising because whoever controls change is likely to be in power for a long time to come, and whoever does not is likely to be left out. *Grupos* may begin to fear for their political survival, and a cooperative pact may begin to erode. Conflictive and erratic policymaking, increasing turnover of high officials as one faction struggles with another, and spending surges to carry out favored policies or build political support could result. Ideological escalation is impossible to gauge but surely was important.

### Luis Echeverría

Given the authority of the Mexican presidency, Luis Echeverría could well have been a powerful cause of his administration's break with the past. He was in three principal ways. First, if Tlatelolco emitted a signal for change, publicly muted by 1970, he amplified and broadcast it in a way that promoted intra-elite conflict, as well as conflict with the private sector. Second, his enormous energy for effecting change, combined with his enormous incapacity for administering it, or even for understanding that how government is administered matters, aggravated conflict and eroded the system of elite cooperation. Third, the way he sought to solidify his power base by installing a politically weak friend in the presidency – López Portillo has himself said “truly, I did not have a *grupo*” (Castañeda 1999, 116) – further eroded the cooperative system and involved massive public spending.

If tight-knit Mexican political elites were relatively unsusceptible to ideological escalation, the president's message of change, time and again attacking the “emissaries of

the past,” made them more vulnerable. He proclaimed the urgent need for change without explaining what change he wanted. Cosío Villegas:

Most [Mexicans who favored change] lacked any political or economic power, so their support for it could only be ‘diffuse,’ as political scientists say, latent but not active. More important, they did not even vaguely know what changes should be made, when, by whom, with what methods, or much less the benefits that they might legitimately expect. For his part, the presidential candidate spoke time after time about the need for change, but without defining either what it was or might be. (1974, 16-17)

Newell and Rubio say Echeverría’s message was that failure to implement his new policies “would inevitably plunge the nation into civil disorder, thus interrupting the orderly progress that the nation had enjoyed over the past four decades and opening the way for ‘fascist’ (authoritarian) regimes” (1984, 130).

Echeverría’s supporters make it clear how crucial his role was in propagating the message of change. Javier Alejo says, “I think Echeverría’s great contribution was to have changed the national ideology because the president acted like a lay preacher, a preacher of social justice and education, a preacher who called for attending to peasants, for creating employment.” Carlos Tello, like Alejo a qualified supporter of the president, notes that “in Mexico all socioeconomic reform, all important change of the development model, has depended on the state’s initiation of a mass politics” (Cordera and Tello 1981b, 68). So it happened in 1970: “In reality, it was the state’s own initiative (even if after the shock of 1968) that established the renovating discourse that has impregnated the whole Mexican social project . . . [First came] the critique of so-called stabilizing development [of the 1950s and 1960s], and then the feverish search for an alternative model, finally baptized shared development [Echeverría’s slogan for his program of growth with redistribution]” (Cordera and Tello 1981a, 56).<sup>122</sup>

If Echeverría’s exhortations for change – amorphous change as if calculated to provoke bureaucrats’ fear – exacerbated conflict, so did his disorderly administration. It was bad luck that someone with no talent for organizing and managing a bureaucracy, yet who desperately wanted to change everything, became top bureaucrat.

To begin with, Echeverría seemed to want to do everything in excess – not just spend too much, but even cut too much. His initial bout of economic policymaking suffered from this second excess. Julio Rodolfo Moctezuma, an economic advisor, later finance undersecretary (and finance secretary under López Portillo), says:

At the end of 1970 [when Echeverría entered office], it was clear that public finances were out of adjustment. We – Finance, the Bank of Mexico, and Presidency – debated the matter and concluded that a little braking, not even braking, only a slower pace of increase, and a few other measures, principally a well-justified increase in electricity rates and in petroleum-product prices, would have been sufficient. Those measures would have let us keep moving forward, and later we could have undertaken more serious projects. We communicated the plan to the president. And to all of our surprise, he considered it not only good, but too cautious. He said that we had to make a greater effort to cut back. At that point I left the government but I know that the government put on the brakes, and the result was called a period of economic “feebleness,” when all state investment was cut. That “feebleness” was what in my opinion incubated the later inflation. Around October 1971 the president sensed pressures because of the lack of spending, and then, I think, took rushed investment measures, such as to prepare new agricultural land – but massively. Probably they were good projects, but they were too rushed, and the current of spending became very intense.

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<sup>122</sup> Basáñez 1996, 155) says that satisfaction with the successes of the 1950s and 1960s dominated public discourse until the Echeverría campaign itself challenged it .

As mentioned, Echeverría's critics and supporters alike (Solís 1981, 67-68; Tello 1979, 78) say the race was on to invest, with haste and often inexperience, in projects that frequently turned out to be inefficient.

When Echeverría had an idea, rather than implementing it through existing channels, he just added a new piece to the bureaucracy. *Fideicomisos*, the off-budget funds established by public banks for *ad hoc* projects, mushroomed, says Muñoz Ledo: "Echeverría hated administration *per se* because he had always held posts as a trouble-shooter, posts getting rid of particular problems. His idea wasn't to reform the administration but to add a parallel one, as the whole world knows, to create new agencies. When he was named ambassador to Australia [López Portillo's attempt to end his behind-the-scene machinations by sending him as far away as possible], everybody said, 'It's so he can open a *fideicomiso* for the kangaroos.'"

Decision-making in the 1950s and 1960s had reflected the orderly political system. The president named secretaries with demonstrated ability in their areas, expected them to stay through the administration, gave them latitude to manage their responsibilities, but held them accountable for the results (Bracamontes, Romero Pérez, González Blanco). González Blanco, who was director of public investment under López Mateos and whose father was labor minister from 1958 through 1970, notes that although the Constitution refers to cabinet "secretaries," through the end of the Díaz Ordaz administration they were commonly called "ministers":

They held their posts because of the president's confidence but also because of personal merit. They were persons whose dismissal would generate uncertainty and loss of confidence, just as their presence implied certainty and tranquility. It was neither easy to remove them nor necessary because they knew their responsibilities.

There were virtually no cabinet meetings in that era,<sup>123</sup> says González Blanco, "precisely because the head of each area bore responsibility before the people and the president." The very architecture of the president's office reflected this delegation of responsibility, notes Moctezuma, director of public investments under Díaz Ordaz:

The desk in the presidential office was ancient, and in front of it stood only one chair. There were other chairs around the room, but in front of that desk, only one. It was clear that one person was responsible to the president.

Not only did Echeverría appoint many secretaries who were inexperienced in managing the ministries they ran, but he brought chaos to the very structure of decisionmaking. Moctezuma says:

When Echeverría came into office, he wanted to manage everything directly. He organized meetings, brought in many people to participate, and the sense of hierarchy was lost. There were meetings at all hours, going on at the same time in different rooms, and the president would pass from one to the other, proposing the most diverse topics for discussion. The problem was that everybody attended the meetings, the individual responsible for the area, others not responsible for it, and others who had made some incidental remark about it. They all gave their opinions, and decisions were diluted, or everybody was assigned tasks that bore no relation to each other. Everybody participated, everybody was together, but at the same time decisions were unclear. This change importantly affected government structure because the sense of authority that had existed was dispersed and lost. In great measure, officials' sense of responsibility for their functions disappeared.<sup>124</sup>

The left as well as more conservative officials associated with Finance, such as Moctezuma and Beteta, consider decisionmaking under Echeverría to have been disorderly. Muñoz Ledo recalls a critical discussion on the exchange rate:

<sup>123</sup> Izquierdo 1995, 47, confirms the lack of cabinet meetings.

<sup>124</sup> Likewise Urquidi and Barnes comment on the mass meetings that accomplished little if anything.



At the meeting were Leopoldo Solís [who favored devaluation], Hugo Margáin [who opposed it], Ernesto Fernández Hurtado [who opposed it]. The president said to me, 'So, what does Muñoz Ledo bring us?' Everybody was laughing, because I was the youngest of the group. 'Excuse me, Hugo,' I said – I always used the familiar form – 'You are mistaken. We need to float the peso.' 'The peso doesn't float; it sinks. Ha! ha! ha!'" He was joking. Then the president said, "Well, I have to go now. We'll have a more ample discussion some other day.'

If groups never really made decisions, and everything was left in a state of disagreement, then the one who really decided was Echeverría, and other officials became interchangeable and dispensable. Muñoz Ledo, for example, went from undersecretary in Presidency, where he developed plans that were not adopted to solve the "twin exhaustion" of Mexico's political and economic models; to labor secretary, where he supported non-corporatist union currents for a while, carrying out Echeverría's machinations against Velázquez; to head of López Portillo's political campaign. Echeverría fired many secretaries, moved others around rapidly, and generally agitated the bureaucracy by reaching much further down into it than previous presidents had. Beteta says:

Echeverría is a man of great social conscience; he was sincerely concerned about the misdistribution of wealth, he always fought to improve the life of peasants and the poor. . . . He never liked to do things just because that is how they had always been done. He wanted to be an innovator. Thus, if he thought a cabinet secretary was not adequately doing his job – at least as he saw it – he replaced him. And he did the same with subsecretaries and director generals, right down to the third rank.

Before Echeverría, not only was it unusual for the president himself to reach down and fire officials at the third rank; it was unusual for him to even talk to them (Beteta).

Echeverría's talent for maladministration was aggravated by a deeper problem, his "megalomania to be a great Third World leader" (Mancera), his demagoguery aimed at becoming secretary general of the United Nations (Ortiz Mena),<sup>125</sup> his "visions of himself as a new messiah for Mexico" (Urquidi), even his "monomania, and general mental disturbance" (Cosío Villegas, quoted by Krauze 1997, 747).<sup>126</sup> Judgments of him have been harsh, in good part because the results of his administration were poor, but his personal ambitions did focus on social goals. Says Urquidi: "He thought of himself as a big, strong president of Mexico who was going to reduce poverty, improve social programs, everything. But he had no idea how to accomplish those goals." Fausto Zapata, undersecretary of information in Presidency: "Echeverría lived the six years of his administration with a continual sense of urgency. He had a kind of anxiety to advance by great strides, to correct in six years all the problems that had accumulated in 400, no? And added to that problem was his very vague notion about the economy."

Though a bad administrator, Echeverría was a master at manipulation, a skill that he concentrated in good measure on Finance. Carrillo Gamboa says, "Echeverría hated the finance secretaries. He felt that they were kings that were always disputing the power of the president. So really what he wanted to do was squash the power of Finance with State Industries Secretary [Flores de la Peña]." He could not have picked a better state industries secretary for that purpose. When Ortiz Mena weakened the 1958 Administrative Law, concentrating more authority in Finance, he also managed to substantially control most state enterprises. He gained seats on their boards, supervised government transfers to them, and finally in 1964 incorporated them into the budget so as to police all their expenditures

<sup>125</sup> Kissinger 1999, 720, confirms Echeverría's ambitions to be U.N. general secretary. He asked for U.S. support, which he was not going to get. Kissinger kept delaying the process until the 1976 economic crisis and other Mexican troubles "resolved matters without need for any action by the United States."

<sup>126</sup> Likewise Barnes says he "wanted power and wanted to move things left . . . he had personal ambitions."

(Moctezuma). From 1959 through 1970, on the losing end of that battle was one Flores de la Peña, director of the Commission to Control Decentralized State Enterprises under the Ministry of State Industries. He maintained that those enterprises should be controlled in their own right, parallel to and independently from the federal government budget, and he used his access to and information about those enterprises to confront Finance. As a result, says Moctezuma, “He maintained a somewhat aggressive attitude toward Finance and the Bank of Mexico, and concretely toward Don Antonio [Ortiz Mena] and Don Rodríguez [Gómez]. He had his aim fixed on them both.”

Having appointed a state industries secretary who was antagonistic toward Finance, Echeverría was set to manipulate the resulting conflict. Asked if the president could have forged some compromise between Finance and State Industries, Ortiz Mena replied, “Look, Echeverría used Flores de la Peña to proposed projects in opposition to [Finance Secretary] Margáin. I know that because Flores de la Peña said so to Margáin. He did things because, in fact, the president told him to.” In short, Echeverría had no interest in resolving the conflict between *grupos* in the two ministries; quite the contrary, he wanted to use conflict so he could more personally resolve all decisions.

It is widely said, and true to a point, that Echeverría finally fired Margáin in 1973 because of disputes over public expenditure. When Margáin drew the line, saying there was no more left to spend, the president infamously declared that “the economy is managed from los Pinos,” the presidential office, and that he would appoint a finance secretary who knew how to find resources to spend. That much of the story looks like a conflict that Margáin and his fiscal conservatism lost to Flores de la Peña and his expensive investment projects, but it was not the whole story because Echeverría replaced Margáin with his boyhood friend López Portillo. Oteyza, state industries secretary under López Portillo, says that no compromise between Flores de la Peña and Margáin would have been feasible “because when Echeverría named López Portillo in Finance, he was thinking about the presidential succession, and already he had López Portillo in mind.”<sup>127</sup>

This replacement of finance secretaries importantly damaged the political system. The fact that it was first time any finance secretary had been fired since the 1930s, except for Echeverría’s own request that Ortiz Mena leave a few months early to make way for Margáin, and that it thus powerfully symbolized instability, is only one dimension of the damage. The heart of the problem was Echeverría’s deliberate project, dangerously close to Alemán’s in 1951, to install a politically weak successor – dependent on himself and lacking widespread support among political *grupos* – in order to perpetuate his policies and retain some power beyond his term (Camp 1984b, 591).<sup>128</sup>

Installing a politically weak candidate inherently endangers the system of elite cooperation because it threatens the bulk of *grupos* who have been supporting another candidate and have come to see their future as tied to his success. There is no dispute that

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<sup>127</sup> Bank of Mexico Director Fernández Hurtado, an official at the opposite end of the political spectrum from Alejo, agrees that López Portillo’s ascent to Finance was already preparation for his ascent to the presidency. Zapata agrees that Echeverría was thinking that López Portillo would be his successor when he appointed him finance secretary but does not think that is why he fired Margáin. Flores de la Peña notes that Echeverría specifically requested that he appoint López Portillo in State Industries at the beginning of the administration so he could learn about economic problems. He thinks Echeverría already was thinking of his friend as a possible presidential successor.

<sup>128</sup> Smith 1991, 373, and Bailey 1988, 38, agree that Echeverría chose López Portillo because he lacked political support and would be the easiest candidate to control.

in 1975 Interior Minister Moya Palencia had widespread support and López Portillo did not. Moreno Valle says “the only powerful political current was Moya Palencia’s,” and Castañeda (1999, 362) reports that informal polls conducted in the Ministry of Education showed Moya far ahead. Victor Bravo notes that people nick-named the winning candidate, whose initials are JLP, “Jamás Lo Pensé” – I never would have imagined him.<sup>129</sup> In fact, Echeverría himself said López Portillo won because he was the one with the fewest political attachments and debts; his candidate’s lack of political support should be seen as an advantage (Smith 1991, 373).

Precisely this political weakness and an ideological outlook close to his own made the president think his friend would share power with him when he became president (Castañeda 1999, 371-72). Says Rosa Luz Alegría, a cabinet secretary under López Portillo and his lover: “López Portillo would take care of the glamour, the paraphernalia and ceremonies, and [Echeverría] would continue managing the inside threads of politics” (Castañeda 1999, 372). There were also other signs that Echeverría intended to prolong his power. Toward the end of his term he installed five cabinet secretaries as state governors and had another nominated for governor as his term ended. Presidents have often sought to install friendly governors, as they are the only politicians outside the central bureaucracy who have significant political power, but sending out such number of cabinet secretaries had no precedent in the 1950s and 1960s. Contemporary political observers understood that Echeverría was trying to build a power base that would outlast his term in office (Smith 1979, 282).

The other dangerous aspect of installing a politically weak successor was the machination involved. Castañeda (1999, 352) writes that Echeverría had to use “all the manipulation and art he had learned during a quarter-century at the heart of the Mexican political system to assure the success of an inexperienced candidate lacking supporters of his own.” One of those manipulations was massive spending in 1975 to build the president’s own support and at least soften opposition to the finance minister though whose coffers the largesse passed. Total public-sector spending excluding interest (but including it makes no material difference) increased 27 percent in real, inflation-adjusted terms, or 5 percent of GDP, in 1975 alone, the year López Portillo was nominated. In fact, if Social Security is excluded – except for investment, its spending is largely distributed according to formulas – all major categories rose 30 percent or more: federal government, state-owned enterprises, and revenue-sharing to states and thus governors.<sup>130</sup> Spending of the Federal Electricity Commission, López Portillo’s domain before he passed to Finance and oddly put under Finance control, increased 65 percent in real terms, or 1 percent of GDP.<sup>131</sup> Muñoz Ledo, as labor secretary, did not fail to notice López Portillo’s generosity:

Echeverría committed the worst possible mistake, the great historical error of Mexico, in naming the finance secretary as his successor – a man who didn’t know anything about economics and had to hand out lots of money to be liked by the workers and the campesinos. He formed a Workers Bank,

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<sup>129</sup> Likewise, Camp 1976, 54-55, footnote 10, says Moya had stronger support from *grupos*; Rosa Luz Alegría, López Portillo’s subsequent lover, quoted in Castañeda 1999, 368, also says he had no *grupo*; Smith 1979, 288 says the same; Bracamontes thinks Moya “possibly had most support.” No source suggests a contradictory account.

<sup>130</sup> Calculated from same data as used in Table 3-3.

<sup>131</sup> Federal Electricity Commission (CFE) spending from Salinas 1992 (*Cuarto Informe, clasificación sectoral*), 172-77. Echeverría himself says he put CFE under Finance (Castañeda 1999, 82) – surely to promote his candidate; it was under State Industries in other administrations.

and supported me [raising wages via the Minimum Salary Commission]. But what did López Portillo do? He said to his boss: "Luis, you don't need to raise taxes. You don't need to reduce spending. The world is full of money. It's showering us with money."

Alejo believes that Echeverría made some attempt to slow the pace of López Portillo's spending, and, indeed, the finance secretary was hardly so inexperienced a politician as not to use the tool himself:

[Public Works Secretary] Luis Enrique Bracamontes and [Water Resources Secretary] Leandro Robirosa Wade were two of the most respected engineers in Mexico, great builders, extremely capable. They were close friends of the president since youth, like López Portillo, and capable of paving over the whole national territory – if you let them! So on one occasion – I am sure of this – the president called those two pharaohs [as they were called] and López Portillo, sat them down at the table with me and said, 'Señor Finance Secretary, the director of the Bank of Mexico tells me that our expenditures are spilling over the edges. Señor Secretary, I order you to stop them. Stop them!' Then López Portillo said, 'Señor, in fact, we are entering a real danger zone, as I have said various times.' 'Yes, Señor secretary, but I tell you to stop them. Stop them this very day!'

Perhaps, another cabinet secretary suggested, Echeverría told his friend López Portillo to stop spending and winked at him behind Alejo's back, because even if the finance secretary surely oversaw or let pass plenty of spending on his own, Echeverría himself was the biggest spender of them all. When he appointed Mario Ramón Beteta as the third finance secretary in his administration – one who unlike López Portillo had worked his way up through Finance and learned its fiscally conservative ethic – he said devaluation had to be avoided. Beteta recalls:

I said to him, "In Mexico we are used to obeying the orders of the President of the Republic, and if you name me, I will accept the post, but I ask you several hours – several hours! – to explain the situation. I think that we are already in danger of a devaluation, and there would have to be an important cut in public spending if we want to save the situation. And I will say to you, that you are not the type of person inclined to cut public spending." He gave me those hours, and I explained my viewpoint, but he didn't give it much importance, he didn't really think there could be a devaluation. He continued insisting in more spending. He had a part of the budget directly under him, at his discretion, providing resources for this and that, with an authentic social concern, without the slightest bit of corruption. But he kept spending in a disorderly way. When I learned about the spending, as finance secretary, I held it back. He knew I was going to, so he went around me, using his own resources in the presidential office.

The deluge of money benefited the president as well as the finance secretary. Echeverría, says Alejo, approached the end of his administration with "enormous political force," enough to pick practically whomever he wanted as his successor. Victor Bravo:

Don Luis [Echeverría] was so strong at that time that he didn't even need the consensus of the National Executive Committee of the PRI. It was enough that one of the three corporate sectors should speak in support of the candidate and everyone else would say the same. Jesús Reyes Heróles was the president of the party, and he was the last one to learn [who the winning candidate would be]. There was no meeting of the executive committee, nothing.

The way Echeverría threatened vague change amidst a climate of ideological escalation, installed a cabinet of unknowns, prematurely sidelined his own generation of officials who expected to enter, turned a once orderly administrative process upside down, dismissed officials at an unprecedented pace, installed a finance secretary who knew nothing of finance, manipulated the system to install that same vassal as his successor, and spent massively to do so, had serious repercussions. As elites began to lose confidence about what to expect next, the stakes in conflicts over policy and succession would rise. Despite making some efforts to repair the old system of elite cooperation – but making others that only worked against it – López Portillo, de la Madrid, and Salinas, each in different ways, would continue to erode it.

## Chapter 7

### Elite Struggle

Increasingly after 1970, elite struggle permeated the Mexican political system, as policy disputes merged into conflicts over political succession, succession conflicts became virulent, and *grupos* came to fear for their survival. The problem resulted partly from presidents' individual obsessions and errors, partly from the accumulation of struggle from administration to administration. Presidents' obsessions and errors had begun with Echeverría. With his anxiety to promote change, he intensified ideological escalation and thus *grupos'* fear of political exile; he sought to extend his grip on power behind the scenes after his constitutional term; and he relentlessly fired and replaced officials to achieve both ends. Next, President José López Portillo would almost deliberately promote cabinet conflict, relishing debates between "thesis" and "antithesis" so he could, as he put it, forge a "synthesis" – and would not infrequently end up dismissing losers, left and right. Finally, President Miguel de la Madrid would worry more about imposing the Washington Consensus on Mexico – not just moving toward a more liberal economy but categorically installing free-market policies – than about the fracture of the political elite that, it became increasingly evident, his tactics to secure his economic program were provoking.

Struggle also was cumulative. Once officials saw that losers in policy debates and succession conflicts were ousted, they feared being ousted themselves and intensified their efforts to win; opponents could only escalate the conflict by retaliating in kind. To build tacit support for their presidential candidate, *grupos* surreptitiously deployed public spending, manipulated the economy, and deceived the president. The president ignored these transgressions because the more inflated the economy as the *destape* approached, the less likely this dangerous succession struggle was to explode, damaging the political system – and the harder time dissident elites would have mobilizing opposition against his preferred successor. The day the new dauphin was appointed, all the party luminaries, especially his former rivals, were obliged to congratulate him in the traditional *cargada*, or cavalry charge. Now, any *grupo* that split off would be a mere collection of bad losers facing a united front. The inflated economy might wind up in crisis – it always did – but, at least, the political system held.

#### The great organizer

Far from being another Echeverría who sought to shake up the system, López Portillo – like de la Madrid and Salinas after him – sought in some real measure to restore political and economic order, as he saw them. The different ways they each failed suggests that success would not have been easy. When López Portillo took office in 1976, it looked as if he might relegate the acrimony of Echeverría's presidency to a disagreeable hiatus. Ex-presidents Alemán and Díaz Ordaz welcomed the new president's inaugural address extending an olive branch to all sides. Where Echeverría had sidelined his own generation of the political elite, born in the 1920s – a generation that by conventional rights expected to move into power with him – and had favored a younger generation born in the 1930s, López Portillo brought the older generation back into high posts (Camp 1980, 50). The new president reached out to diverse *grupos*, says Peter Smith in his study of the political

elite, expressing “the continuity and harmony of postrevolutionary politics” (1979, 303). For example, Jesús Reyes Heróles, who during his long political career had been an advisor to President Ruiz Cortines and Pemex director under Díaz Ordaz, was appointed as the all-important interior secretary.

López Portillo likewise mended bridges with business and the middle class, whom Echeverría’s aggressive rhetoric and economic debacle had finally infuriated (Newell and Rubio 1984, 201; Teichman 1988, 114). The private-sector spokesman Juan Sánchez Navarro, head of the Grupo Modelo, welcomed the new president’s inaugural address criticizing Echeverría and proposing “much more liberal positions with great success.” The administration immediately signed an “Alliance for Production” with private sector groups, committing both sides to increased investment (Newell and Rubio 1984, 205), and capital began returning to Mexico (Smith 1979, 312). López Portillo promised to stop printing money to cover deficits (Buffie 1990, 431) or treating a fixed exchange rate as a fetish (Newell and Rubio 1984, 216).

The president’s conciliatory attitude extended as well to the left and Echeverría’s allies. An electoral reform four months into the administration legalized the Mexican Communist Party and Socialist Workers Party (Newell and Rubio 1984, 206), introducing proportional representation to help opposition candidates get elected to the Chamber of Deputies (Aguayo 2000, 243). Of course, the new rules posed no challenge to the PRI, but they did promise employment for dissenters. The left achieved real political influence through another channel: its representatives within the cabinet, particularly Carlos Tello as secretary of the powerful new Ministry of Planning and Budget and José Andrés de Oteyza as secretary of State Industries. López Portillo even found room for *echeverristas*, his ex-rivals close to Echeverría: former Labor Secretary Muñoz Ledo became education secretary; former Agrarian Reform Secretary Gómez Villanueva became leader of the Chamber of Deputies; and former Secretary of the Presidency Cervantes del Río became director general of the Federal Electricity Commission (the position that had launched López Portillo’s own meteoric rise.)

López Portillo was almost obsessed with order. He had focused on administrative reform as undersecretary of presidency under Díaz Ordaz (Muñoz Ledo) and would now put his thinking to work, proclaiming that “a severe effort of organization, order, coordination, and planning must distinguish this term” (Carrillo Castro 1981, 503). Julio Rodolfo Moctezuma, director of the PRI’s research institute during the campaign, recalls that “we thought about public administration reform during numerous, long meetings after the election. It preoccupied López Portillo; it was lodged in his mind. He wanted a great scheme of government, a matrix that would give him all the elements to manage.”

The great organizer divided government into sectoral cabinets such as economic, agricultural, and national security cabinets, with a view to maintaining a vision for each unified sector. But since its establishment in 1976, “the economic cabinet has been where decisions were made,” according to Fernando Solana, who held four cabinet-secretary posts inside and outside of that inner circle: “If you’re not in the economic cabinet, you don’t count. Other secretaries are the president’s operatives. If you’re a good operative, you can manage a ministry – Education or Environment. But if decisions don’t come from the economic cabinet, they don’t have power.” The economic cabinet included the secretaries of Finance, State Industries, Commerce, Labor, Interior (the principal political ministry), and the new Ministry of Planning and Budget. Other members were the director

general of the Bank of Mexico and Rafael Izquierdo, a López Portillo advisor who had served under Ortiz Mena.<sup>132</sup> The new Ministry of Planning and Budget – a strengthened, renamed Ministry of Presidency – was López Portillo’s attempt to resolve once and for all the old ambiguities in the 1958 administrative reform giving Finance authority over spending but Presidency authority over investment (Carrillo Castro 1981, 508). It was to do just what its name said: establish economic plans and supervise public-sector budgets, both capital and current spending. Finance would just collect revenue.

Of course, the only real power even members of the economic cabinet had was persuasion. José Ramón López Portillo, the president’s son and undersecretary of Planning and Budget, wrote: “It was the exclusive prerogative of the president to decide on economic policy matters” (López Portillo Romano<sup>133</sup> 1994, 89; likewise Moctezuma, Tello, and Solana). Miguel de la Madrid, planning and budget secretary after 1979, noted that the president liked to hear differences aired “so he could arrive at a synthesis.” López Portillo envisioned himself, as he was fond of saying, the “balance point of the scale,” weighing contending views and discovering the right equilibrium for the nation.

### Waves of dismissals

Dismissals resulting partly from tensions already injected into the political system by Echeverría, partly from López Portillo’s formalistic administrative notions, untethered to important aspects of Mexican politics, would undermine political equilibrium, instill *grupos* with fear of losing the presidential succession, and aggravate struggle.

The first wave of dismissals were the *echeverristas*. Though they had been appointed as a conciliatory gesture, Echeverría began to use them to establish a rival power base, or, at least, so Interior Secretary Reyes Heróles persuaded López Portillo, providing evidence such as secretly recorded phone calls (Castañeda 1999, 380-82). López Portillo solved the problem by purging the *echeverristas* (Langston 1995, 269). “The usual accusations and calumnies were trotted out” says Gómez Villanueva, who lost his post as president of the Chamber of Deputies and was dispatched as ambassador to Italy, while his protégé Félix Barra was charged with fraud (Gómez Villanueva). Muñoz Ledo was soon expelled from the Education Ministry, and Carlos Sansores Pérez, who had been installed as president of the PRI at Echeverría’s behest, correctly predicted that he would soon go too (Castañeda 1999, 381). The former president himself was trundled off as ambassador to UNESCO in Paris, and then, to put him quite sufficiently out of the way, Australia. How serious Echeverría’s plot to retain power may have been, and especially whether Gómez Villanueva or Muñoz Ledo had anything to do with it, remains somewhat uncertain because Reyes Heróles had long nourished an antagonism toward them all; it seems he had fought with Echeverría over a girl in high school (Castañeda 1999, 117, 119). But one point was clear: López Portillo would follow Echeverría’s example for resolving conflicts:

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<sup>132</sup> Oteyza and Ojeda in interviews gave the same list, but Ojeda omitted Izquierdo. López Portillo Romano (1994, 92) gives the same list but omits Interior. In his interview Tello mentioned repeated disagreements with the interior secretary in economic cabinet meetings.

<sup>133</sup> His full name is José Ramón López Portillo Romano. In the text I refer to him as José Ramón López Portillo, the name he usually goes by, but in the footnotes I use López Portillo Romano, his patronymic and two maternal names, that is, his full “last” name. (The president’s full name is José López Portillo y Pacheco: upper-class Mexicans often have long names.)

if it was Reyes Heróles versus the *echeverristas*, one side was going to go, and in 1977 that side was the *echeverristas*.

The ideological escalation that had been building since Echeverría's term now erupted in a "feud among factions," says Suárez Mier (likewise Alejo, Oteyza, Moctezuma, and de la Madrid). First came the clash between Finance Secretary Moctezuma and Planning and Budget Secretary Tello. The usual story is that it concerned the size of the budget deficit (Bailey 1988, 45): Moctezuma wanted to honor the IMF agreement signed after the 1976 crisis, restricting public spending, since inflation was still running high; Tello argued for abandoning the agreement and spending more to revive investment. The story is not false but is a caricature. Tello advocated greater "economic independence" from the global economy and a stronger state role in directing industry and agriculture toward national purposes, for example, satisfying basic consumption rather than luxury goods, achieving self-sufficiency in food, and promoting critical capital-goods industries (Cordera and Tello 1981a, 59-66). However, neither official was blind to his opponent's thinking. As director of public investment in Presidency under Díaz Ordaz – the antecedent of the ministry that Tello now headed – Moctezuma had overseen a vast range of state projects, from steel mills to chemical plants, irrigation systems to schools. Conversely, Tello was hardly naïve about the danger of deficits. He insistently and repeatedly criticized Echeverría's spending as not supported by adequate revenue (1979, 37, 56-57, 61, 199-202) and warned the current administration about the same problem well before the crisis, noting three challenges that it must "inescapably confront":

In the first place, its own fiscal crisis, which will tend to widen to the extent that it stimulates the economy through public spending without substantive measures to finance that spending. Sooner or later . . . an expansionist state with financial 'clay feet' will undermine basic economic equilibrium. (Cordera and Tello 1981a, 115; similarly Cordera and Tello 1981b, 60, from a November 1980 talk)

López Portillo wanted to split the difference between Tello's and Moctezuma's budget proposals, but Tello told him, "You promised me I would be secretary of the budget. Now you've set the line that I have to abide by Finance's commitments. That is not what you offered. I'm out." López Portillo tried to persuade him to stay: "If you go, I have to take Moctezuma out," his idea being to maintain the famous balance of the scale. "That's your problem," said Tello. He resigned, in effect forcing Moctezuma to as well.<sup>134</sup>

This mutual knock-out was not simply a matter of ideological disagreement but of underlying struggle: a belief that one great faction stood to win all and its opponent to lose all. After leaving office, Tello wrote *Mexico: The Dispute for the Nation* depicting a contest between "nationalists" such as himself and "neoliberals," presumably including Moctezuma. Tello has a tendency to talk abstractly and avoid naming names; one is not sure if Moctezuma is a card-carrying member of the neoliberal tribe, or if it is some ideal category that overlaps in certain respects with the real Moctezuma. In any event, Tello wrote that Mexico had arrived at a "unique, strategic defining moment, which no one can escape" (Cordera and Tello 1981a, 14). That is, fundamental change was coming, one way or another, and only its direction was up for dispute. In the face of inevitable change, opposing sides sought "to openly win social consensus and, above all, hegemony in state management" (Cordera and Tello 1981a, 9). Winning hegemony is not compatible with mutual political survival. It was a struggle in which losing factions could expect exile.

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<sup>134</sup> The quotes in this paragraph are from Carrillo Gamboa. He is a friend of Carlos Tello and was director general of Teléfonos de México (Telmex). De la Madrid said that López Portillo fired both secretaries precisely to maintain the balance point of the scale (*la fiel de la balanza*).



If the atmosphere of ideological escalation contributed to the Tello-Moctezuma struggle, López Portillo's administrative thinking, overly formalistic and short on common sense, did also. "He is a man of great culture and vision, and at the same time playful like a good intellectual," says Javier Alejo. "So a nutty idea occurred to him": one ministry, Finance, should collect revenue, and another, Planning and Budget, should spend it. López Portillo had Tello design the new Finance Ministry and Moctezuma design Planning and Budget, but when the moment came to appoint secretaries, in his playful matter, he switched them. "That strategy generated enormous conflict, one that López Portillo himself created," says Alejo. "He got in the middle of a screaming match and had to fire both." He also moved Commerce Secretary Fernando Solana to the Education Ministry. Thus, with the anti-*echeverrista* campaign still underway, López Portillo expelled three of the four principal economic secretaries (the fourth was Oteyza<sup>135</sup> in State Industries).

Now another idea occurred to the president: instead of putting the more leftist official in Planning and Budget to spend money and the more conservative in Finance to collect it, the scale would stay in better balance if he inverted roles (López Portillo Romano 1994, 124; Oteyza). He named David Ibarra, a moderate leftist with long experience in the activist U.N. Economic Commission on Latin America, as finance secretary to collect money, and Ricardo García Sáinz, an economic conservative, as planning and budget secretary to spend it.<sup>136</sup> Flores de la Peña quipped, "Now Pepe [a nickname for José] has put the nuns in the bordello and the whores in the convent" (Muñoz Ledo). The scheme made a certain sense, but the new planning and budget secretary proved incompetent.<sup>137</sup> López Portillo charged him, on appointment, with two key responsibilities: control spending and negotiate a Global Development Plan to harmonize economic policy. A year later, García Sáinz had produced no plan and, as Labor Secretary Pedro Ojeda says, "The spenders were eating him up." So on May 15, 1979, he was fired.

López Portillo made that day into a political massacre, also dismissing Interior Secretary Reyes Heróles – having gotten himself in trouble, he suffered the same fate he had contrived for the *echeverristas* – and the foreign secretary. According to *Latin American Political Report* (Grayson 1984, 173), it was "one of the most dramatic political changes" since President Lázaro Cárdenas had exiled his predecessor, the strongman Plutarco Elías Calles. In 1979 turnover among high officials (subsecretaries, director generals, and directors) was 58 percent in Planning and Budget, 50 percent in Interior, and 45 percent in Foreign Relations (the only area of government with a civil service), two to three times the rate of ministries that did not lose their secretaries (Bailey 1988, 78).

The unwritten rules were not designed to withstand high-profile expulsions of high officials and *grupos* early in the administration. The prominence and number of secretaries expelled by López Portillo could only aggravate realistic fears about what losing the succession would mean, and thus increase *grupos'* incentives to win at all costs.

Fear of expulsion even helped motivate a project to build cooperation. The next official to head Planning and Budget was Miguel de la Madrid, a moderate economic conservative who had been finance undersecretary. López Portillo told him, as he had García Sáinz: "You have two assignments: First, control spending, keep it in check. And second, get me my Global Development Plan" (Ojeda). "The Global Development Plan

<sup>135</sup> His full name is José Andrés de Oteyza but he can equally be referred to as Oteyza or de Oteyza.

<sup>136</sup> García Sáinz is universally considered an economic conservative. On Ibarra's ideology, see footnote 140.

<sup>137</sup> Interviews with Ojeda, Alejo, Suárez Mier; Grayson 1984, 173.

was President López Portillo's great dream," agrees de la Madrid. "Neither Carlos Tello nor Ricardo García Sáinz had managed to fashion one. When they gave him drafts, he would say, 'But they aren't negotiated!' I think not negotiating was in good part why they failed. So I dedicated myself to negotiating with all the cabinet secretaries, principally Finance and State Industries – Oteyza had enormous influence with López Portillo, no? – but I negotiated his part with each secretary." He succeeded in presenting the plan in May 1980, and according to José Ramón López Portillo (whom de la Madrid had in his politic fashion named as one of his subsecretaries), the plan was "implemented" in 1981 (López Portillo Romano 1994, 153). In fact, says Suárez Mier, "at the end of the presentation and big brouhaha, it went into bureaucrats' desks" (likewise Romero Kolbeck). But having hardly affected economic policy does not mean that it had not succeeded. At the start, de la Madrid had told his team that if their work went well, it would open greater vistas to them, meaning the presidential candidacy, but "if it goes badly, we will be thrown out" (Castañeda 1999, 165) – as Tello and García Sáinz had been. The team worked to negotiate the Global Plan not only out of hope for success but also fear for failure.

### Political struggle and capital flight

The next major outbreak of elite struggle – the economic cabinet's gambit to protect itself from the Pemex director by expelling him from politics – had the effect of undermining private-sector confidence in policymaking, provoking capital flight, and directly contributing to the 1982 crisis.

Like all other debtor nations, Mexico faced an external economic shock as the Federal Reserve raised interest rates from 5 or 6 percent in the mid-1970s to 10 or 12 percent in 1979-80, then almost 15 percent in 1981.<sup>138</sup> But most economists, across a broad range of perspectives, see Mexico's problems in 1981-82 as primarily internal.<sup>139</sup> Given its resources, Mexico did not have to wind up in a crisis, certainly nowhere near so bad a crisis. Between the period just before the crisis, 1979-81, and the period just after, 1982-84, the real purchasing power of its exports *increased* 11 percent per year (Díaz Alejandro 1987, 21). No other Latin American nation was remotely as fortunate (Brazil came closest with 4 percent annual growth), and many suffered declines of 10 percent a year (*ibid.*). Mexico's oil exports rose from \$10.4 billion dollars in 1980 to \$14.6 billion in 1981, almost a 50 percent increase, and then further to \$16.5 billion in 1982 (Cárdenas 1996, 142). They did not really plummet until 1986, four years later. Some nations such as Korea and Thailand that, unlike Mexico, suffered severe shocks (they imported oil) were nevertheless able to avoid crisis (Rodrik 1999, 78).

In particular, capital flight forced Mexico into crisis, reaching \$12 billion dollars in 1981 alone, three times the trade deficit (Lustig 1998, 23; similarly Buffie 1990, 441). The problem was not panic spilling over from other nations: Mexico's crisis was the first. Rather, the government triggered capital flight by running massive deficits, postponing devaluation (though the finance minister and Bank of Mexico director repeatedly urged it),

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<sup>138</sup> *Economic Report of the President*, 1995, Table B 72. The interest rates refer to commercial paper, but the increases are about the same in all categories.

<sup>139</sup> Lustig 1998, 26, 233. She cites economists including Guillermo Ortiz, Carlos Bazzdresch, and Rudiger Dornbusch (conservative to mainstream), as well as Jaime Ros and Lance Taylor (progressive).

and irrationally demanding that its petroleum customers pay more than the world price, a performance that cost it not only a billion dollars but, far worse, private-sector confidence.

Struggle over presidential succession was the source of these problems. Pemex Director Jorge Díaz Serrano, a friend of the president, was so flagrantly angling to be his successor that, even if the economic cabinet might have been in an ideological dispute for the nation, it could unite in wanting his scalp. It saw his extravagant spending as promoting waste and corruption (Oteyza; de la Madrid; Castañeda 1999, 187-88; Teichman 1988, 106-7), in addition, of course, to providing resources for his presidential ambitions. He was importing production machinery that, with a more moderate rate of expansion, could perfectly well have been made in Mexico; he even imported the Pemex office tower in Mexico City, module by module, from the United States (Oteyza). He disdained to call required meetings of Pemex's administrative council – prominently including José Andrés de Oteyza (council president), Miguel de la Madrid, David Ibarra, and Commerce Secretary Jorge de la Vega Domínguez – instead asking the president personally to approve key decisions. These same officials also happened to be Díaz Serrano's rivals for the presidency, except Oteyza, ineligible because his parents were Spanish.<sup>140</sup> “We were fighting with him all day long,” says Oteyza (likewise de la Madrid; López Portillo quoted by Castañeda 1999, 126).

A dip in world oil prices in May 1981 gave the economic cabinet its chance. Without consultation, as usual, Díaz Serrano got López Portillo's approval<sup>141</sup> and announced that Mexico would lower its oil prices \$4 dollars a barrel. Oteyza relates the upshot:

Díaz Serrano was seen as a serious presidential contender, so everyone wanted to get rid of him. When he took the step of lowering petroleum prices without notifying us – any of us – we were going to cut his head off. The dispute was not over prices, but over the way he made the decision without consultation. I went to protest it to the president, so he called a meeting and said, “Okay, we're going to debate the matter.” When the economic cabinet had gathered, I put a newspaper in front of the President that said, “Mexico Reduces Oil Prices \$4 Dollars” and banged on the table: “What's the point of the meeting if the prices are already lowered?” The president was extremely angry, but, actually, I think López Portillo was the one who really wanted to knock Díaz Serrano out of the game. Díaz Serrano was very pro-Yankee, a big friend of [then Vice President George] Bush, and I don't think López Portillo ever liked the Americans. So the president cut off his head with the pretext that he hadn't submitted a major decision to the administrative council or the economic cabinet.

Again the environment of elite struggle thus promoted more struggle: the president and cabinet seemed to accept without demur that if one made a bid for power that went awry, the penalty was political exile. The only remedy for Díaz Serrano's hubris that anyone seems to have conceived was to “cut off his head.”

Having dispatched Díaz Serrano on June 3, 1981 (Teichman 1988, 108), the cabinet raised oil prices \$2 dollars a barrel as justification. In an address to Congress, Oteyza warned Mexico's clients that “a barrel lost by them today, may be lost forever” (Grayson 1984, 177). At the upcoming North-South Conference, President López Portillo prepared to sing the praises of primary products and rail at the “monsters of the north” (Castañeda 1999, 126). Strangely, many of Mexico's oil customers did not understand why they

<sup>140</sup> It is sometimes said that one parent was Spanish, but both were (Oteyza).

<sup>141</sup> There is some question whether López Portillo approved. Ojeda says he did, as does Bailey 1988, 51-52, and Grayson 1984, 177, infers that he did. López Portillo himself claims he only approved the increase pending a discussion in the economic cabinet (López Portillo Romano 1994, 161).

should pay above world prices, so Mexico lost revenue estimated at between one billion (Grayson 1984, 178) and several billion dollars (Teichman 1988, 108).

The monetary loss was not the real disaster. By August Mexico lowered its price and regained sales, and, as mentioned, in the end total oil export revenue rose from about \$10 billion dollars in 1980 to \$15 billion in 1981. The real cost of the oil-price fiasco was the private sector's conclusion that chaos prevailed within the economic cabinet. Says Miguel Mancera, at the time subdirector of the Bank of Mexico and later its director:

A far more serious problem [than the price of petroleum] was the government's total lack of realism. It seemed to think it could sell at whatever price it wanted. But how could it sell at \$37 dollars a barrel if others were selling at \$35? The export volume fell off, and the public said, "This government is *loco*. This is the way to the abyss." I think that was the turning point. A rapid deterioration began, despite the fact that the situation should have been readily salvageable. Petroleum export was increasing rapidly, and if the prices weren't \$37 dollars, well, they still were plenty high at \$35. If there had been a little common sense, a little moderation in public spending, perhaps the 1982 crisis wouldn't have occurred.

Officials across the ideological spectrum agree that June 1981 was the moment of disaster. Planning and Budget Undersecretary José Ramón López Portillo, on the left, says that "relative optimism prevailed into mid 1981. . . . The private sector forecast it would be a very positive year," but after the oil-price fiasco, "suddenly, the universal impression of success . . . was shattered" (1994, 158, 161).<sup>142</sup> Ernesto Zedillo, a Bank of Mexico official and subsequently president of Mexico: "The possibility of an exchange-rate devaluation still looked somewhat academic just before the 'oil price affair.' Such a possibility became an open threat by mid-June, however, leading to a tremendous capital flight" (1985, 313).<sup>143</sup> While good business relations had kept capital in Mexico – some was actually repatriated in 1980 (Lustig 1998, 23) – in June 1981 capital flight "assumed tremendous proportions," says Buffie (1990, 442). It became "rampant" says Lustig (1998, 27).

Mexican policymakers are often excused (Lustig 1998, 21) – and excuse themselves (Oteyza, Ojeda) – as having made an understandable error, supposing with everyone else that oil prices would continue rising. De la Madrid: "We were all wrong, but so was the rest of the world" (López Portillo Romano 1994, 163-64). The rest of the world was *not* wrong in the same way that the Mexican economic cabinet was wrong. True, many energy experts predicted that oil prices would keep rising, but it is one thing to err in a medium-range prediction, quite another to demand that customers pay more today than the going price. Indeed, the problem was precisely that the rest of the world considered that the economic cabinet was not only wrong but so wrong as to appear crazy.

### Political Struggle and public spending

Just because the economic cabinet opposed Díaz Serrano's massive spending does not mean that other members would not spend and disguise spending to win the presidency. An important part of the problem, on top of the oil price affair, was that the budget deficit went out of control, from a troublesome 7 percent of GDP in 1980 to a catastrophic 14

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<sup>142</sup> Oteyza, also on the left, concurs that the oil-pricing episode was when the economic situation became "really grave."

<sup>143</sup> Romero Kolbeck; Teichman 1988, 113-14; and Bazdresch and Levy 1991, 249, 251, also consider the oil-price episode as critical turning point.

percent of GDP in 1981 (Lustig 1998, 22; Buffie 1990, 435; Zedillo 1985, 311).<sup>144</sup> The rising deficit, along with the oil-price fiasco, is why economists concur that Mexico's economic situation remained salvageable through 1980 and that the crisis was made in 1981 (Lustig 1998, 24; Zedillo 1985, 313; Buffie 1990, 446). As Francisco Gil Díaz, Mexico's current finance secretary, writes, "Everything fell apart in 1981" (1984, 351).

The deficit resulted not primarily from declining revenue, which was constant as a portion of GDP, but from expenditures' increasing by 6 or 7 percent of GDP (Zedillo 1985, 313; Buffie 1990, 442). Moreover, the spending drove a foreign borrowing spree (Buffie 1990, 437; Zedillo 1985, 310). The symbol of Mexico City – the image movie directors flash to so that audiences know action takes place there – is the Angel of Independence, standing over a grassy circle on Paseo de la Reforma. In 1981 Ángel Gurría, director of external borrowing in Finance, dubbed himself the Angel of Dependence, as he trotted from one First World bank to another borrowing \$20 billion dollars (Suárez Mier). Mexico's external debt, 31 percent of GDP and considered reasonable in 1980 (Zedillo 1985, 306, 308; Lustig 1998, 21), surged to 39 percent of GDP in 1981 (Zedillo 1985, 306; Buffie 1990, 440, shows a smaller increase). Worse, short-term debt, which must be continually renewed to avoid economic crisis, mushroomed from a comfortable \$1.5 billion dollars at the end of 1980 (a month of oil exports) to a perilous \$10.8 billion by the end of 1981 (Zedillo 1985, 314).

This spending did not result from some grave misconception about how economies work. No one in the economic cabinet, left, right, or center, disagreed in principle that the deficit was serious and had to be controlled, or at least no one says so now (de la Madrid; Ibarra; Oteyza; Ojeda; López Portillo from López Portillo Romano 1994, 160). As mentioned, López Portillo had enjoined de la Madrid to contain spending. The 1981 budget theoretically allowed no increases even to compensate for inflation, running at almost 30 percent (Zedillo 1985, 312, Buffie 1990, 442), an injunction that would have meant substantial real cuts if heeded. The president insisted that the approved 1981 budget should be "strictly observed" and follow the established timetable (López Portillo Romano 1994, 160) – that the practice of cramming spending into the beginning of the year to build political support before the *destape* should be avoided. Again in June López Portillo decreed an across-the-board 4 percent cut – now 4 percent below increases he had already approved (Zedillo 1985, 313; Buffie 1990, 442; López Portillo Romano 1994, 165).<sup>145</sup>

Despite these proclamations, fears swirling around the contest for presidential nomination boosted spending dramatically in 1981. López Portillo personally approved large expenditures on the run (Zedillo 1985, 312; de la Madrid; Oteyza). Planning and Budget is said to have let public enterprises spend half their entire allotments by the end of the first quarter (López Portillo Romano 1994, 169), in effect a down payment on the

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<sup>144</sup> A better way to calculate deficits in an inflationary economy shows an even larger jump. Inflation erodes the principal remaining on public debt (higher interest payments, adjusted upward for inflation, implicitly pay that principal). A adjustment taking this phenomenon into account thus shows the state as paying off its debt faster than unadjusted figures given in the text. By the adjusted method, the real public-sector deficit was 3.7 percent in 1980, not a grave problem, and 13.76 percent in 1981 – disaster level (Gil Díaz 1984, Table A-5).

<sup>145</sup> Ojeda says that after the oil-price fiasco the president gave instructions that budgets should be cut 10 percent. Romero Kolbeck, director of the Bank of Mexico, doubts that there was any agreement to cut spending: "I wish there had been." He says further that de la Madrid said nothing whatsoever about spending or the exchange rate.

nomination. Even de la Madrid's supporters concede that he bears substantial responsibility for the spending. Manuel Suárez Mier, a long-time Bank of Mexico official and economics professor at the Technological Institute of Mexico, says: "De la Madrid wanted to be president, so from June 1981 until his *destape* in September, he sort of kept his mouth shut. And he was in a sense right because if he had been too critical, the nomination would have gone to Ibarra or Tello"<sup>146</sup> – who, Suárez believes, would have been worse for Mexico in the long run. In short, though one could spend exorbitantly and lose, as Díaz Serrano demonstrated, no one was going to win without spending. José Ramón López Portillo, says: "The political race, in a 'political year', and the resulting anxiety among all [*grupos*] to avoid affecting their respective clientele . . . contributed to the loosening of budgetary restraint" (1994, 160).

As late as August, relying on pre-oil-fiasco data from April, though July data were available, Planning and Budget estimated a deficit of 490 billion pesos, or \$20 billion dollars, but only 45 days later, after the nomination, the estimate rose by more than half, to 767 billion pesos, or \$31 billion dollars (López Portillo Romano 1994, 168-69).<sup>147</sup> Planning and Budget's statistical director, one Carlos Salinas (Castañeda 1999, 400-1), well knew that his career depended on his boss' presidential nomination. Immediately after the *destape*, José Ramón López Portillo notes, Planning and Budget turned around and "insisted on budget control," recommending "a drastic cut in expenditure" (López Portillo Romano 1994, 167). But it was too late: the originally planned deficit of 415 billion pesos had more than doubled to 865 billion pesos, or \$35 billion dollars (Zedillo 1985, 313).

Economic secretaries obscured the data because they feared that confrontations with the president or each other could get them ousted. Oteyza says:

After June 1981, four months before the decision about the presidential candidate, there were many economic cabinet meetings in which we discussed what to do. Petroleum income kept falling, we kept contracting short-term debt, and the deficit kept rising. But clear economic information was never available, because everyone was playing with their cards face down. On a little piece of paper de la Madrid would say the deficit was one thing, Ibarra would say another. On a little piece of paper! Where did the figures come from? Nobody wanted to say. Nobody wanted to get into another conflict because they had seen what happened to Tello and Moctezuma, what had happened to Díaz Serrano. Nobody wanted to create conflict with the president just when he was going to select the candidate. De la Madrid said he was going to cut spending 4 percent, but really he wasn't cutting it because if he had his political possibilities would have been affected. Ibarra didn't stop contracting debt to feed the spending because if he failed to obtain resources, his candidacy could have been affected. The decision was made, Miguel de la Madrid was chosen, and we finished that year with an enormous deficit, a barbaric deficit, great pressure and great capital flight.

Struggle – fear of the fate of Tello, Moctezuma, and Díaz Serrano – thus motivated the withholding of data.

López Portillo bluntly says he felt deceived by the data (quoted in Castañeda 1999, 142). His son notes that "at one point the president felt he was without anyone he could trust; those around him used or concealed information and distorted analysis in order to . . . protect their political prospects" (López Portillo Romano 1994, 145). To be sure, part of the problem was purely logistical. Even under the best of circumstances, getting accurate, timely information on public spending was extremely difficult. It came in under different

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<sup>146</sup> Ibarra (Castañeda 1999, 407); Guillermo Barnes, a former Finance official; Camacho Solís; de la Madrid's undersecretary José Ramón López Portillo Romano (1994, 147); and Grayson (1984, 174) agree that he spent to build support for the nomination.

<sup>147</sup> Exchange rates from International Monetary Fund, *International Financial Statistics Yearbook 2000*, 698.

rubrics, spanning different time periods, and intended for different purposes from Planning and Budget, State Industries, Finance, the Bank of Mexico, and other agencies. As finance secretary, sitting at his desk surrounded by data, Moctezuma would sometimes find himself simply unable to tell what it all meant (Moctezuma). But interagency cooperation had produced better data in the 1950s and 1960s. By the López Portillo administration, even traditional allies such as Finance and the Bank of Mexico were quarreling over calculations (Ghigliazza). In short, conflict produced conflicting information about spending as well as producing spending itself. López Portillo, the ex-finance secretary who had bought his presidential nomination with a 27 percent, or 5 percent of GDP, real public-spending increase in 1975, and had silenced Bank of Mexico budget data by banging his fist on the table, should not have been surprised when he in turn was deceived.

### Ideological polarization?

There is a view that ideological polarization caused the crisis. It is certainly true that there were continual and powerful conflicts over economic policy. But the usual history of those conflicts – the pitched battle it tells about between Keynesian expansionists and cautious monetarists – is not quite right and, most important, the crisis was not caused by a victory of leftist big spenders over fiscal conservatives.

Newell and Rubio say that conflict between “radically opposed and mutually exclusive philosophical differences” divided the López Portillo administration (1984, 208). The right advocated freer markets, “an open economy with a pragmatically defined role for foreign investment, indirect government intervention in the economy when necessary, . . . and fiscal conservatism.” The left advocated “a closed economy with strong limits to foreign investment, direct government intervention, . . . and a rapid growth of subsidies, government spending, and government-owned corporations.”<sup>148</sup> Principal leftist ministries were Planning and Budget under Tello and State Industries under Oteyza; rightist ministries were Finance under Moctezuma, then apparently under Ibarra; and the Bank of Mexico under Gustavo Romero Kolbeck (Newell and Rubio 1984, 207, 209, 224). The leftists won during the transition years of 1978-79 as “expansionism . . . once again triumphed”; then “the years of populism” 1980-82 brought crisis (Newell and Rubio 1984, 215, 220).<sup>149</sup> Miguel Mancera, a high Bank of Mexico official who would soon become its director, agrees that “there was one group led by Ibarra and Romero Kolbeck, and another – more or less the rest – led by Oteyza. The financial group advocated a certain budget moderation, a spending level that would be less overwhelming; the others thought those were just monetarist ideas. And Oteyza and company won the battle.”

There were powerful economic disagreements in López Portillo’s cabinet, but it is impossible to draw a meaningful ideological divide with left-leaning activists in State

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<sup>148</sup> Nobody can seem to agree on terms. Newell and Rubio 1984 used the loaded (not to mention awkward) “liberal-rationalists” and “nationalist-populists” (it is good to be rational, bad to be populist); others use other expressions. Leftist versus rightist are the simplest terms I can find – none of the terms that have been used are very accurate anyway.

<sup>149</sup> Centeno (1994, 187-89) and Teichman (1988, 94-95, 102) line up the same opposing teams. Although Centeno is not trying to explain the crisis, he seems to accept Newell and Rubio’s view: “those who favored unlimited production and the expansion of the state’s role in the economy dominated”; with falling oil prices and rising interest rates, the economy “went into a tailspin” (1984, 189). Teichman does not see ideological struggle as having caused the crisis (1988, 127).

Industries and Planning and Budget, on the one side, and right-leaning monetarists in the Finance Ministry and the Bank of Mexico, on the other. Any such line disappeared when López Portillo's 1977 reshuffle of Finance and Planning and Budget that put "the nuns in the bordello and the whores in the convent." Even before that episode, neither Tello in Planning and Budget nor Moctezuma in Finance were such neat ideological packages as usually said. As mentioned, though Tello supported spending, he emphasized that excessive budget deficits would destabilize the economy, and though Moctezuma was more fiscally conservative, he had dedicated much of his career to planning not only government investment such as in irrigation and highways but public-enterprise investment such as in steel and chemical plants – and he continued to see such investment as important to economic progress (interview).

The story about leftists' winning an ideological struggle really breaks down when it comes to explaining the crisis: institutional interests proved stronger than ideology. Finance Secretary Ibarra, a center-leftist by all accounts<sup>150</sup> who had spent 15 years at the statist U.N. Economic Commission on Latin America and opposed Mexico's entering GATT in an intense 1979 cabinet debate (Basáñez 1996, 180), repeatedly and insistently warned the president to cut spending. Not only does Ibarra himself say he warned about cutting spending; the leftist Oteyza, the conservative Jesús Silva Herzog (later finance secretary), and the centrist Ojeda agree.<sup>151</sup> No doubt Ibarra is a wise economist, but, as well, institutional interests prompted fiscal conservatism: the more the public sector spent, the greater the pressure on Finance to obtain loans. Conversely, Planning and Budget Secretary de la Madrid, a center-rightist who had worked for 20 years in Finance and the Bank of Mexico and had supported joining GATT, turned out to be the biggest spender of all. José Ramón López Portillo, who later became estranged from his ex-boss, says de la Madrid "proved to be flexible enough to . . . disguise his own economic position in order not to endanger his political future" (López Portillo Romano 1994, 147). Labeling de la Madrid is thus a thorny problem for the ideological-divide story: Newell and Rubio (1984) skirt the matter by not assigning him to a camp; Teichman calls him "quasi-populist" (1988, 102); Centeno puts him "in the middle" (1994, 187). What does ideological polarization mean if the single most powerful economic official was "in the middle"?

The problem is that ideological labels may not match political interests. "De la Madrid thought the way we did," says Bank of Mexico Director Romero Kolbeck, "but he had an interest in the presidency."<sup>152</sup> And his entire *grupo* had that same interest. He had brought them all from Finance and the Bank of Mexico, both with a tradition of fiscal conservatism, but their interests as well as his drove them toward spending and overlooking others' spending. Surely de la Madrid did not take it on himself alone to provide bad fiscal data. He may not even have received figures – top Planning and Budget officials were far more interested in the presidency than in statistical accuracy – but nor did he insist on them. Contention for the presidency was a *grupo* effort.

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<sup>150</sup> Thus Oteyza and Alejo characterize him; I agree based on having interviewed him and read a good deal by him. José Ramón López Portillo, who read the notes of all economic cabinet meetings during his father's presidency, says Ibarra "championed economic nationalism and moderate state lead growth" (1994, 146).

<sup>151</sup> Likewise López Portillo Romano 1994, 150, and Castañeda 1999, 391-92. There is substantial debate as to whether Ibarra's presidential ambitions were serious enough to give him much incentive to spend: Mancera is quite certain he was serious, Camacho Solís more doubtful.

<sup>152</sup> Similarly Camacho Solís.



## Where the money went

Exactly who spent all the money? De la Madrid and Oteyza, a leftist who did his share, interestingly propose the same answer. Both say they advocated that spending be cut, but it occurred in areas they could not control: agriculture, Pemex, and Mexico City.<sup>153</sup> Says de la Madrid, “President López Portillo, in all good faith, authorized that spending on the march, and when we learned about it, it was too late to stop.” Oteyza: “As best I recall, all the principal economic cabinet secretaries shared the consensus that we had to control the spending of Pemex, Mexico City, agriculture, and several other branches. There wasn’t debate on this matter.” The answer is partly true, partly convenient, and, in any case, quite compatible with the nomination contest’s having been the problem (see Table 7-1).

With an eye on his presidential ambitions, Díaz Serrano boosted Pemex spending 36 per cent, or 1.3 percent of GDP, in 1981 (Table 7-1),<sup>154</sup> but how much blame he deserves for the deficit is debatable. The government collected massive revenues from Pemex that never went into the oil company’s coffers. When gasoline cost 6 pesos per liter, 1.25 went to Pemex and 4.75 to the government; some 70 percent of petroleum export revenues went straight to the government (Moctezuma). Julio Rodolfo Moctezuma, the fiscal conservative who resigned as finance minister in 1977 and was appointed to replace Díaz Serrano in Pemex, says that the government did not leave the company adequate resources to invest in infrastructure: “Though Pemex contracted a lot of debt, the truth is that it was just channeled though Pemex to the public sector. It was a way for the government to borrow.” Including the taxes it paid, Pemex ran a surplus of 4.1 percent of GDP in 1981, though that surplus had fallen sharply from 6.3 percent of GDP in 1980 (Buffie 1990, 436).

Like Díaz Serrano, Carlos Hank González, governor of Mexico City, was a close, profligate ally of the president – he felt compelled to import police cars when perfectly good cars were made in Mexico (Oteyza) – who increased spending 30 percent in 1981, after large increases in preceding years. But that total increase was still only 0.3 percent of GDP. There were bigger culprits.

So-called agriculture spending included just about everybody. The Mexican Food System (SAM), a plan to achieve national self-sufficiency in food, embraced not only the Ministry of Agriculture, concerned with commercial agribusiness, and Agrarian Reform, concerned with peasant farming, but also the national food-distribution firm CONASUPO, under Commerce; major state enterprises such as the fertilizer producer FERTIMEX, under State Industries; agricultural banks such as BANRURAL, under Finance but heavily influenced by Agrarian Reform; and indeed almost a third of all the 966 public enterprises that existed (Fox 1992, 89-90). When López Portillo presented the Mexican Food System to his cabinet as a *fait accompli* on March 18, 1980, just as the presidential succession contest was getting underway, he emphasized that “we must make a team effort, leaving behind . . . bureaucratic fiefdoms” (Fox 1992, 70). In other words, the plan had its well placed enemies. Food self-sufficiency meant a pro-peasant strategy because corn, beans, and other basic grains are predominantly grown by peasants. Of course, Javier García Paniagua, the new agrarian reform minister, could embrace the program. Finance Secretary Ibarra and State Industries Secretary Oteyza saw it as an important goal (Fox 1992,72).

<sup>153</sup> Likewise Ojeda and Gustavo Carvajal, president of the PRI.

<sup>154</sup> All spending figures that follow, except as otherwise noted, are from the same table.

The agriculture secretary, closer to agribusiness interests, and Miguel de la Madrid, who considered it a rival to his Global Development Plan, opposed it (Fox 1992, 78).

López Portillo's solution to this struggle among presidential contenders was to expand the food "system" into a "vast influx of resources" for all sides, except precious little for peasants, to buy compliance (Fox 1992, 122-23). National accounts are not organized in rubrics that indicate which presidential contender spent how much, but "food spending" went from 8.2 percent of GDP in 1979 to 10.8 percent in 1981 (Fox 1992, 123, footnote 82) – half of the total GDP increase in public-sector spending during that period. Interestingly, neither the Agrarian Reform nor Agriculture ministries themselves accounted for much money; it was everywhere else. The food-distribution firm CONASUPO, under Commerce Secretary – and presidential contender – Jorge de la Vega Domínguez, increased spending 55 percent, or 0.6 percent of GDP, in 1981, after a hefty increase in 1980. Government subsidies to BANRURAL, the largest agricultural bank, nominally under Finance Secretary – and presidential contender – David Ibarra but closely allied at the time to Agrarian Reform Secretary – and presidential contender – García Paniagua,<sup>155</sup> increased 37 percent. García Paniagua also managed to double the number of peasant families receiving land in 1980, and double it again to 93,000 in 1981 (Fox 1992, 68).<sup>156</sup> After distributing land, the government must pay the former owners.

Oteyza was not exactly a miser. Even after the oil-price affair, he kept demanding "more dollars for investment" in State Industries, says Bank of Mexico Director Romero Kolbeck.<sup>157</sup> Indeed, investment of the principal industrial firms, such as FERTIMEX (fertilizers), PIPSA (paper), or AHMSA (steel), grew an astronomical 58 percent in 1980, 67 percent in 1981, and even 21 percent in 1982 when most budgets were slashed.<sup>158</sup> However, in absolute terms, it was not much of the total: the entire increase from 1979 through 1982 added up to less than 0.2 percent of GDP, or a third of CONASUPO's growth in 1981 alone. All capital spending overseen by Oteyza, including the huge electric utilities, actually shrank as a percent of GDP.<sup>159</sup> Overall, his firms raised spending less than average in 1981, though hardly modestly: 16 percent versus 22 percent for the public sector (Table 7-1 and 3-3). This total increase comprised 0.3 percent of GDP in 1981, still only half of CONASUPO's. Moreover, the one ultimately responsible for controlling state-firm spending was de la Madrid (Ibarra).<sup>160</sup> If he let it go, it was partly because Oteyza, leftist though he was, supported him and not Ibarra for the presidency (de la Madrid, quoted in Castañeda 1999, 187). Political alliances ran stronger than ideological affinities.

Finance Secretary Ibarra might have spent in two big-growth areas, according to two high officials<sup>161</sup> if he was serious about building support for the presidency: revenue-

<sup>155</sup> Two high officials in off-the-record interviews.

<sup>156</sup> An alternative tally of land area distributed to peasants suggests that the biggest increase was in 1980 (2.3 million hectares), and that almost as much again was distributed in 1981.

<sup>157</sup> Miguel Mancera, who became Bank of Mexico director in 1982, says that "Oteyza and company" won the spending battle.

<sup>158</sup> Figures calculated from de la Madrid 1986, *Cuarto Informe de Gobierno*, table 4.21.2, p. 141, using the consumer price index to deflate them.

<sup>159</sup> From 1.75 percent of GDP in 1979 to 1.65 percent in 1981 and 1.51 percent in 1982. Electric utilities spending from de la Madrid 1986, tables 4.4.2, p. 117 (CFE), and 4.5.2, p. 118 (Compañía de Luz).

<sup>160</sup> Planning and Budget was officially supposed to control parastatal spending; I only cite Ibarra on the point because the government so often did not operate the way it was supposed to on paper.

<sup>161</sup> Off-the-record comments in interviews.

sharing with states and development-bank lending.<sup>162</sup> In 1981 the first grew 37 percent in real terms, or 0.6 percent of GDP; the second – an enormous figure – grew 26 percent in real terms, or 2.3 percent of GDP – more than Mexico City and Pemex spending increases combined. Possibly, Ibarra’s fiscal conservatism applied mainly to Planning and Budget’s areas. Then there was Education (23 percent, or 0.5 percent of GDP) – Secretary Fernando Solana was a long-time ally of presidential contender de la Vega Domínguez in Commerce – and Commerce itself (20 percent, or 0.1 percent of GDP), in addition to the much larger sum mentioned for the food-distribution firm CONASUPO. The Labor Ministry’s budget, under presidential contender Pedro Ojeda, rose 110 percent, but in absolute terms it was almost nothing, 0.05 percent of GDP. The large federal government investment budget, a flexible area under Planning and Budget, grew fast (26 percent, or 0.8 percent of GDP).

### The motivation of struggle

Power struggle caused politically motivated spending, but to what extent was it motivated by ambition to win, which presumably always existed and always will, and to what extent was it motivated by an increased fear of losing? A number of remarks point to increased fear: De la Madrid’s warning to his team that if their work went badly “we will be thrown out”; Oteyza’s remark that presidential contenders hid data, avoided conflict, and spent because “they had seen what happened to Tello and Moctezuma, what had happened to Díaz Serrano”; José Ramón López Portillo’s view that de la Madrid disguised his real fiscal conservatism “in order not to endanger his political future”; Tello’s vision of a coming Armageddon between neoliberals and nationalists – a vision reflected in some other histories of the era such as Miguel Basáñez’ *Struggle for Hegemony in Mexico*.

Aside from direct statements, fear of political exile is the most plausible way to understand two critical facts about López Portillo’s presidency. The first critical fact was the prominent and frequent expulsion of high officials and their *grupos*. The most prominent expulsions before the *destape* included the *echeverristas*; Tello and Moctezuma; García Sáinz and the May 15, 1979, political massacre; and Díaz Serrano. As if to confirm the pattern, after the *destape* Ibarra and Romero Kolbeck were fired for little apparent reason other than that they had lost the bureaucratic conflict – and Ibarra had lost the presidency – and had been too critical in their insistence that López Portillo curb spending and devalue. Then when de la Madrid entered the presidency, he confirmed fears by expelling losers wholesale. Pedro Ojeda was the only former cabinet secretary left – in the Ministry of Fisheries. The second critical fact about López Portillo’s presidency was the unusually intense conflict among officials, a level of conflict that all sources agree on, including those that see it as resulting from ideological polarization.

Struggle is the plausible link between those expulsions and that conflict. A *grupo* has two motives to best rival *grupos*: ambition to advance its members’ careers and fear that rivals might end its members’ careers. Fear is the more powerful motive. Many officials might contentedly remain directors, director generals, or subsecretaries rather than engage in high-stakes power struggle, but fear obliges them to take the offensive so their inaction does not cede all-or-nothing victory to opponents. The situation is analogous to Hobbes’ state of nature. All are motivated by self-interest to protect their security. Only a

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<sup>162</sup> Such loans are not part of the budget but can very well increase the money supply and thus help cause economic crisis.

few are motivated to get more power than their security requires, but the rest are afraid of those few. People who “otherwise would be glad to be at ease within their powers” must instead strive to “increase their power,” attacking others just to protect themselves. Since such aggression is “necessary to a man's conservation,” Hobbes says, it ought to be “allowed.” If cooperative norms of mutual survival erode, as evidenced by prominent and frequent dismissals of losers, fear of dismissal should well be expected to increase, promoting conflict and pushing elite competition closer to Hobbes’ raw state of nature.

In the end, even President López Portillo was motivated by fear – fear that amidst the struggle between *grupos* over succession, the whole succession mechanism might break down, causing untold damage to the political system and, even, to him personally. Such fear at a minimum contributed to his decision not to devalue before the *destape*.

José Ramón López Portillo says that in October 1980 businessmen led by Agustín Legorreta, director of Banamex (a private bank, not the Bank of Mexico), tried to convince the president that economic stability depended on devaluing the peso. In the ensuing “bitter” cabinet fight, Ibarra in Finance and Romero Kolbeck in the Bank of Mexico advocated devaluation; de la Madrid in Planning and Budget and Ojeda in Labor proposed a faster “crawling peg” (ongoing, smooth devaluation); and Oteyza in State Industries and unspecified “others” opposed devaluation but privately urged the president to impose capital controls (López Portillo Romano 1994, 171-73). The outcome, neither one approach nor the other – neither imposing controls to check capital flight nor devaluing and cutting spending to check it – was a setup for crisis (177).

One coherent approach or the other would surely have been better than the ill-conceived hybrid (Ros 1987, 80-81), but the history seems amiss. Ibarra does concur that he recommended devaluing, indeed since 1977. Romero Kolbeck says that he too urged the president to devalue starting in early 1981,<sup>163</sup> but that de la Madrid said nothing about matter. De la Madrid agrees that he said nothing: he favored a “smooth, planned” devaluation, but exchange rate policy was not discussed in the economic cabinet, only among the president, finance secretary, and Bank of Mexico director: “They didn’t even include the planning and budget secretary.” Oteyza says he supported a gradual, controlled devaluation but emphatically not capital controls: “I thought if we had to take some action, it was better to fight with ten bankers [he agrees that he favored nationalizing the banks] than ten million Mexicans. Capital controls were going to get us in a confrontation with ten million Mexicans and weren’t worth that cost.”<sup>164</sup> In any case, “The exchange rate was discussed in the economic cabinet, but mainly after the PRI had selected its candidate” – thus de la Madrid would have been absent on his campaign. “Beforehand, nobody wanted to engage in such polemics; a devaluation could have hurt candidates’ chances.”

Undoubtedly, Ibarra and Romero Kolbeck had been urging the president privately to devalue since before the *destape*, but, as Ojeda put it, “as always, *soto voce* and in whispers.” The one who would not devalue was the president. When Romero Kolbeck persisted in advising him to devalue, López Portillo said, “We are not going to, and if you keep on this way, I will not give you any more appointments” (Romero Kolbeck). The

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<sup>163</sup> Mancera concurs, noting that the Bank of Mexico was not, and is not to this day, independent of the president in setting the exchange rate.

<sup>164</sup> He adds that Carlos Tello, still a presidential adviser, and Jorge Espinoza de los Reyes, director of the National Development Bank, did recommend capital controls, though neither was in the economic cabinet at the time.

president opposed devaluation partially on general political grounds, repeatedly saying, “The president who devalues is devalued.” But, as Ojeda notes, he especially did not want to devalue before the *destape*. On this critical point the president’s son agrees: López Portillo “feared that a devaluation would jeopardize the process of succession in power.”

Javier García Paniagua’s alleged bid to threaten López Portillo militarily suggests just how delicate that process was. Though he was the agrarian reform secretary, García Paniagua had formerly been director of the Federal Security Directorate, the principal secret police agency; his father had been defense secretary; and the current defense secretary supported his presidential candidacy. As the *destape* was approaching, Interior Minister Enrique Olivares Santana took Porfirio Muñoz Ledo aside, explicitly to a spot where possible military eavesdropping devices could not hear them, and said, “I wouldn’t want the defense secretary to present himself before the president one day and tell him, ‘We want the candidate to be Javier’” (Castañeda 1999, 406). Muñoz Ledo relayed to the president these concerns about the possibility that García Paniagua might invoke military force, and he believes he confirmed the president’s decision to cut short possible trouble by announcing the *destape* a month earlier than planned. In such a tense situation, the last thing a president would want to do is devalue, curb spending, increase revenue, or take any other measure that would produce an immediate political shock.

The economy just had to endure. After the *destape* was settled but before the election, López Portillo did devalue – by 40 percent in February (Buffie 1990, 433). Despite 1982’s being an election year, real public-sector spending (excluding interest) was slashed 8 percent. López Portillo decreed a 30 percent wage increase in March, mainly to propitiate labor boss Fidel Velázquez and the official union apparatus, who were unhappy with the technocratic presidential candidate and functioned as an important cog in the electoral machinery (Bailey 1988, 182). In any event, real wages rose less than 1 percent for the year, and the minimum wage fell 11 percent.<sup>165</sup> The crisis broke out in August. López Portillo had gone through four secretaries of Planning and Budget, three secretaries of Finance, and three directors of the Bank of Mexico – in each case (considering Presidency as the predecessor of Planning and Budget) more than filled those posts throughout the entire period from 1952 through 1970. Pedro Ojeda says, “Each of us did our job very well, and the result was very bad.”

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<sup>165</sup> The nominal annual wage index deflated by the consumer price index, both from IMF, *International Financial Statistics* CD, give 0.8 percent real growth for 1982. A lower figure, 0.1 percent real growth, is obtained by using real manufacturing wages and benefits, INEGI 1994, table 5.12. Minimum wage in Mexico City from *ibid.*, table 5.2.1, deflated with the cost of living for workers in Mexico City from *ibid.* table 19.11.









**Table 7-1 Presidential precandidates' spending, real growth (above), percent of GDP (below)**

	Social Security (IMSS)	Investment	PEMEX	National Industries	Associated firms, sum	Major industrial firms	Subsidiary firms, funds	CFE (electricity)
1971	42.5	14.0	13.2	-3.5	0.24	0.82	0.24	
1972	2.39	0.37	2.80	0.08	265.1	1.16	265.1	
1973	4.2	-10.1	18.2	77.4	0.81	0.81	0.81	
1974	2.27	0.30	3.01	0.12	103.7	0.82	-6.9	
1975	4.6	-58.0	21.8	46.8	1.52	0.82	0.69	
1976	2.17	0.12	3.36	0.17	8.5	47.4	-37.7	
1977	18.5	162.6	-1.1	-24.8	1.57	1.16	0.41	
1978	2.44	0.29	3.16	0.12	46.0	46.1	45.5	
1979	12.9	13.6	32.1	3.8	2.15	1.59	0.56	
1980	2.60	0.31	3.93	0.12	-18.7	-22.0	-9.5	
1981	6.6	-0.9	-6.4	40.3	1.63	1.15	0.47	
1982	2.58	0.28	3.42	0.15				
1977	-11.9	-52.3	13.7	-48.3	-7.5	3.1	12.2	-18.0
1978	2.17	0.13	3.71	0.08	3.25	1.14	0.51	1.61
1979	7.8	41.8	29.6	45.9	13.8	1.3	5.0	25.5
1980	2.17	0.17	4.47	0.10	3.44	1.07	0.50	1.87
1981	14.8	128.8	24.7	48.3	17.5	20.7	17.6	15.7
1982	2.24	0.35	5.01	0.14	3.63	1.16	0.52	1.95
1983	11.1	28.3	12.1	<del>1429.2</del>	22.1	11.9	77.1	13.4
1984	2.16	0.39	4.87	1.81	3.85	1.13	0.81	1.91
1985	1.3	-27.3	35.6	12.8	15.7	27.0	22.2	6.4
1986	2.04	0.27	6.18	1.91	4.16	1.34	0.92	1.90
1987	11.0	-15.6	-16.9	30.1	-6.3	-1.5	-10.4	-7.6
1988	2.26	0.22	5.11	2.48	3.88	1.31	0.82	1.75
1983	-22.8	-73.3	-24.7	3.2	-8.0	30.9	-50.6	-17.3
1984	1.93	0.07	4.25	2.82	3.94	1.89	0.45	1.60
1985	-7.0	26.5	-3.7	-28.8	20.4	53.0	-40.8	-1.0
1986	1.79	0.08	4.09	2.01	4.74	2.90	0.26	1.58
1987	-0.9	59.1	-11.7	1.2	-8.8	-11.1	-14.3	-3.7
1988	1.75	0.13	3.56	2.00	4.26	2.54	0.22	1.50
1989	0.2	27.2	-7.0	-24.0	-12.4	-16.3	2.3	-8.0
1990	1.95	0.19	3.69	1.70	4.17	2.37	0.25	1.54
1991	-9.6	-0.8	-1.7	-19.1	5.8	5.5	-6.2	8.3
1992	1.68	0.18	3.45	1.31	4.19	2.38	0.23	1.59
1993	-3.1	-2.8	-9.9	-35.9	-9.0	-8.2	-57.2	-3.4
1994	1.73	0.18	3.30	0.89	4.05	2.32	0.10	1.63

Year	Presidential precandidates' spending, real growth (above), percent of GDP (below)						
	Mexico City	Agriculture and Irrigation	Education	Communication and Transport	Associated major firms	Public Works and Urban Development	Health
1971	-0.5	5.7	14.8	3.3	8.8	1.7	-2.0
	0.90	0.59	1.93	0.36	1.45	0.45	0.35
1972	47.2	54.2	18.6	9.1	-14.2	67.2	42.4
	1.20	0.83	2.08	0.36	1.13	0.69	0.45
1973	39.1	30.8	14.9	-4.5	45.0	32.2	11.0
	1.53	1.00	2.19	0.32	1.51	0.83	0.46
1974	-20.7	-1.1	11.0	-1.0	-16.1	-16.9	-0.6
	1.16	0.94	2.31	0.30	1.20	0.66	0.43
1975	11.1	29.7	29.9	29.9	28.7	-2.3	13.5
	1.21	1.15	2.83	0.36	1.45	0.60	0.46
1976	-0.6	15.1	18.0	19.8	-3.9	10.1	5.9
	1.12	1.23	3.10	0.41	1.30	0.62	0.46
1977	-6.7	-7.6	12.8	15.8	-7.6	-18.5	18.1
	0.99	1.08	3.34	0.45	1.15	0.48	0.51
1978	23.0	15.3	6.9	4.6	-1.7	22.4	12.0
	1.14	1.16	3.32	0.44	1.05	0.55	0.53
1979	33.5	16.3	12.5	30.4	17.6	31.1	8.5
	1.36	1.21	3.36	0.51	1.11	0.64	0.52
1980	4.3	<del>93.9</del>	7.6	<del>101.8</del>	19.0	<del>45.2</del>	-3.0
	1.23	2.04	3.13	0.89	1.14	0.81	0.44
1981	29.9	13.1	22.9	28.3	3.8	33.2	13.4
	1.50	2.15	3.60	1.07	1.11	1.01	0.46
1982	0.4	-17.2	5.0	1.9	5.8	-35.5	-0.1
	1.50	1.78	3.76	1.09	1.17	0.65	0.46
1983	-17.6	-37.6	-34.5	7.9	-29.7	-77.8	-33.7
	1.36	1.22	2.72	1.30	0.31	0.16	0.34
1984	9.0	-5.8	3.0	5.8	7.5	42.7	2.8
	1.49	1.15	2.80	1.37	0.97	0.23	0.35
1985	-9.4	-7.6	1.7	-10.1	5.2	-26.8	4.3
	1.33	1.05	2.81	1.22	1.01	0.16	0.36
1986	-16.9	-21.3	-14.8	-22.1	-1.6	6.6	-2.2
	1.23	0.92	2.67	1.06	1.11	0.19	0.39
1987	5.5	-12.6	2.8	1.7	0.6	-23.7	3.0
	1.23	0.77	2.61	1.02	1.06	0.14	0.38
1988	0.5	-31.3	-6.1	-44.3	-31.1	-23.8	-3.3
	1.31	0.56	2.59	0.60	0.78	0.11	0.39

Table 7-1. Presidential precandidates' spending, notes

The table shows spending that can be *roughly* allocated to major cabinet secretaries and public-enterprise directors (Pemex and IMSS, or Social Security), along with names of secretaries or directors generally considered to have been presidential precandidates. An accounting change in 1980 produces some meaningless results for that year. Transfers from the federal government to public-sector firms that had been lumped under a single category of additional spending (*erogaciones adicionales*) were allocated to individual ministries. Thus, the apparent precipitous jump in some ministries' spending this year is just an accounting artifact. The figures known to be meaningless are left in but crossed out.

Spending of major and subsidiary state enterprises associated with ministries are given. In many years the ministry budget includes transfers, or subsidies, to these enterprises, which also constitute a portion of the enterprises' spending. Thus, the ministry budgets cannot be added to enterprise budgets, or transfers would be double-counted.

The table excludes interest and amortization, as well as items such as additional spending that cannot be readily assigned to any particular official (except perhaps the cabinet secretary who had overall spending authority – Finance in 1970-76, Planning and Budget in 1976-88 – or the president himself). It also excludes minor categories such as Fisheries.

Figures for ministries are from Salinas 1992 (*Cuarto informe de Gobierno*), *clasificación administrativa*, 168-69. Figures for parastatals are from Salinas 1992, *clasificación sectoral*, 172-77.

Salinas 1992 did not provide enough accuracy for some ministry and parastatal budgets in 1970-76. It gives all figures with one digit past the decimal point, and in the early years that often means one digit of accuracy. For example, some ministries are listed as spending 0.1, 0.1, and then 0.2 million new pesos. The rounding gives the false impression that they have zero growth followed by 100 percent growth. Thus, I used Lopez Portillo 1978 (*Segundo informe*), *resumen administrativo* and *clasificación administrativa* for those ministries and parastatals in 1970-76. The figures, if rounded, all agree with Salinas 1992.

Development bank credit – total credit provided by all government development banks (*banca de desarrollo*) – is from Salinas 1994 (*Sexto informe*), 116.

Echeverría put CFE (electricity generation) under Finance (Echeverría, quoted in Castañeda 1999, 82). But in other administrations, all official sources place it under National Industries. I have grouped it accordingly.

Government investment is total capital spending (*gasto de capital*) of the federal government from Salinas 1992, 168. State-firm investment is capital spending from enterprises and firms (*organismos y empresas*), also from Salinas 1992, 168. Pemex investment has been deducted from its spending and is listed separately. Pemex spending is from Salinas 1992, 184.

Infonavit (mortgage lending for workers) is from Salinas 1994 (*Sexto informe*), 437. Foncaot (consumer loans for workers) is from Salinas 1994, 341.

Where Infonavit should go in 1970-76 is debated. Castañeda 1999, 369, says Echeverría put it under Finance, as does Silva Herzog, the founding director of Infonavit under Echeverría, but Pedro Ojeda would put it under Labor. In all other administrations it is under Labor. For simplicity I left it there, but its placement in 1970-76 is doubtful.

Banrural (like all development banks) was always under Finance, but two knowledgeable officials (anonymous remarks) said it should be associated with Gómez Villanueva under Echeverría and García Paniagua under López Portillo, both Agrarian Reform ministers who were precandidates.

Banrural (subsides), that is transfers from the federal government, from Salinas 1992, 172.

No long-term, consistent series of Banrural loans appears to be available.

Banrural financing, 1971-76, basic crops loans, from Lopez Portillo 1981 (*Quinto informe*), 627.

Banrural financing, 1977-82, gross financing, from de la Madrid 1985 (*Tercer informe*), 941.

Banrural financing, 1982-88, total financing, from Salinas 1994, 172.

Land distributed, in thousands of hectares, from Salinas 1994, 191.

IMSS (Social Security for non-government workers) investment from Salinas 1992, 187.

Pemex was always formally under State Industries, but it acted independently under Díaz Serrano (1976-82) and with considerable autonomy Beteta (Oteyza). Thus I left it independent.

Major industrial firms, under State Industries, is the sum of spending of Fertimex (fertilizers), Concartil (railroad cars), Pipsa (paper), Azucar (sugar), Dina (trucks and busses), and various steel mills. Each is given in Salinas 1992, 176. Subsidiary firms and funds (*fideicomisos*), under State Industries, includes only transfers to them from the federal government. It is also from Salinas 1992, 176.

Federal District (Mexico City government) from Salinas 1992, 193. The figures include firms and organizations the Federal District controls and exclude amortization. I deducted interest payments. Thus, Federal District figures are comparable to federal government and parastatal figures.

Conasupo (grain purchasing and food distribution firm) includes transfers to some of its subsidiary affiliates, given in Salinas 1992, 175.

## Chapter 8

### Elite Fracture

The last chapter argued that ideological polarization – extreme and coherent left-right battles for hegemony over policymaking – was not the fundamental problem under López Portillo, but rather that elite struggle was: escalation of political conflict because fear that the stakes in winning or losing had risen. What would happen if ideological differences were eliminated from the economic cabinet because all secretaries shared the same fundamental perspective? If the real problem had been ideological polarization, there should have been relative peace. If what had really invaded the system was a growing belief that elite struggle had replaced elite cooperation – that if you did not build support and push your opponent out, he was likely to build his support and push you out – then the problem should have continued. It did continue.

Struggle erupted despite de la Madrid's effort to restore political and economic order, as he saw it, at the start of his administration; neither his nor López Portillo's failure to achieve these goals was a matter of simply not trying. Indeed, there was a definite aura of restoration to the de la Madrid presidency (Hernández Rodríguez 1987, 34). The new president saw the Echeverría administration as having been "disorderly, anarchic, conflictive." As for the López Portillo administration, he says:

I saw polarization: on one side expansionists, Keynesians, supposed progressives; on the other, finance officials, conservatives, monetarists. The lesson I learned is that we wasted time trying to resolve disagreements and arguments. Though the president said he liked the dialectic process of confronting thesis and antithesis to derive a synthesis, I don't think it worked. The synthesis was neither the one nor the other but halfway measures. So, in fact, I wanted a homogeneous cabinet, in basic agreement, even if there were debates about implementation.

De la Madrid's error was to see the problem just in terms of ideological polarization.

He chose as his most important collaborators officials whose careers had begun in what he saw as a golden age under Ortiz Mena in Finance and Rodrigo Gómez in the Bank of Mexico (Hernández Rodríguez 1987, 34-35). This inner circle, individuals who had won the president's confidence through long-term relationships with him in Finance, the Bank of Mexico, and allied public banks and development funds, included Carlos Salinas in Planning and Budget, Jesús Silva Herzog in Finance,<sup>166</sup> Francisco Labastida in State Industries, Bernardo Sepúlveda in Foreign Relations, Ramón Aguirre as governor of Mexico City, and Francisco Rojas as comptroller, a new position intended to symbolize the administration's lemma of honesty (Hernández Rodríguez 1987, 36). Under de la Madrid, says Oteyza, "Finance and the Bank of Mexico took power and never let it go. Even the agriculture minister was from the Bank of Mexico." While on average 32 percent of cabinet officials since Alemán had come from the financial sector of government, under de la Madrid almost twice that portion – 59 percent – did (Hernández Rodríguez 1987, 15).<sup>167</sup> In a detailed study of the de la Madrid cabinet, Hernández Rodríguez argues that this group shared Ortiz Mena's belief that the last two administrations' bungling was the "principal cause" of Mexico's major political and economic problems (1987, 35).

<sup>166</sup> For reasons I do not understand, Hernández Rodríguez does not include Silva in the "inner circle," but his career had paralleled de la Madrid's in Finance, and they were long-time friends (de la Madrid).

<sup>167</sup> López Portillo Romano (1994, 225) says that 13 of 18 secretaries came from the financial sector.

Within this homogeneous economic cabinet, deliberately chosen to avert counterproductive ideological conflict, struggle nevertheless erupted between Finance Secretary Jesús Silva Herzog and Planning and Budget Secretary Carlos Salinas. The issue was power: who would become economic czar within an increasingly free-market framework, who would secure the presidential nomination, and who be ousted. It was “the same old story,” reflects Silva Herzog. Again, Planning and Budget would use spending to build political support, and it would win; Finance would insist that spending was excessive and disguised, and it would lose.

The economic context could hardly have been more different from that of the López Portillo administration. Then the economy had grown faster even than in the 1950s and 1960s, and measures to avert crisis were reasonably clear: cut public expenditure to some halfway sensible level, devalue the peso moderately, and not charge more for oil than everyone else did. Under de la Madrid, the economy was in terrible shape, and there may have been no good way to fix it, let alone clear understanding of what it was. Throughout the administration, Mexico was forced to make net payments to First World creditors averaging 6 percent of GDP per year (Lustig 1998, 55). Those payments thus amounted to slashing investment by 6 per cent of GDP, and Mexico’s historical 6 percent growth rate to collapsed to zero.

At first de la Madrid’s *técnicos* (Salinas, Ph.D., Harvard; Silva Herzog, M.A., Yale; de la Madrid himself, M.A., Harvard) thought a year or two of IMF shock therapy – slashing budget deficits, drastically devaluing the peso, and driving down wages – would solve Mexico’s economic problems (Lustig 1998, 29). They rushed to be the IMF’s star performers, devaluing about 50 percent on taking office<sup>168</sup> and slashing public-sector deficits to the IMF target (Lustig 1998, 29, 35). The IMF said inflation would fall from 100 percent to 55 percent, but it stayed at 80 percent; the IMF said the economy would experience zero growth, but it shrank 4 percent (Lustig 1998, 35). Real wages plunged more than 20 percent (Lustig 1998, 40). In short, the results were disastrous.

Now the rivals’ paths began to diverge. Silva Herzog traveled the world, renegotiating external debt and being declared “finance minister of the year” by *Euromoney* (Castañeda 1999, 417). However, Jorge Castañeda, today Mexico’s foreign minister, notes in his account of presidential succession in Mexico (1999, 416): “Every foreign magazine cover where Silva Herzog appeared represented a blow, slight at first, sharp at the end, to Miguel de la Madrid’s ego.”

Carlos Salinas played the president’s loyal operative (López Portillo Romano 1994, 297-98) and, at the same time, began to relax fiscal controls to revive the economy (Lustig 1998, 36) and build support.<sup>169</sup> The 1985 midterm elections (which, as always, the PRI did not stand a chance of losing) provided a pretext, according to Silva Herzog:

I got wind that an international airport, not in the budget, was being built in Piedras Negras, Coahuila. So I called the undersecretary of Regional Development [in Planning and Budget], Manuel Camacho Solís: “Manuel, how can you have committed to that airport, when there isn’t a single airplane that lands in Piedras Negras?” He told me, “Señor secretary, we had terrible political pressure from the authorities there, and with this we’ve got them all on our side.” At about that time 40 airports were

<sup>168</sup> As noted in chapter 1, I am defining the exchange rate as dollars per peso; thus, a 50 percent devaluation means that one peso is worth half as much U.S. currency. Using the more common (but confusing) definition of pesos per dollar (as Lustig does) makes the devaluation 100 percent: twice as many pesos, or 100 percent more pesos, equal one U.S. dollar.

<sup>169</sup> Urquidí and Castañeda (1999, 417-18) agree that Salinas inflated spending.

built in Mexico, some without the least justification, but all the governors wanted an international airport. There was Toluca, with a five-kilometer runway. At the inauguration, I said to the mayor, "Where are the planes." "They'll come." Five years later! Millions of dollars were invested in an empty runway for five years. And Tlaxcala, an hour from Mexico City, where there still isn't a single commercial flight. Already in 1985 we were buying political favors and support for Carlos Salinas.

By mid 1985 Mexico was badly missing IMF targets – it was supposed to run only a 3.5 percent of GDP budget deficit, but the actual deficit was 9.6 percent of GDP – so the IMF suspended financing, and there was another peso crisis. That was just the beginning. Oil prices collapsed – and now they really collapsed – from an average of \$25 dollars a barrel in 1985 to \$12 in 1986. Petroleum exports fell by \$8.5 billion dollars in a single year – a quarter of public-sector revenue, half of export revenue (Lustig 1998, 39) – and inflation headed back up over 100 percent. Again the economy shrank 4 percent, though this time wages only fell 5 to 10 percent (Lustig 1998, 39-40).

The economic cabinet argued continually about what the problem was, the size of the deficit, and what to do (Labastida). In 1986 Silva Herzog estimated revenue loss at \$6 billion dollars and proposed to cut public spending by \$2 billion, secure \$2 billion in foreign loans, and let the deficit rise by \$2 billion (Silva Herzog). Salinas famously proclaimed that spending had been cut "to the bone" and said the deficit was not so serious (Silva Herzog; Labastida; Castañeda 1999, 418-20). If Finance would only do its job of securing adequate foreign loans to tide over the emergency, Mexico could achieve 3 or 4 percent growth in 1986 and 1987 (López Portillo Romano 1994, 298) – coincidentally, just when the next presidential candidate would be selected. Silva Herzog saw "deliberate deception" in Salinas' budget figures. For example, Planning and Budget estimated interest payments for a large state-owned enterprise at 4 billion pesos, when in fact they were known to be 44 billion: "In other words, the budget was overspent from the start."

Francisco Labastida, secretary of State Industries under de la Madrid and the PRI's presidential candidate in 2000, concurs with Silva Herzog:<sup>170</sup> "He was right; the financial problem was worse than Salinas was saying. Salinas was really manipulating the theory of expectations: you have to say inflation is 30 percent, even if the figures would indicate 60 percent, in order to influence economic agents' behavior." U.S. economists' terms of art had thus become political weapons. The only problem was that if the theory of rational expectations is actually correct, it says that economic actors should see through invented projections. Labastida says they did: "Both the figures that were announced and the policies that were adopted lost credibility."

The president asked Salinas and Silva Herzog to resolve their differences – they even played tennis on weekends – but the dispute, Salinas saying that Mexico needed to borrow more, Silva Herzog that it needed to spend less, reached the point of no return (Silva Herzog). Silva Herzog was more experienced, more independent, more of a rival even to de la Madrid (Urquidi). And, as David Ibarra might have told him, harassing the president about deceptive spending practices was no way to win at palace politics. Further, as Silva Herzog himself acknowledges, he was harsh, even "disrespectful" towards the president, saying, "If you can't control Salinas' spending, it is going to be useless."<sup>171</sup> He resigned, but if he had not, he agrees he would have been fired.

<sup>170</sup> López Portillo Romano (1994, 233), citing the president's notes: "De la Madrid confirmed that one of his main disappointments and at times even causes for despair was the frequent lack of reliable and timely information and analysis."

<sup>171</sup> Urquidi (interview) supplied this quote.

De la Madrid had had enough conflict, so he appointed Gustavo Petricioli, a capable, responsible, “negotiator,” as he says, to be finance secretary. Silva Herzog says Petricioli was “intelligent, but saw that the president as leaning toward Salinas and became, in effect, undersecretary of Planning and Budget.” Salinas had won his place as the economic czar,<sup>172</sup> and the economic cabinet infighting ended.

The way positions in this conflict – Planning and Budget pushing more spending, Finance insisting on caution – parallel those of de la Madrid versus Ibarra in 1981 and Tello versus Moctezuma in 1977 suggests that they had little to do with ideology. It was irrelevant that the ideological lineup kept changing: further left in Planning and Budget versus further right in Finance in 1977; further right in Planning and Budget versus further left in Finance in 1981; and on the right in both ministries in 1986. The secretaries’ positions seemed to have little to do with the state of the economy, either – so-so in 1977, boom in 1981, and disaster in 1986. Institutional differences were behind the positions on spending: Planning and Budget spends, Finance has to raise revenue. And the lesson of the past, that the winner of the policy contest became president, the loser was evicted, drove what might otherwise have been manageable conflict towards struggle.

### Splitting Finance in Half

Finance autonomy in the 1950s and 1960s could not have been the political requisite of economic stability, since no such autonomy existed, but was López Portillo’s decision, ratified by de la Madrid, to split Planning and Budget from Finance, putting the former in charge of expenditure, the latter in charge of revenue collection, the fundamental cause of economic instability? An important line of thought, particularly among individuals who looked to the Ortiz Mena era as a golden age, held that, at a minimum, this institutional change was a recipe for economic disaster (Suárez Mier). In fact, one of those individuals was Miguel de la Madrid. He opposed López Portillo’s plan to split up Finance: “[Finance Secretary] Mario Ramón Beteta and I even prepared a white paper opposing the idea of establishing a Ministry of Planning and Budget, urging [the president] to leave Finance in charge of revenue, expenditure, and credit. But López Portillo had made up his mind, and he divided Finance up.” It might be that López Portillo persisted because of obtuse ideas about organizing government. But why, after becoming president, did de la Madrid not take his own advice, reinstating the old Finance? The tradition of Finance pre-eminence was long-standing; the separation had lasted a mere term; and it had produced terrible results. Nor was administrative reform some matter of patriotic fervor such that reversing it might cause national resentment, as an effort to reverse López Portillo’s expropriation of private banking would have. Presidents always reshuffled the cabinet, just as a signal that they were going to fix old problems and abuses.

One possibility is that the increasing size and complexity of the statist economic apparatus constituted a structural problem for the old system of governance: Echeverría, López Portillo, and de la Madrid (dissimilar though they were as presidents) came to fear the concentration of so much economic power in one ministry. Even in the 1950s and 1960s under Ortiz Mena, in addition to collecting revenue and allocating budgets under the president’s watchful eye, Finance had insinuated itself into practically every industrial and

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<sup>172</sup> Urquidi says Petricioli was a “mild person who would go along with things.” Bravo says Salinas became the “secretary of the whole economy.”



social question via its array of development banks and funds. The national development bank, Nafinsa, created in 1934, invested in infrastructure projects across Mexico, as well as more than 500 firms such as the major cement manufacturer Cementos de Guadalajara and the telephone company Telmex; it owned majority shares in state enterprises such as Altos Hornos (steel) and Guanos y Fertilizantes (fertilizers) (Ortiz Mena 1998, 130-31, 205, 207); and it engineered corporate take-overs of foreign subsidiaries such as the electric utilities and sulfur mines (Ortiz Mena 1998, 191-205). In those take-overs it did not balk at securing \$100 million-dollar foreign loans, assembling banking syndicates from New York to Hong Kong, and putting up straw men to hide its identity (Ortiz Mena 1998, 200-1). Nor did Nafinsa run a bad business: electric generation growth nearly doubled after the takeover (Ortiz Mena 1998, 216); Mexican sulfur production rose to second place in the world (Corona del Rosal 1995, 156). Just a few of the other banks under Finance were the Banco Nacional de Crédito Ejidal for peasants, the Banco Nacional Agropecuario for agribusiness, Banobras for infrastructure and housing, and the Banco Nacional de Comercio Exterior for export industries.

Then there were the *fideicomisos*, or development funds. When a bank made a loan for a project, a *fideicomiso*, often attached to the Bank of Mexico or Nafinsa, would guarantee it, repurchase it, and provide technical assistance. For example, FIRA provided crop credits; FOGAIN promoted medium and small industry; FOMEX assisted Mexican export firms; FOVI financed housing for the middle and working class; INFRATUR developed tourist centers such as Cancun and Ixtapa (Ortiz Mena 1998, 134-35).

Growth of the public sector of course continued throughout the 1970s. When Echeverría entered office in 1970, the entire public-sector's expenditure (including interest) was 22 percent of GDP, while the loan portfolio of the Finance Ministry's development banks was 11 percent of GDP (Tables 2-5 and 7-1). In 1982 when de la Madrid entered office, public-sector expenditure was 46 percent of GDP, while the loan portfolio under Finance was 26 percent of GDP.

"Ortiz Mena was a powerful finance minister," says Flores de la Peña, who as a high official in State Industries in the 1960s waged a rear-guard action against Finance over the control of state-owned firms (Moctezuma). "[Ortiz Mena] wanted to manage the whole economy; he had an unlimited thirst for power." Echeverría may have made Flores de la Peña his state industries secretary, and issued his infamous remark about running the economy from Los Pinos, precisely to weaken Finance. But he did not completely succeed.

López Portillo hit upon a better strategy. Already as undersecretary of Presidency under Díaz Ordaz – the same ministry that he would later elevate to Planning and Budget – he conceived a jealousy toward Finance. "The guy who discovered that there were 870 *fideicomisos* in the Bank of Mexico is named López Portillo," says Muñoz Ledo, his successor in the same subsecretariat of Presidency. "He found that the government's right wing, which kept complaining about growth of the bureaucratic apparatus, had created its own bureaucratic apparatus, the *fideicomisos*. The only thing he wanted to do was get those *fideicomisos* out of the Bank of Mexico. He created Planning and Budget, and he moved the *fideicomisos* to their respective sectors" – that is, put them under related ministries such as Tourism, Agriculture, or Public Works. Oteyza, one of López Portillo's closest advisors, concurs: In the Ortiz Mena era, "a *fideicomiso* would be created precisely to make an end run around budget restrictions and other agencies; it was what would really manage sectoral matters. And all those *fideicomisos* were under the finance secretary. That

is why Finance had such enormous power. Ortiz Mena had it, Margáin maintained it under Echeverría, and so did López Portillo himself [when he was finance minister]. That is why [when López Portillo became president] he said, ‘I am going to break up that ministry; it’s too powerful; I don’t like it.’ And he split it in half.”<sup>173</sup>

Though de la Madrid tried to restore the old Finance thinking, he conspicuously did not restore its old structure. Why not? It is inconceivable that he preserved the Finance versus Planning and Budget split merely because of oversight, since he had written the white paper with Beteta explaining why it was a bad idea. But, he said, he spent so much of his time as president making economic decisions – “eighty percent” by 1987 – that delegating them to a principal economic secretary would be tantamount to creating a “parallel presidency” (López Portillo Romano 1994, 232). The idea of restoring the old Finance Ministry was never discussed in economic cabinet meetings (Silva Herzog) – any such discussion would have been too divisive – but Finance Secretary Jesús Silva Herzog did talk about it alone with the president “very cautiously.” He notes, “Clearly I was seeking more power, and that isn’t easy to bring up, right? I think de la Madrid was convinced that he couldn’t give the finance secretary all that power, particularly because I was a popular secretary; I was called charismatic.” The remark may be egotistic, but he *was* called charismatic. “If [de la Madrid] had given me that economic power, it would have been clear who his successor was. But in Mexican politics, there must always be weights and counterweights.”

Silva’s comment points to the precise kind of power presidents may have feared to lose. This was not the same type of relationship sometimes seen as arising between public and private sectors during the course of import substitution: at first the state nourishes domestic firms through protectionism and subsidies, but over the decades, as those firms grow into robust producers, their sheer economic might lets them tip the balance of power against the state. A single Finance Ministry in Mexico had that economic might, but unlike the private sector, it could not so easily wield it, since presidents in the 1970s and 1980s could, and repeatedly did, fire finance secretaries and key members of their *grupos*. Recall that de la Madrid called all cabinet secretaries and directors of state enterprises, along with those under them, mere “auxiliary collaborators dependent on the unique office-holder, the president” (Ortiz Salinas 1988, 14). Rather, the principal problem with retaining a unified Finance Ministry would seem to have been, as Silva Herzog suggests, giving it preeminence over other *grupos*. As Fernando Solana noted, secretaries in the economic cabinet were the ones who counted – others were mere operatives – and one economic supersecretary might look too much like the next president designate.

One preeminent competitor for presidency, without adequate counterweights, might damage the system of political succession, as Silva Herzog says. Even if presidents knew who they wanted to name as successor, they had to fabricate rivals – *relleno*, or filling, they were called – to sustain hopes of other *grupos* and keep them playing within the system for their favorites’ nomination. In 1987 the “real” candidates were widely considered to be Carlos Salinas, Alfredo del Mazo, and Manuel Bartlett, yet de la Madrid held a sort of mock national primary debate among these and three more. He declared all had done well, then finally picked Salinas, who in truth was the only real candidate. But presidents needed the *relleno* to keep everyone hoping until the *destape*.

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<sup>173</sup> López Portillo Romano 1994, 123, confirms the transfer of *fideicomisos* to administrative sectors, though without saying why.

Splitting Finance in half was certainly part of the problem that led to crises. The idea, to sum it up, is that the increasing size and complexity of the public economic sector put pressure on presidents to break up what threatened to become a superministry; the resulting division of authority created opposing institutional interests; conflict between these interests escalated into power struggle; and struggle led to crises. However, on closer look, the story turns out to be less clear or persuasive than this formulation of it seems. The size and complexity of the public economic sector and the breakup of Finance surely contributed to elite struggle, but they were only elements of a far broader problem.

Splitting Finance in half was hardly a necessity, since Salinas in fact eliminated Planning and Budget, restoring Finance to its former eminence, in 1992. President Ernesto Zedillo, dismissed as planning and budget secretary in 1992 (and sent to run Education, outside the circle of power that was the economic cabinet), left his old ministry in the grave. Moreover, de la Madrid's statement that delegating decisions to a principal economic secretary would be tantamount to creating a "parallel presidency" rings odd, since he actually did create an economic czar, Salinas, when he fired Silva Herzog and installed Petricoli as Salinas' operative. If presidents rightly feared that an economic superagency might deceive them – Finance Secretary López Portillo had declared the deficit to be half its real size by banging his fist on the table to silence Sergio Ghigliazza; and economic czar Carlos Salinas would cook economic data as the 1987 *destape* approached – they should also have feared that a twin-agency rivalry would generate bad data, as Planning and Budget did when de la Madrid was in a power struggle with Ibarra, and again when Salinas was in a power struggle with Silva Herzog.

Splitting Finance in half did not by itself cause crises because, of the four principal post-1970 crises, only one occurred under divided economic management. After dismissing Margáin from Finance in 1973, and even more so after he dismissed Flores de la Peña from State Industries in 1974, Echeverría had one economic supersecretary, namely López Portillo. President and Finance Secretary jointly steered the nation toward economic crisis. Divided economic authority, between Ibarra's Finance and de la Madrid's Planning and Budget, was an important cause of the 1982 crisis. However, de la Madrid made Salinas economic czar in 1986, in time to start inflating the financial and economic bubble that would contribute to the 1987 crisis. And after Salinas restored Finance to its former eminence under Pedro Aspe in 1992, the two of them proceeded to overvalue the peso on the way to the 1994 crisis.<sup>174</sup> The amount of responsibility that might have been restored to economic management by combining Finance with Planning and Budget is exaggerated because neither the finance secretary nor planning and budget secretary – but rather always the president – was blamed for crises. The 1976 crisis was seen as Echeverría's fault; though López Portillo had been secretary of a still preeminent Finance, Mexico looked to him to solve the crisis when he entered office, as Sánchez Navarro noted. The 1982 crisis was seen as López Portillo's fault; even though de la Madrid had been in charge of expenditure, everyone looked to him to rescue the nation.

Finally, it is not certain that an economic czar would necessarily be the preeminent presidential competitor, despite what Silva Herzog thought. In 1987, though Salinas was economic czar, the political system did not see him as anything like a sure bet. Francisco Labastida, a former member of de la Madrid's economic cabinet and the PRI's presidential

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<sup>174</sup> Taking 1989, the first full year of Salinas' presidency, as a base, the peso was overvalued by 14 percent in 1991, 25 percent in 1992, and 33 percent in 1993 (Cárdenas 1996, 213, table A.3).

nominee in 2000, says: "I think that even when Salinas actually became the candidate, it was a surprise for many. I would say that many thought the candidate would be someone with more capacity to understand the political situation, such as Del Mazo." Indeed, there was such uncertainty about the candidate that on the very morning of October 4, 1987, when Carlos Salinas de Gortari was nominated, his rival Alfredo del Mazo committed an awful blunder by publicly congratulating Attorney General Sergio García Ramírez, one of the *relleno* crew who had participated in the mock debate. Del Mazo had received news that García had won from a seemingly reliable source, but in fact that source, having ascertained that "SG" was the winner, had misinterpreted the initials as standing for Sergio García instead of Salinas de Gortari (Castañeda 1999, 437-38).

If anything, what would seem to matter most was not splitting Planning and Budget from Finance *per se*, but the increasing size and complexity of the state economic sector. This change certainly constituted an economic and institutional structure on which struggle played out. But it is hard to see precisely why greater size and complexity should produce struggle, that is (it bears repeating) fearing loss more because losers were ousted, hence going on the offensive to stay in the game. In fact, there is good reason to think that an increasingly large, complicated state sector should *alleviate* elite struggle: it meant more agencies, more state enterprises, more banks, more *fideicomisos* – that is, more jobs – for politicians to occupy. If *grupos* lost the big contest for the presidency, there should be more secondary prizes to go around. The cost of losing should diminish.

Certainly other factors more obviously promoted struggle. Ideological escalation – the pervasive belief that fundamental change of some sort or other was inevitable, hence winners stood to win decisively, and losers to lose decisively – derived from the intellectual and political climate, everything from the dependency literature to Vatican II, from Paris 1968 to the march on the Pentagon. These generalized calls for change gained potency in Mexico because Echeverría so stridently proclaimed the need for change, denouncing "emissaries of the past," without even saying what or whom he meant; then because López Portillo promoted cabinet debates between "thesis" and "antithesis," often only to dismiss proponents of one or both sides. The way Echeverría churned officials through high office at five times the customary pace; his gambit to extend his power behind the scenes by installing in the presidency a boyhood friend with little elite support and (by his own admission) not even a *grupo* of his own; López Portillo's move to fire the *echeverristas* and his May 15, 1979, political massacre – these violations of the old rules would evidently trigger of fear of the cost of losing.

Conversely, the 1950s and 1960s were hardly devoid of economic conflicts that might have provoked firings: the 1954 devaluation in the face of opposition by banking, the United States, and part of the political class such as former President Alemán (Carrillo Flores diary); the 1958 clash among Finance, Presidency, and State Industries over the Administrative Law; the foreign borrowing spree in Social Security and other state enterprises in 1963 and 1964; Ortiz Mena's bid to bring state enterprises – thus half of public expenditure – under his control and State Industry's continuing but muffled rearguard action to reassert control. If increasing oil exports drove Díaz Serrano's fateful presidential bid, why should not increasing cotton exports – Mexico's oil of the 1950s, indispensable to its industrial strategy – not have launched Agriculture Secretary Gilberto Flores Muñoz, presidential contender under Ruiz Cortines, on the same trajectory?

### Irreversible elite split: the Democratic Current

Mexico underwent structural economic change as it progressed from manufacturing basic consumer goods in the 1950s to producing more advanced goods such as automobile transmissions and chemicals in the 1960s, beginning to export those goods in the early 1970s, using petroleum to fuel a boom in the late 1970s and early 1980s, and slashing trade barriers to promote large-scale manufactured exports in the mid-1980s. But what affected the political system was not structural economic change *per se*; it was how presidents managed such change.

There is no clearer illustration of this point than the way President de la Madrid mismanaged the politics of lowering trade barriers and introducing freer markets. He might have moved Mexico away from import substitution toward a freer-market regime without provoking an elite fracture. The problem was his belief that transforming economic policy categorically and abruptly, along the lines of what came to be called the Washington Consensus, mattered more than honoring the unwritten rule that promised all *grupos*' survival. By imposing Carlos Salinas as his successor to guarantee decisive economic transformation, he broke the rules of elite cooperation, gave the so-called Democratic Current no option but to split off and run an opposition campaign, and alienated many factions that stayed in the PRI, silent but resentful.

This story of elite fracture begins when de la Madrid appointed a government virtually run by former Finance and Bank of Mexico officials. In shutting out Echeverría's and López Portillo's factions, he broke the unwritten rule that no major *grupo* should be excluded from power.<sup>175</sup> Even cabinet secretaries who did not come from the financial sector, such as Interior Secretary Manuel Bartlett, were nearly all de la Madrid's close collaborators;<sup>176</sup> only four lacked personal ties with him, and they were in posts such as Fisheries, occupied by Pedro Ojeda, where differences would hardly matter (Hernández Rodríguez 1987, 36). Not since President Miguel Alemán, the last administration that provoked a powerful elite split, had the president's team been so closely identified with him or so completely determined by personal friendship (1987, 37).

Even more unusual than de la Madrid's takeover of the central administration was his takeover of the party apparatus and state governorships. Presidential candidates would install one – and only one – close associate in the National Executive Committee of the PRI during the electoral campaign, but de la Madrid unprecedentedly filled almost the entire committee with close allies (many of the individuals just mentioned, such as Bartlett, Salinas, Sepúlveda, and Rojas, who were later appointed cabinet secretaries). Adolfo Lugo Verduzco, the party president named in 1982, had had no prior electoral or party experience, a rarity for that post, and was under orders to favor politicians like those in the president's inner circle (Hernández Rodríguez 1992, 253). De la Madrid only introduced subtle changes in the legislature (Hernández Rodríguez 1992, 258-59) – it was truly the U.N. General Assembly of the Mexican state anyway, all chatter and no power – but his

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<sup>175</sup> This conclusion, also, is the consensus. Langston (1997b, 30) says that only one member of Echeverría's or López Portillo's factions secured a cabinet post, Pedro Ojeda. A few others such as Reyes Heróles in Education were at least debatably in one of those factions, but all sources agree with the general conclusion, for example, López Portillo Romano (1994, 201), Castañeda (1999, 148-49).

<sup>176</sup> Hernández Rodríguez does an especially persuasive job of articulating this view, that de la Madrid drew his cabinet from friends and close associates in Finance and the Bank of Mexico, but far from being unusual, it is the consensus, for example, shared by Bailey (1988, 57) and Langston (1997b, 29).

appointment of officials with central-administration careers to 23 of 26 governorships, including four secretaries and four subsecretaries from his cabinet, was a systemic shock (Hernández Rodríguez 1992, 260). Electoral and party posts traditionally constituted their own sphere to reward the leaders in the PRI sectors – labor, peasant, and “popular” – who handled societal pressures that might boil up and made sure the party won overwhelming electoral victories. To shut them out from the best jobs they could aspire to was dangerous.

When Salinas defeated Silva Herzog, things turned decidedly grimmer for political elites on the out. Not only had de la Madrid marginalized them, but if Salinas became president, they could expect to be gone for good. Those who would split off to form the Democratic Current – such as Cuauhtémoc Cárdenas, governor of Michoacán and son of the popular ex-president; Porfirio Muñoz Ledo, cabinet secretary under Echeverría and López Portillo; and Ifigenia Martínez, a former official in Finance and in Presidency known for her work on income inequality – belonged to the generation of the 1930s or earlier. They were on the left and many had close ties to the Echeverría faction (Langston, 1997b, 31). Salinas, born in 1948, could be expected to favor the 1940s generation in making appointments. According to long-standing political tradition, presidents of a given generation dominated *two* successive administrations and would name predominately their age cohort, with whom they had established the closest networking ties, to the hundred or so highest offices (Camp 1995a, 50).<sup>177</sup> Thus, the generation born in the teens dominated the administration of both López Mateos, born 1910, and Díaz Ordaz, born 1911 (Camp 1980, 50). As mentioned, Echeverría, born 1922, broke the rule (as he broke so many others) and favored the younger 1930s generation in filling top posts, but López Portillo, born in 1920, restored the 1920s generation to high office (*ibid.*). De la Madrid, born 1934, favored his generation as expected,<sup>178</sup> and Silva Herzog, born in 1935, would likely honor political tradition and reappoint the 1930s generation again. Salinas, born in 1948, would end that generation’s hopes – they could expect no other chance – and install his peers.

Denying a political cohort its expected time in high office might always provoke instability, but especially in this case. As mentioned in chapter 6, the sharpest generational divide among Mexican elites, in social background, educational attainment, and historical outlook, falls between those born before and after 1940 (Camp 2002, 235). A quarter of Mexican elites born before 1940 (now including public sector, private sector, church, and military) came from the working class, but practically none born after 1940 did; elites born after 1940 were dominated by natives of Mexico City rather than the provinces, and, unlike their predecessors, they always had university degrees, half of them Ph.D.’s (Camp 2002, 236-37). The older generation had seen the political system end two decades of violence – the last serious military revolt and the bloody Cristero religious rebellion were not over until 1930 – and establish an age of order and progress. The younger generation had watched that order and progress unravel in Tlatelolco, economic crises, and conflictive politics (Camp 2002, 250). High government officials born before 1940 were importantly shaped by ideals transmitted through the National University. Those born after 1940 increasingly attended private Mexican universities and received advanced degrees in the

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<sup>177</sup> Ruiz Cortines (born 1890) was the exception in the period I am studying. Appointed as a compromise candidate after Alemán (born 1900) had tried to succeed himself or appoint his peer Casas Alemán (born 1905), Ruiz Cortines continued to favor the Alemán generation in appointments (Camp 1995a, 50).

<sup>178</sup> He probably favored the generation of the 1930s, but I only have data that he favored the broader generation of the 1920s and 1930s. In any event, he favored those born before 1940 (Camp 1995a, 45).

United States, typically in economics (Camp 2002, 239). Ideology is always fungible, but leaders of the Democratic Current, born predominately in 1930s, were the generation of state-led development, while Salinas' allies, born in the 1940s and mostly after 1945, were to be the generation of the Washington Consensus. It was the sociological divide between generations that made ideological differences matter. The older group knew its political days in the PRI were numbered if Salinas became president.

Those who would form the Democratic Current broke the unwritten rules because they had no political choice. As de la Madrid proceeded to marginalize them – a tactic they explicitly recognized as violating elite political norms (Bruhn 1997, 86) – their only plausible strategy for retaining influence was to retaliate in kind. At first, Cuauhtémoc Cárdenas, Porfirio Muñoz Ledo, and Rodolfo González Guevara, the ambassador to Spain, began to hold informal chats (Bruhn 1997, 325-26), only seeking to influence policy within the PRI (Bruhn 1997, 76). But after Salinas won primacy in the economic cabinet, ousting Silva Herzog on June 17, 1986, and menacing the older generation's hopes for the next administration, they began to raise the stakes. A few weeks later they held their first larger meeting, at Ifigenia Martínez' house in the fashionable old Mexico City neighborhood of Coyoacán. In July, Gonzalo Martínez Corbalá, senator from San Luis Potosí, invited 15 or 20 potential Democratic Current members to what would prove a fateful dinner. The ostensible purpose was to discuss policy proposals (Bruhn 1997, 326), but the dinner turned more serious than expected. August Gómez Villanueva, agrarian reform minister under Echeverría, recalls his feelings of ill-ease:

The meeting was called to talk about the political situation and how we might organize a group in the party to be sure the leadership did not stray from the Mexican Revolution's historical project. . . . [But] there were two tendencies at the dinner. One was saying, let's run Cuauhtémoc Cárdenas as the party's presidential candidate and then negotiate. I was opposed. Other people had spontaneously come, and it seemed disloyal to commit them to something they had not been previously informed about. A dinner should not be manipulated into a meeting to make political decisions – decisions that seemed to me to go dangerously far, because they amounted to initiating a schismatic process within the heart of the party. I even said, clearly, that I was concerned that whatever happened would get out: 'I want to make it clear that we are not conspiring against President de la Madrid, who is Muñoz Ledo's and my personal friend, nor are we forming a coalition that could play a schismatic role within the heart of the party.' Such a process would only play into the hands of [the conservative] National Action Party and right-wing forces in the United States – as in fact did happen.

There can have been no one there who did not know the unwritten rules. Political currents could try to build support for a presidential contender in any number of discrete ways, from networking with friends of friends to strategically disbursing public-works funds, but they must not establish a formal power base, sign up supporters, and openly defy the president. No mechanism existed to end such a challenge, other than a genuine primary, which the party had never admitted (when one PRI president in the mid-1960s tried to institute primaries even for unimportant municipal offices, he lost his job and died in a suspicious plane crash), or a schism. In fact, the unwritten rules about not organizing an open schism turned out to be written, too. The PRI leadership told the Democratic Current in no uncertain terms that it was welcome to join an established party sector such as the Mexican Workers Federation or the National Peasant Federation – had it done so, it would of course have been smothered by whatever sector it joined – but party statutes prohibited creating any new formal institution (Bruhn 1997, 92).

When Porfirio Muñoz Ledo leaked news of the dinner at Martínez Corbalá's house to the newspaper *Unomásuno*, his claim that he was merely seeking to clarify the group's

unsubversive nature and democratize the party (Bruhn 1997, 88) was disingenuous. As a former president of the PRI's National Executive Committee, he well knew that nothing could be more subversive than organizing a pressure group within the party. Says Gómez Villanueva, "In time, Porfirio and I came to a divide. At that moment I said good bye: 'From this point on, our lives in the battle. I respect your decision, but it is not my path.'" The allusion is surely to the Revolution, when those who parted ways did meet in battle. But Muñoz Ledo's leak was a necessary step, to see how the message would be received and seek supporters for a potentially overt power base.

A few newspaper stories were still far from the point of no return – Party President Adolfo Lugo Verduzco at first said the PRI leadership "welcomed" the initiative and would soon meet with Muñoz Ledo (Bruhn 1997, 89) – but only failed negotiations, missed telephone calls, and public recriminations followed. De la Madrid left matters in the hands of the party presidents, first Lugo Verduzco, then Jorge de la Vega Domínguez: "They tried to negotiate; they each met 15 or 20 times with the Democratic Current; they had infinite patience. Porfirio and Cuauhtémoc persevered in their project." The leaders of the current thought they tried negotiating, too. When de la Vega was installed as party president, in good part to negotiate with them, they were the first to congratulate him (Gómez Villanueva). De la Madrid authorized Gómez Villanueva as a messenger of truce between himself and the current, but his telephone messages never got past Emilio Gamboa, the president's private secretary (Gómez Villanueva).

Failed negotiations and missed communications merely obscured the fact that de la Madrid would only give the Democratic Current two options: surrender or revolt. He made this point unmistakably on March 4, 1987, after convoking what was billed as a "unity" assembly of the PRI. "And then we discovered that the idea was to expel part of the party," says Oteyza, not a member of the Democratic Current. On de la Madrid's orders – not even the National Executive Committee had discussed the matter (Bruhn 1997, 97) – de la Vega refreshed everyone's memory about the party's prohibition against subgroups other than the established sectors, and closed the ceremonies by saying:

From this great Assembly, we say to all those who from here on do not wish to respect the will of the immense majority of [PRI members], that they resign from our party and seek affiliation in other political organizations. . . . In the PRI there is no room for fifth columns nor for Trojan horses. (Bruhn 1997, 97)

The leaders of the Democratic Current still hung on within the PRI, hoping against hope, but when Salinas was in fact nominated on October 4, 1987, they revolted.

The upshot was the PRI's worst political crisis since 1952, in fact, the worst ever, since it would never be repaired. It had arisen from within the elite. Civil society was discontented, to be sure, after years of zero growth and falling wages, but it played no role in organizing the Democratic Current. Only after Salinas had been nominated, after the Democratic Current had seceded from the PRI to form an opposition party – the Democratic Front – and well after the campaign set out to mobilize electoral support did civil society begin to join, and reluctantly at that (Bruhn 1997, 113).

Though the results are disputed, the PRI probably won the election, but its blatant fraud and the damage it caused the political system are undisputed. The election day story merits a brief retelling.<sup>179</sup> Interior agreed to let representatives of the conservative National Action Party (*Partido de Acción Nacional*, PAN) and the Democratic Front watch the

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<sup>179</sup> This retelling is from Castañeda 1999, 449-50.



results come in, but their terminals, not directly linked to the central computer, were fed doctored numbers that showed votes from “good” districts where the PRI was winning and held back votes from “bad” districts. The problem was that a PAN technician had discovered the setup and figured out how to hack into the central computer. On election night, as votes from “good” districts started appearing on the oppositions’ screens, he did hack into the central computer. Now the real figures showed the Democratic Front winning by a landslide in Mexico City. No surprise – the capital was its stronghold and was where results would come in first – but the ruse was appalling. The technician was forcibly yanked from his chair, and on orders from the interior secretary himself, the oppositions’ screens went blank. The PRI said the “system” had crashed. As political metaphor, it could hardly have been more apt. When the computers, if not the political system, came back on line, to no one’s surprise they indicated that the PRI had won.

The fracture with the Democratic Current was not an inevitable result of a need to restructure the economy; de la Madrid could have moved Mexico toward freer markets more gradually, probably more successfully, and avoided the fracture. True, de la Madrid says – and there is no reason to disbelieve his sincerity – that he chose Salinas because he “guaranteed the continuation of my economic policies.” A number of scholars concur. Langston says the president closed off the highest ranks of the elite because he was “forced to impose a new economic model” (1997b, 28, likewise Hernández Rodríguez 1992, 252).

But with hindsight, admittedly a great advantage over de la Madrid’s position in 1987, it is clear that more or less the same free-market restructuring would have occurred a little sooner or a little later, as it did across Latin America, no matter which candidate had been chosen. A more moderate pace might well have benefited Mexico, particularly if the government helped smaller firms prepare for more foreign competition and privatized banks more carefully. Poor regulation and bankers’ inexperience in the headlong rush to privatize caused the banking system’s collapse, cost Mexico \$100 billion dollars to fix, and contributed importantly to the 1994 crisis. But the key point in regard to the political system is that, at a minimum, slower economic liberalization would *not* have been worse than cataclysmic liberalization, and the principal candidates other than Salinas, namely, Interior Secretary Manuel Bartlett or State Industries Secretary Alfredo Del Mazo, would have liberalized the economy anyway in the end. Francisco Labastida, the PRI’s presidential candidate in 2000 and a supporter of Salinas’ basic economic program, says Mexico “would have done better” with either of these other candidates:

At least Alfredo [del Mazo], whose thinking I know better, would have promoted economic modernization, perhaps more gradually, with more negotiation and less of a shock – and I think he could have negotiated better with the Democratic Current – but I insist that all of us in the economic cabinet believed in economic opening.

Neither Bartlett nor Del Mazo would have provoked anything like the fear of political exile that Salinas did among leaders of the Democratic Current. Even de la Madrid says, “They almost told me they would accept any candidate but Salinas”<sup>180</sup> – despite the grave danger of telling the president pointblank that one opposed any candidate. The Democratic Current did not even form until shortly after Silva Herzog’s firing made a Salinas presidential candidacy seem more likely. The other PRI candidates left more possibilities open to the current. Bartlett, born in 1936, belonged to the same generation and had been Cárdenas’ friend in youth (Castañeda 1999, 427). Del Mazo, born in 1943,

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<sup>180</sup> De la Madrid makes a similar though slightly less explicit statement in Castañeda 1999, 162-63.

fell on the other side of the 1940 generational divide but was close enough, in the approximate world of politics, to pose less of a threat than the decisively younger Salinas, born in 1948. Moreover, leaders of the Democratic Current had no personal conflicts with del Mazo, as some did with Salinas, and del Mazo's support from the labor sector and López Portillo gave him a profile closer to theirs.<sup>181</sup>

The political system could have survived economic restructuring *per se*. It was the way that De la Madrid injected restructuring into the system, catalyzing elite struggle, that proved explosive. For the Democratic Current, the Washington Consensus not just an objectionable ideology; it was an ideology incarnate in Salinas' *grupo* of Ph.D.'s from American universities – Salinas himself (Harvard), Pedro Aspe (MIT), Jaime Serra (Yale), Ernesto Zedillo (Yale), José Cordoba (Stanford) – that constituted a clear and immediate threat to political survival. The very sociological divide between the post-1940 generation of Mexican politicians and its predecessors that now seems so visible might not have been had Del Mazo or Bartlett – National University graduates who had studied abroad, but in England and France, not in the United States – been nominated for the presidency.

### Struggle and the 1987 crisis

Mexico's 1987 economic crisis was not caused because of the struggle over the nomination – too many other factors contributed, such as the burden of debt payments throughout the administration, probable errors in managing that difficult situation, and the October 1987 U.S. stock market crash – but Salinas did inflate the economy to build support for his nomination, and he did aggravate the crisis.

If the Democratic Current was Salinas' most outspoken opposition – and it is important to recall that it remained within the party until after the official nomination – many others liked him little better but kept their mouths shut. De la Madrid says Salinas had the political skill to “build his candidacy,” gaining the most widespread support among cabinet secretaries, state governors, party leaders, businessmen, and workers, but few informed observers agree. In his book on presidential succession, Jorge Castañeda says that Salinas carried too many “drawbacks, hostilities, and outright deficiencies to be imposed without cost” (1999, 436). José Ramón López Portillo says that many party members, the official labor movement, old-guard *políticos*, the federal bureaucracy, and intellectuals opposed him (López Portillo Romano 1994, 348). Francisco Labastida agrees about the labor movement, party members, and *políticos*. Victor Bravo, advisor to Del Mazo, says that “the political class obviously wasn't with Salinas.” Party militants demonstrated their antipathy toward Salinas in their deliberately lackluster campaign management (Bruhn 1997, 122-22; Hernández Rodríguez 1992, 263; Langston 1997b, 24). For example, at one supposed Salinas rally on February 10, 1988, the crowd hurled orange peels and even stones at him, shouting “Cárdenas! Cárdenas!” (Bruhn 1997, 130).

Salinas had a comprehensive strategy for winning the nomination, beyond just building airports in towns like Piedras Negras. He had made himself the economy minister, Planning and Budget combined with Finance, whose political capital was his technocrats' vaunted economic management ability – “they know how to do it” was the refrain (*El*

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<sup>181</sup> Labastida says del Mazo did not have personal conflicts with the current, unlike Salinas who did; he also says del Mazo had support from the labor sector. Bravo and Castañeda (1999, 425) both note del Mazo's closeness to López Portillo and support from labor.

*Financiero* 15 December 1996, 69). To build support and soften opposition to his candidacy, he had to make the economy look good through the *destape* in October 1987. As mentioned, his plan called for 3 to 4 percent growth in that year, provided Mexico could secure plentiful foreign loans. Even before Silva Herzog's departure, the Salinas team was in Washington negotiating for those loans. They ultimately got a \$12.5 billion dollar package from the IMF, World Bank, and private banks pressured to provide new money (Lustig 1998, 46-47), four to six times what Silva Herzog had even sought.<sup>182</sup>

Where did the money come from? One theory, that Washington wanted to support Salinas' candidacy (Castañeda 1999, 423-24), seems too elaborate. Why favor Salinas over Silva Herzog as the presidential candidate? Silva Herzog was just as committed to the Washington Consensus (indeed more committed to fiscal austerity). "Washington plays with whoever is in the field," he says. Further, Washington would hardly understand the intricacies of Mexican presidential succession – that one has to inflate the economy in the *pre*-electoral year – and suggesting that the IMF finance any political campaign would seem a dangerous move, even for Salinas' operatives.

Even without that twist, the loan diplomacy was anything but straightforward. Washington had begun to recognize the gravity of the Third World debt crisis and was pushing banks to extend lending under the Banker Plan. Mexico wheedled its way into becoming the pilot case,<sup>183</sup> on the one hand insinuating that it might default, Silva Herzog's role, while on the other hand parlaying connections and expertise earned in U.S. economics departments to its advantage, Salinas' role. Silva Herzog hinted that Mexico might take a hard line on debt, for example, mentioning in a speech in London that it had to put responsibility to its people before that to its creditors. He also started moving Bank of Mexico deposits from the Federal Reserve of New York to Switzerland, implying that Mexico wanted to keep them from being frozen should it default. In fact, the economic cabinet had no intention of defaulting – it was too concerned about the harm that creditors and the U.S. government would inflict – but the threat was just part of the negotiation.<sup>184</sup> It apparently worked: Federal Reserve Chairman Paul Volker later testified before Congress that Mexican default would have a "domino effect" (López Portillo Romano 1994, 305).

At the same time, the Salinas team talked up the idea in Washington that the inflation-adjusted, or "operational," government deficit should count, rather than the deficit as usually calculated, namely the simple difference between expenditure and revenue (Lustig 1998, 44; Castañeda 1999, 420-21). The operational deficit is smaller, implies more success at paying off debt, and strengthens the case for generous lending. Actually, it is also a legitimate idea, accepted even by some critics of de la Madrid's economic policies (Ros 1987, 86). The gist is that when inflation is high – it was about 100 percent – the huge interest payments on domestic public debt (in pesos) actually include a substantial portion of principal, while inflation rapidly erodes the *real* value of the remaining principal. The operational deficit properly counts this effect. The argument worked: technical expertise, correct in this case, had been parlayed into a political tool.

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<sup>182</sup> Silva Herzog mentioned seeking to borrow an additional \$2 billion dollars; Castañeda (1999, 418) says the Finance team thought it could not obtain more than \$3 billion. López Portillo Romano (1994, 316) mentions a loan package to the Salinas team of \$14.4 billion, though much was not made available until mid-April 1987 – still in time to help with the nomination (it occurred on October 4).

<sup>183</sup> Lustig 1998, 46, notes that it was the pilot case.

<sup>184</sup> The information about the threat of default is from Silva Herzog.

Now Salinas had his chance to make the economy work. The new economic program, the Plan of Promotion and Growth (*Aliento y Crecimiento*), adopted shortly after getting rid of Silva Herzog, would be more expansionist, particularly encouraging investment by making more credit available (Cárdenas 1996, 146). Real development-bank lending, which after falling almost 40 percent had taken a big step back toward its former level in 1985 under Silva Herzog, now rose 29 percent more in 1986 and another 11 percent in 1987. In all it rose from 22 percent of GDP to 33 percent of GDP under Salinas (Table 7-1). Although public spending, excluding interest, was about flat in 1987, that performance was far better than average for the administration, and areas of spending that Salinas might plausibly use to build support did unusually well.<sup>185</sup> Revenue sharing with states rose 8 percent in real terms: outside the central administration, governors are far the most important centers of political power in Mexico. Planning and Budget's own spending rose 12 percent but was minor as a share of GDP. Though privatizing state-owned firms was one of de la Madrid's great goals and Salinas' accomplishments, in 1987 investment in them rose by 2.5 percent of GDP, the only year during the administration when it did not contract. Federal government investment fell 6 percent, the smallest decline during the administration.

Salinas' economic salesmanship especially zeroed in on an unstated policy: launching the Bolsa, or securities exchange, to heights that seemed to defy all financial laws of gravity. After ending 1985 at an index level of 11,197, the Bolsa shot up to 47,101 in 1986 (Basáñez 1996, 253) – a 320 percent gain, and an almost 220 percent real gain, corrected for inflation.<sup>186</sup> By September 1987, it had shot up further to 343,545: in round numbers, a nominal gain of 630 percent, a real gain of 530 percent, or five to six times as much as it had grown in its previous 93 years of existence (Basáñez 1996, 254). This was no mere data for the financial pages. Brokerage houses opened on plazas of all the main provincial cities from Ciudad Juárez along the U.S. border to Mérida in the Yucatán, as little investors jumped into the market, their numbers swelling from 186,000 in 1986 to 374,000 in September 1987 (*ibid.*).<sup>187</sup> Housewives would start investment societies (*vacas*, or milk cows, in Mexican vernacular) to buy packages of securities (Silva Herzog). Capital that had fled the country after the 1982 and 1985 crises began to return (Basáñez 1996, 257; Cárdenas 1996, 147). A few hundred thousand happy investors might not swing an election (then again they might: Mexican voters are influenced by their perception of *national* economic performance, not their *personal* financial situation<sup>188</sup>), but anyway, it was an impressive display for the purpose at hand: winning support and disarming opposition within the political elite to improve Salinas' prospects of being the *tapado*. The point was, as Silva Herzog says, breaking into English, “We made it, we made it again.”

The government sold the financial bonanza as proving Mexico's great economic expectations and investors' confidence in its policies (Basáñez 1996, 257). Some interest is almost always busy manipulating financial bonanzas, and this time it was Salinas' team. To begin with it had worked to improve the general economic climate. The \$12 billion

<sup>185</sup> Two former high officials agreed in off-the-record comments that revenue sharing with states, development-bank lending, and public investment are areas of spending that Salinas might have used to build support, if he sought to so do. Development bank lending had risen even faster under Silva Herzog, but it contracted precipitously in 1988 (Table 7-1).

<sup>186</sup> All inflation corrections calculated from quarterly CPI, from IMF International Financial Statistics CD.

<sup>187</sup> López Portillo Romano says 520,000 in 1987 (1994, 334).

<sup>188</sup> Jorge Domínguez, talk to Mexican Studies Group, MIT, April 10, 2002.

dollar loan package that the team landed itself created positive expectations, as did the partial recovery of oil prices to \$16 a barrel (Cárdenas 1996, 147), the latter obviously just good luck. The government slowed the peso's depreciation against the dollar, thus tending to stabilize prices – always a political advantage for incumbent economic managers – and promised still lower inflation. The Bolsa's impressive growth “was very largely provoked by expectations that did not correspond to reality,” says Labastida. “If you sell expectations of lower inflation than will really occur, then expectations of growth are higher. You create an environment of euphoria.”

The Salinas team turned to hands-on manipulation of the Bolsa, as well as general salesmanship. De la Madrid had opposed López Portillo's 1982 bank nationalization, and, after paying bankers handsome compensation, he reprivatized businesses that the banks had owned, including brokerage houses. To strengthen those houses, the government moved away from its traditional borrowing method, namely requiring banks to deposit large quantities of reserves (the *encaje legal*) at relatively low interest rates in the Bank of Mexico; instead it increasingly placed bonds at higher interest rates – thus greater cost to itself – through the brokerage houses. The government promoted these houses by paying considerably lower interest rates on bank deposits than on government bonds, principally treasury certificates known as CETES. As the volume of bank deposits sank, private firms also turned to the Bolsa for financing. The government had thus transformed the Bolsa into a parallel – and almost completely unregulated – banking system, owned principally by many of the same individuals who had formerly owned banks, which by 1986 and 1987 was providing spectacular returns to small, middle-class depositors.<sup>189</sup> By 1987 Finance Secretary Gustavo Petricioli, former director of the National Securities Commission, was reporting to Salinas daily about the Bolsa, even as he maintained its momentum by placing government bonds at good interest rates while holding bank deposit interest rates down<sup>190</sup> – it turns out that even deficits *per se* have their political uses – and possibly by buying securities directly.<sup>191</sup> Again the struggle for power had contaminated the economy.<sup>192</sup>

Salinas was nominated as the official candidate on October 4, 1987. The Bolsa rose for a couple of days (Basave Kunhardt 1996, 154) on the news, then started to fall and lost 14 percent by October 16 (Basave Kunhardt 1996, 155). On October 19 the New York Stock Exchange plunged 23 percent, sending shock waves around the world, but the market that fell the furthest, by a lot, was the Mexican Bolsa (Basave Kunhardt 1996, 154). From an index value of 373,216 points in October it fell to 87,199 points in early January, losing three quarters of its value (not even counting the additional erosion caused by inflation). On November 18 capital flight forced Mexico to devalue 25 percent.<sup>193</sup>

<sup>189</sup> The account of how the Bolsa was established is from Basáñez (1996, 254-57).

<sup>190</sup> López Portillo Romano (1994, 331) says real interest rates reached zero by August 1987.

<sup>191</sup> Basáñez 1996, 257, argues that the government manipulated the Bolsa through bond placements. Del Mazo, one of Salinas' principal competitors for the nomination, and an anonymous economic cabinet member both told Castañeda (1999, 436) that Salinas manipulated the Bolsa. A high official in a position to know told me off-the-record that Petricioli manipulated the Bolsa and discussed developments daily with Salinas. Victor Urquidi believes, without direct evidence, that the government bid up securities prices.

<sup>192</sup> An off-the record comment of one interviewee.

<sup>193</sup> Heath 1999, 28. Most sources, including de la Madrid, agree that Mexico was forced to devalue. Miguel Mancera, director of the Bank of Mexico, says the controlled exchange rate was devalued partly to compensate for the process of slashing trade barriers from 1985 through December 1987 after Mexico's entry into GATT. He notes that although devaluation increases the price of imports, the drastic cut in tariff levels had reduced their price, so there was little or no overall inflationary effect.



## Chapter 9

**1994 and Beyond**

This thesis reaches two general conclusions about Mexican economic policymaking from 1952 through 1988. First, the principal internal threats to economic stability were conflicts within the political elite. The nature of those conflicts shifted from one political succession to another. Social Security Director Benito Coquet's and others' gambit in the 1960s to build support was just a matter of power seeking, while Miguel de la Madrid's crusade to destroy the Democratic Current in the 1980s was ideologically driven. While Echeverría provoked elite conflict partly because of his obsession to improve social conditions and partly because of his political manipulations, López Portillo lost control of the succession process amid the political massacres that led up to 1981. But, in any event, how the political elite succeeded or failed in handling its internal conflicts was critical; no conflict between state and society mattered enough to cause crises. For all the talk about loss of legitimacy after 1968, no such problem seriously threatened the PRI's continuing rule.

The second general conclusion is that the political system was better able to handle elite conflict when there was a cooperative system and contending factions could expect to survive politically; struggle produced crises. Though cabinet secretaries sought the presidency, and turnover in cabinet posts provides a gauge of elite career stability, concern for survival was even more acute among the people beneath them. De la Madrid says that members of David Ibarra's *grupo* such as Óscar Levín kept orchestrating *golpes bajos*, low blows, including press attacks against him, so he said to Ibarra, "David, your people are attacking me. Isn't there some way to smooth things over? Why should you and I be fighting if we're good friends?" (Castañeda 1999, 168). Ibarra, for his part, says that de la Madrid's subordinates such as Carlos Salinas spent massively to recruit governors, deputies, and senators to support his presidency (Castañeda 1999, 407). The Salinas *grupo*'s strategy evidently worked better. But it was the logic of the system that the *grupos* under the candidate, even more than the candidate himself, should wage the succession battle. If he lost the presidency, he had, in any event, reached nearly the pinnacle of political office as cabinet secretary. His subordinates had not; their careers depended critically on his nomination. The fear of political exile was a collective, *grupo* fear. Who today, outside of a small circle, has heard of Óscar Levín?

Which parts of the Mexican story extend to other countries, and how might elite politics affect economic policymaking elsewhere? If elite struggle exists, and opposing factions reasonably fear for their very existence as political forces, crises should be expected to erupt. If losing a succession contest amounts to political death, the incentive to spend excessively or make other economic gambles – inflating the stock market, loosing bank lending, overvaluing the currency, or whatever other techniques can be invented – is enormous. The need gain support at any cost trumps concerns about economic stability, so crisis should erupt. Conversely, assurance of all powerful factions' political survival moderates their incentive to take economic gambles to win support in succession contests. The penalty for losing is less; there will always be another chance. And if all factions are confident of medium-term survival, if not running this administration then perhaps the next, they have a common interest in the system's durability. This common interest strengthens norms or "independent" institutions that promote macroeconomic stability.

Factions' assurance of survival does not guarantee economic stability: nothing does. Crises can erupt for any number of reasons, from external economic shocks to pure error, so no political system can be certain to avoid it. Still, a system in which the most important political elites are confident of their survival should be expected to do better.

#### Mexico 1994

Mexico's 1994 crisis raises questions that may never be resolved. Did the political enemies of the presidential candidate Luis Donald Colosio provoke the rebellion in Chiapas to destroy his campaign, as José Patrocinio González Blanco, at the time interior secretary and formerly governor of Chiapas, believes (González Blanco)? Was the Colosio assassination in March a plot by "backyard politicians, local caudillos . . . to destroy Salinas," as the prominent economist and former president of Colegio de México Victor Urquidi supposes (Urquidi)?<sup>194</sup> Carlos Salinas has repeatedly blamed the "*nomenclatura*," unnamed authoritarian and retrograde factions of the PRI, for orchestrating both events to destroy him. Did Carlos Salinas' brother assassinate the president of the PRI, a close friend of the Salinas family, José Francisco Ruiz Massieu? The Mexican courts decided so, but it was a bizarre and corruption-ridden trial that, for sheer intrigue, far surpassed the contemporaneous soap opera on TV Azteca about corruption in the attorney general's office. Definitive answers do not exist, and perhaps never will, about political shocks and their ramifications that contributed importantly to the 1994 crisis.

Still, some attempt to unravel 1994 is in order. It was Mexico's worst crisis, on the order of twice as severe as 1982 by some economic measures (Heath 1999, 7). That Mexico recovered more quickly than in 1982 should not distract attention from 1994's severity. In 1994 the Clinton administration and the IMF rapidly provided a roughly \$50 billion dollar bailout that stopped the panic, allowed Mexico to resume growth – and was paid off within three years. After 1982 the Reagan Administration and IMF drew all the blood they could from Mexico, short of actually killing the patient, until they finally provided the roughly \$15 billion dollar loan package in late 1986 and early 1987.

A look at the political situation is useful before considering what caused 1994. There is no doubt that elite struggle was the worst ever. Whatever the truth of intra-elite accusations, their very virulence and multitude proves as much. In late 2000 when what seems to be a responsible deputy attorney general's report came out with thousands of pages about the Colosio assassination and surrounding political environment, the respected weekly *Proceso* put it on the cover three weeks running, parsing its highlights into The War I, The War II, and The War III – that is, the war among political elites. When asked to gauge the level of elite struggle in 1994 from 1 to 10, Raul Salinas Lozano, a high economic official in the 1950s and 1960s as well as father of Carlos Salinas, said, "Now we're talking seriously," and put it at 9. Alfonso Corona del Rosal, a political dinosaur if not a card-carrying member of the *nomenclatura*, says: "Our people have not forgotten [Salinas'] authoritarianism, his recurring deceptions, and his self-worship. If he should appear in a public place, he would probably be attacked" (1995, 290-91). This is a stunning statement coming from the person who had nothing but kind words for Luis Echeverría, who had bested him for the presidency and ended his own political career. The year after the crisis, Joy Langston (1995, 276) wrote that "until recently competition [for the

<sup>194</sup> Likewise Gamboa de Buen and Corona del Rosal in interviews and many sources quoted in the press.



nomination] was neither so bloody nor so open, but in recent years political assassinations have made the news, and members of the PRI have publicly menaced their fallen companions with witch hunts.” Smith says (1997, 36) that nothing in the 1970s and 1980s “would compare with the fissures of the 1990s.”

Why such powerful struggle? It was the same old story: in part struggle was cumulative; in part the president’s particular ambitions and errors aggravated it. Salinas’ dynastic ambitions (again, a recurring theme) aggravated it because whoever wound up on his good side stood to retain power for years to come, and whoever did not end up on his good side – or, alternatively, did not manage to destroy him – would be out for years to come. Victor Urquidi, who knew “Carlitos” Salinas as a youth, says:

Every Mexican president thinks he can be reelected, and every president is a failure at the end. I think Salinas knew he couldn’t be reelected, but with all the money he and his brother were accumulating and with the influence they had over many others, he wanted to be the power behind the throne, as Calles was after he ceased being president.

Jorge Gamboa de Buen, an official close to presidential contender Camacho Solís:

There was a conspiracy in Salinas’ closest circle: his brother Raul, [his private secretary] José Córdoba, [de la Madrid’s private secretary who had supported Salinas as president] Emilio Gamboa, and others. They convinced Salinas to chose Colosio [as his successor] because they thought they could control him, while with Camacho they could not have. They told [Salinas], “Donaldo is your little brother, your creation; he is going to be loyal and faithful.” And they even got it through to him – when I was told so I thought it was a lie, but it was true – they said: “Look, you’re going to run the World Trade Organization with some help from your buddies the gringos, and when you return, Donaldo is going to change the Constitution and you will be the first president of the twenty-first century at age 52. You will end up the best president in the history of Mexico; you’re going to complete your economic project.” It sounded logical, so they convinced him.

Camacho Solís himself says that the “strange thing” was actually that the president’s dynastic plan ended up in disaster: “It was built to last for 15 years; it was incredibly powerful, really founded on international alliances.”

Though Interior Secretary Patrocinio González Blanco considers Colosio to have been a strong candidate and envisions a very different scenario from his opponent Camacho, he concurs about the talk of Salinas’ reelection. As for the difficulty of changing the Constitution, he says: “How easy it was!” Salinas changed the state’s relationship with the Catholic church – priests had not even been allowed to vote – established under Benito Juárez in the mid 1800s; Salinas changed Article 27 of the Constitution, the basis of land reform and symbol of the Revolution. “Why couldn’t the Constitution be revised so that a man that all Mexico loved should remain in office? The only problem is, in Mexico, presidents who are reelected are assassinated. But aside from that, there was no difficulty.”

To what extent did elite struggle, aggravated by Salinas’ dynastic ambitions, cause the 1994 crisis? Substantially, but there were other causes too. One was error. All the economics Ph.D.s in the Salinas cabinet did not realize what grave danger they were putting the nation in as the peso became somewhere between 25 and 40 percent overvalued by 1993 (Dornbusch and Werner 1994, Ros 1995, Lustig 1998; Cárdenas 1996; Velasco and Cabezas 1998, 139; Eichengreen and Fishlow 1998, 50).<sup>195</sup> Rudiger Dornbusch of MIT, former professor of the finance minister, publicly warned about the problem as early as 1992 (Edwards 1997, 107). You could see overvaluation even at the supermarket, says Sergio Ghigliazza, director of the Center of Latin-American Monetary Studies: “Housewives were saying, ‘How is it possible that stores are selling Perrier and Evian

<sup>195</sup> Robert Bartley of the *Wall Street Journal* remains a prominent dissenter about this point.

water cheaper than [the Mexican brand] Tehuacán? How can it cost less to take the kids to Orlando than Cancun?"

Yet Mexican authorities imagined, among other things, that the currency could not be overvalued since financial markets did not perceive it to be (Ros 1995) as more and more billions of dollars of investment kept flowing into Mexico. The IMF, the business pages of newspapers, and other credulous financial cheerleaders helped inflate this belief. Although he surely knew better – undersecretaries of Treasury are not in the business of alarming financial markets – Lawrence H. Summers only contributed to the false euphoria when he said in late 1993, “Countries that do things right will be rewarded with rapid capital inflows. Those that do things wrong are punished” (*New York Times*, 17 December 1993, D-1). An independent member of the Bank of Mexico board, Victor Urquidí kept saying he was worried that overvaluation was causing \$20 billion dollar trade deficits:<sup>196</sup>

They’d stare me and say, “You don’t understand economics. All this trade deficit is because we have these capital inflows.” I said, “Yes but I distinguish between foreign direct investment, which is fine” – a lot of it was really going into office buildings and the like, though a lot of it was going into manufacturing – “and short-term money, which is not a guarantee of anything.” They said: “Don’t you know that the money going into the stock exchange, buying stock in Mexican companies, is very favorable because Mexicans take that money and put up new investments.” I said, “Give me one example.” And I never got it. Serious people in the bank were telling me those things.

How much of this wishful thinking was fanned by Mexican financial authorities’ desire to be part of the Salinas dynasty and thus by their hesitancy to criticize the president? It is impossible to say – it would probably even be impossible for financial authorities themselves to tell how heavily they were influenced by that political environment – but Camacho insists that the adulation surrounding Salinas, hence lack of any serious criticism, was a principal cause of the crisis:

I mean something like an eighteenth-century European court. There are people who dedicate themselves to reading the king’s thoughts, saying yes to everything, providing him with beautiful women, satisfying his appetites and – an important part of this politics – without accountability, without transparency, without social control, manipulating his weakness.

Compared with Salinas’ ambitions and internecine elite struggle, the 1994 electoral contest was a relatively minor affair. Experienced observers of Mexican politics doubt that power was ever really at stake in the 1994 elections; even if the PRI might not win by fair means, it was still ready to deploy all the foul ones at its disposal (Castañeda 1999, 456; Smith 1997, 43; Camacho Solís). The very essence of the Democratic Front’s success in 1988 – a mass protest cobbled together by an elite faction against six years of zero growth, plummeting wages, a stock-market crash, an economic crisis, austerity, and technocrats’ broken promises; a helter-skelter group with no internal democracy, indeed hardly any internal order at all – would undermine itself in the medium term as it sought to convert itself into a political party, the *Partido de la Revolución Democrática* (PRD) (Bruhn 1997). No sooner did the conservative PAN candidate Diego Fernández de Cevallos rout both PRI candidate Ernesto Zedillo and PRD candidate Cuauhtémoc Cárdenas in a 1994 debate than he mysteriously stopped campaigning (Smith 1997, 43). It seemed as if the PAN cared more about preserving its *de facto* economic-policymaking pact with Salinas than posing

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<sup>196</sup> In 1992 and 1993, trade deficits were about \$21 and \$19 billion dollars. These figures exclude the export-oriented *maquiladora* plants, which were not an integral part of Mexican industry. They essentially just provided cheap labor to foreign-owned firms that imported all their inputs and exported all their production. The trade deficit including *maquilas* was \$16 billion in 1992 and \$8 billion in 1993; the current account deficits were \$24 billion in 1992 and \$23 billion in 1993. All data is from the Bank of Mexico.

any real challenge to the system. Zedillo won by more than 20 percent of the vote. If Salinas' real concern had been to avoid devaluing before the elections, now, in the wake of this mandate, was the time. For all his economic blunders, Echeverría devalued in 1976, on his watch, leaving López Portillo a clean slate; Salinas did not.

The politics of bank privatization likewise point to the predominance of Salinas' dynastic ambitions over any electoral concerns. One of the principal causes of the 1994 crisis, in addition to peso overvaluation, was weakness of the recently privatized banks (Lustig 1998, 163-67; Velasco and Cabezas 1998, 153). From 1990 through 1993 they expanded credit at around 35 percent a year in real terms – “a phenomenal increase,” says Ghigliazza. Meanwhile, the economy itself was essentially stagnant, growing 3 percent a year on average<sup>197</sup> and practically not at all *per capita*. From 1989 through September 1994, the portion of bad bank loans increased from 1.3 to 8.3 percent of their portfolios (Lustig 1998, 164). If the Bank of Mexico had increased interest rates to slow capital flight, it would have forced more borrowers to default, putting the banking system at deeper risk.

The problem was the way the government had privatized the banks. It left them almost free from supervision, eliminated reserve requirements, and decontrolled the interest rates at which they could lend, while protecting them from foreign competition despite NAFTA (Kessler 1998). The banks were thus set up to make huge profits and did so (until, of course, the 1994 crisis, when most of them failed). The new private bankers – more or less the same individuals who had owned banks before their nationalization in 1982 – paid for these privileges, too, often three or more times the book value of the banks (Lustig 1998, 162). Since most major industrial groups in Mexico have close ties with a particular bank, Salinas thus bought business support, and he bought middle-class support with banks' consumer lending spree, the “home appliance boom.” Both of these achievements were compatible with building electoral support. But Salinas used the \$12 billion of revenues (Lustig 1998, 162) to fund Solidarity, his anti-poverty program designed to function as a political machine. The point was specifically to weaken the PRI's electoral apparatus, and thus undermine the dinosaurs within the party, by constructing an alternative machine that he controlled (Dresser 1991).

The political shocks of 1994 – Chiapas, Colosio, Ruiz Massieu – surely contributed to the December crisis. Chiapas was actually not a serious threat (Smith 1997, 40), and indeed after it erupted in January, Mexico's reserves increased by several billion dollars (Lustig 1998, 159). The Colosio assassination was serious: it cost the central bank \$10 billion dollars of reserves and cost the political system some unquantifiable loss of confidence. Whether or not elite struggle caused the assassination, elite struggle certainly amplified it. Salinas could not replace Colosio with another of his close associates because, except for Camacho Solís, they were all cabinet secretaries and the Constitution forbade nominating a cabinet secretary so close to the election. The Constitution could have been amended, as it had been several hundred times since 1917, or the elections could have been postponed, a more apt solution under the circumstances. But key figures in the PRI refused. Camacho was publicly accused of being Colosio's assassin – their relations had sharply deteriorated – and when Colosio's wife refused to sign a letter exonerating him, he was effectively out of the running, if indeed Salinas would have picked him. The PRI thus

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<sup>197</sup> Cárdenas 1996, table A.4, 214-15, for real GDP. Growth averaged 3.1 percent under Salinas (1989-94).

destroyed Salinas' plans for presidential succession. How many billions of dollars that revenge cost the Bank of Mexico is anyone's guess.

Finally, elite struggle turned what would have been a painful devaluation into a runaway crash. One of the cardinal facts about crises is that just because one was disastrous does not mean it had to be. As economists say, an economy can settle at different equilibriums; some are not so terrible and others really are. The 1994 Mexico crisis was a lot worse than anyone predicted (Lustig 1998, 167; Edwards 1997, 118) in part because it was handled so badly. González Blanco, a friend of Salinas' finance minister, Pedro Aspe, puts it this way:

Cardinal [Juan Jesús] Posadas was killed [in Guadalajara in 1993], the Chiapas conflict exploded, Colosio was shot, Ruiz Massieu was killed, and nothing terrible happened to this fragile economy. Zedillo won with 17 million votes, nobody contested the triumph, there was national and international rejoicing. And then came the economic problems. It was an error in the way they were managed.

Sebastian Edwards, who had been warning for a couple of years that the peso was overvalued, asks why the outcome was so unexpectedly severe (1997, 118). "The answer resides in the almost complete loss of confidence in Mexico, its institutions, and its leaders in the aftermath of the crisis." As speculators and investors fled Mexican markets, the peso crashed beyond anyone's worst fears.

The problem, at one level, was that the now infamous "errors of December" converted an attempted 15 percent devaluation on December 20 into a rout. Nora Lustig, a Mexican economist at the Brookings Institution, says that the way the Zedillo administration devalued made it look "inexperienced and confused." Investors felt deceived because the administration had promised only days earlier not to devalue, then after devaluing it made no attempt to reassure them or explain itself (1998, 168). Gamboa de Buen, also a friend of Aspe's:<sup>198</sup>

When capital movements started, the Americans tried to get in touch with [Zedillo's new finance secretary] Jaime Serra, and they couldn't find him. Nobody knew what was happening. The U.S. treasury secretary called up Pedro Aspe and asked him, "What is going on?" Aspe said, "I don't know – I'm not finance secretary any more – call up Serra." "I already called him; he says he'll get back. What is going on?" "I don't have the slightest idea." That is the way all the money fled.

Finance authorities had apparently not even made contact with the U.S. Treasury before the devaluation (Edwards 1997, 117), and they announced it without providing any coherent program to underpin the economy. The administration did not even wait for Friday to devalue, when it would have had a weekend to get in touch with the U.S. Treasury and calm markets. Investors pulled \$5 billion dollars out in two days (Lustig 1998, 162).

Aspe had offered to stay on as finance secretary long enough to assume responsibility for stabilizing an economy that he himself admits was "stuck together with pins" (*Proceso* 15 October 2000, 31, quoting Sánchez Díaz). Antonio Sánchez Díaz, then president of the Mexican Employers' Federation, says that if Aspe had been allowed to stay on, "as all of us hoped and expected," things would have worked out much better: "I don't say he would have avoided the crisis, but I do say it would have been milder, less drastic. . . . [Serra] did not have the experience, contacts, or imagination of Aspe" (*ibid.*)

Aspe did not stay on because his presidential rival and political enemy Zedillo – whose Ministry of Planning and Budget had been dissolved into Aspe's Finance Ministry – would not let him stay on (González Blanco, Gamboa de Buen, *Proceso* 15 October 2000).

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<sup>198</sup> Aspe has maintained a policy of not commenting or giving interviews on the 1994 crisis.

That much was understandable, but it was not understandable that Zedillo virtually cleaned out the Finance Ministry, dismissing not only Aspe but all subsecretaries below him, 90 percent of the director generals at the third level, 79 area directors, and 176 subdirectors (Salinas 2000, 1114). For no apparent reason other than to obliterate Aspe's *grupo*, Zedillo broke a tradition predating the Mexican Revolution of maintaining continuity in Finance, a tradition that ironically the PAN restored after it won the July 2000 elections. It was a striking contrast to 1964, when Díaz Ordaz kept his presidential rival Ortiz Mena and the whole finance team on to handle the precarious economic situation left by López Mateos' and precandidates' excessive spending (Izquierdo 1995, 47).

#### Argentina 2001, Thailand 1997

Argentina's continuing economic crisis was caused in some real measure by elite political struggle, first within the Justicialist (former Peronist) Party when Carlos Menem was president in the late 1990s, then within the Alianza, an alliance of parties that captured the presidency from October 1999 through December 2001. These political problems exhibit striking parallels to conflicts between Salinas and the PRI: it was not a question of societal demands but of struggles over power, and over the rules for ascending to power, within each ruling coalition.

Argentina's economic crisis rivals Indonesia's for the worst that has befallen any nation since the Great Depression. The peso plummeted something like 75 percent against the dollar; economic output sank to its level of almost a decade earlier; virtually all debts fell into default; official unemployment rose to 22 percent; and in just the first six months of 2002, one and a half million people fell below the poverty line (Corrales 2002, 2). As Paul Krugman argues, this crisis has important economic causes unrelated to any recent political problems.<sup>199</sup> Argentina's so-called currency board, not a board at all but a mechanism for fixing the peso one-to-one against the dollar, was undoubtedly a bad idea, particularly given that the nation's principal trading partners are Brazil and the European Union. From the start it was apparent that if the dollar became overvalued compared with the Brazilian *real* and the Euro, as was bound to happen, the Argentine peso would get in trouble, as it did. Especially the crisis and devaluation of the *real* in late 1998 and early 1999, making Argentina's exports uncompetitive in Brazil, eroded its access to foreign reserves. Dollarization of the Argentine banking system – the fact that many borrowers took out loans denominated in dollars – has made the crisis much worse because now borrowers theoretically owe four times as many pesos to repay debts.<sup>200</sup> Of course, they cannot pay (which dollar debts will finally be converted to pesos at which rates is still in

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<sup>199</sup> My economic account of the Argentine crisis comes from a talk Paul Krugman gave at the University of Texas on April 22, 2002 <[www.utexas.edu/cola/lilias/centers/argentine/crisis02](http://www.utexas.edu/cola/lilias/centers/argentine/crisis02)> (cited 7 October 2002). Krugman emphasizes the importance of external shocks and circumstantial economic events in causing the crisis; he does not believe Argentina has underlying structural economic problems, nor does he believe that the fiscal deficit was big enough to explain the crisis. Aside from finding Krugman persuasive, I follow his account because it is the most *difficult* one to square with any internal political causes. If most other economic stories (including the IMF's), emphasizing domestic fiscal deficits, are correct, they leave *more* room for domestic political causes, strengthening the argument that I lay out, following Corrales (2002) and Schamis (2002).

<sup>200</sup> Precisely why borrowers took out loans denominated in dollars when the peso was supposed to be interchangeable is rather a puzzle, but in any event they did.

dispute), so the banking system collapsed. Finally, the IMF's and Treasury's brutal treatment of Argentina, in sharp contrast to support for Mexico after 1994, has prevented the crisis from bottoming out and produced far worse damage than was ever necessary.

That said, Javier Corrales of Amherst College argues plausibly that a political condition he terms the "state without a party" – struggle in the sense of an all-or-nothing power contest between the president and his own ruling party – has been a real part of Argentina's problem (2002, 26-27). While Krugman bases his economic account on overall macroeconomic data, Corrales looks more closely at how political events may have affected that data month by month.

Carlos Menem, Argentine president from 1989 through 1995, secured a 1994 constitutional reform allowing presidential re-election for a second term, was re-elected, and served again from 1995 through 1999. About mid-term he succumbed to the Latin American *caudillo*, or strong-man, mentality (or it was always his mentality) and began seeking an unconstitutional third term in 1997. He planned to win support from his own party and exert enough pressure on the Supreme Court to declare that his first term did not count as one of the two permitted by the new Constitution. But, aside from being opposed by 80 percent of the electorate, his gambit threatened the political futures of powerful Justicialist governors, notably Eduardo Duhalde of the Province of Buenos Aires. The result was an intra-party power contest, not just over who would be the next presidential candidate but over the fundamental rules of ascending to power.

This power contest "unleashed a spending race between the president and the leading Peronist governors," according to Corrales (2002, 11). In particular, Duhalde pushed the important Buenos Aires deficit from 7 percent of current revenues in 1997 to 25 percent of current revenues in 1999. Economic officials recommended increasing taxes, decreasing expenditures, and using funds from privatization to pay off the "ever-rising debt," but neither Menem nor the governors cared about the debt. Corrales concludes:

The only recourse left to economic officials was to increase the already high debt and to delay payments to public sector suppliers. This alleviated the rising deficit, but it restored the credibility deficit that plagued the state in the 1980s. Once again, the Argentine state was in the business of cheating private agents [and] repeating its predatory behavior . . . When the aftershocks of the Russian crisis hit Argentina in mid 1988, the "concern" of business skeptics turned to panic. (2002, 12)

The problem with this argument is that overall Argentine fiscal deficits in 1997 and 1998, as the Menem-Justicialist contest proceeded, were quite modest. Without interest on the debt – principally incurred to carry out a social security privatization and bank restructuring supported by the IMF (Schamis 2002, 84-85) – Argentina was running a small fiscal *surplus* (Corrales 2001, 21). Including interest, the total deficit both years was 2.1 percent of GDP – not enough to be expected to produce a crisis.<sup>201</sup> For example, Mexican fiscal deficits approaching the 1976, 1982, and 1987 crises were on the order of 10 percent of GDP. The key problem must have been, as Corrales puts it, the "credibility deficit." As in the case of Mexico's June 1981 oil price fiasco, that kind of deficit can contribute to a crisis, too. If business responded to the policy arguments between economic and political officials, the power contest between Menem and the governors, and the sense that the state was once again out to cheat private agents, that fear alone, combined with the Russian crisis, could well trigger an investment strike. Between the July 1988 Russian

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<sup>201</sup> The deficit comes from the Corrales 2001, 21; the judgment that it was not enough to cause a crisis is from the Krugman talk cited above.

crisis and mid-1999 industrial production fell almost 20 percent, to nearly its 1993 level (Corrales 2001, 20), initiating the deep recession that Argentina is still mired in.

Corrales' argument about political causes of the 2001 crisis seems doubtful. The Alianza that won the 1999 presidential elections, he says, suffered from a problem of "non-adaptation" (2002, 13-15): Of the two parties in the alliance one was led by an old patriarch, Raúl Alfonsín, who had outstayed his time, distorting the process of leadership renewal, and the other had charismatic grassroots leaders rather than seasoned administrators. Too many Congressional leaders of both parties were lawyers and too few were "technical experts": while 12.2 percent of Menem's Justicialists were economists, only 2.9 percent of the principal Alianza party were. Thus, when the new Alianza president, Fernando de la Rúa, tried to cut social spending and raise taxes on taking office in late 1999, both Alianza parties revolted. Alfonsín turned against the minister of the economy, his own former central bank president, but the intra-coalition attack was widespread: "Until the last days of the De la Rúa administration, the most serious critic of the government's economic policy was the ruling [Alianza] coalition itself" (2002, 15).

Corrales implies that De la Rúa and his economics ministers were right, and severe spending cuts and tax increases were needed, while the rest of the Alianza was wrong. But suppose Paul Krugman, no economic illiterate himself, is right that the deficits were not so terrible. Excluding interest payments, Argentina ran a 0.8 percent deficit in 1999 and a 0.5 percent surplus in 2000 (Corrales 2001, 21). At a minimum, it is unclear which side was right and which was wrong on the economic debate.

The political impetus behind Argentina's crisis seems to have been intra-party conflict itself. The Alianza was cobbled together in 1996 as an alliance between the Radical Civic Union, a long-established party that had done badly in the 1995 presidential elections, and Frepaso (Front for a Country in Solidarity), an *ad hoc* party comprised of renegade Peronists, socialists, and human-rights leaders, which had done surprisingly well in 1995 but recognized its long-term weaknesses (Schamis 2002, 86-87). The Radical presidential hopeful, De la Rúa, won a primary against the Frepaso candidate, producing considerable resentment. One Frepaso leader told Hector Schamis that the alliance had resuscitated the Radicals only to become their "casualty" (2002, 87). When De la Rúa took office in October 1999, he gave Frepaso only two second-class cabinet posts and, perhaps worse, shut out his own party, according to Schamis, surrounding himself with "a clique of unelected, nonpartisan advisors, several of whom had no previous political experience of any kind" (2002, 86). Within a year Vice President Carlos Álvarez had resigned, and intra-coalition struggle proceeded to deteriorate. In December 2001, as De la Rúa's administration was about to collapse, he asked the Justicialist opposition to form a unity coalition, but it refused. Fearing a possible breakdown of democracy itself, Schamis asked a Justicialist official why. The answer was that even congressional leaders of the president's own party had refused to take part in any government he might lead (2002, 85). Fernando de la Rúa fell as he had ruled, concludes Schamis, "at odds with his own party."

Intra-party conflict, erupting in economic debates – two economics ministers in two weeks were hounded out by Alianza opponents in spring 2001 (Corrales 2002) – and founded in struggles over the legitimate process for acceding to power, could well have frightened foreign lenders, leading them to demand higher interest rates. Interest rates on external debt rose in parallel with the conflict. When Vice President Álvarez' fight with De la Rúa heated up in fall 2000, Argentina's country-risk rating, along with interest rates it

had to pay, began to climb (Schamis 2002, 85, 87). By spring 2001, as economics ministers were being paraded through, Argentina was forced to pay 12 percent interest on debt (Schamis 2002, 85). The budget deficit was only 3.6 percent of GDP in 2000, hardly disaster level, but the increase since 1998 had been *entirely* due to rising interest payments (Corrales 2001, 21). When U.S. officials made it clear that they would not bail out Argentina in spring 2000, an economic crisis was probably unavoidable.

A fractured ruling coalition played an important role in Thailand's 1998 crisis, Andrew MacIntyre argues, but the fracture was an intermediate-level problem, ultimately caused by a dysfunctional electoral system.<sup>202</sup> It was a parliamentary system, so the government needed to retain a majority to stay in office, and it had multi-member districts: a number of candidates from the same party ran against each other, as well as against candidates from other parties, for several seats. Thus, every politician won or lost on an individual basis. Since vote-buying was a regular feature of campaigns – an estimated \$1 billion dollars were spent to buy votes in the notoriously dirty 1997 elections – each member of parliament needed to generate cash to cover these costs when in office. To make matters worse, there were many small parties, so each government had to forge a multi-party coalition in order to secure a majority of votes in parliament. The New Aspiration Party led by Chavalit Yongchaiyudh had to persuade five other parties to join it in order to take office in late 1996. A few defectors would bring the government down: the very electoral system was a formula for fracture.

The Thai crisis had economic causes, as always – a fixed exchange rate against a strong dollar, financial liberalization without adequate oversight, a growing proportion of bad loans in banks' and finance companies' portfolios, and falling values of the real-estate that served as collateral for many of those loans (MacIntyre 1999, 144, 146, 150) – but the government's failed efforts to deal with these problems can only be understood in political terms. After the Bank of Thailand had been forced to spend some \$7 billion dollars to keep afloat BBC, a mid-sized bank with ties to several members of the previous government, Chavalit came to power promising to install a so-called economic dream team (1999, 149). After the financial weakness of many of the financial companies came to light, on March 3, 1997, Finance Minister Amnuay Viruwan and the central bank governor announced a series of emergency measures, including that the ten weakest would have to increase their capital base within 60 days or be shut down. However, senior members of Chart Pattana, the second-largest party in the coalition, who had controlling interests in several of those financial companies, vetoed the plan and forced the central bank to inject large sums of new capital in them to keep them afloat.

So it went: again and again reasonable government initiatives to put the financial system in order were blocked not because they faced populist pressures or even parliamentary opposition, argues MacIntyre, but because they were “vetoed by other members of the ruling coalition.” By July 1997 it was revealed that the central bank had pumped the equivalent of \$12.3 billion U.S. dollars into failing finance companies (MacIntyre 1999, 148, 152). The money supply ballooned, financial investors fled, and the baht crashed. Even if a majority of Amnuay's coalition was in favor of implementing reasonable policies, a minority used political blackmail to protect its future by threatening to walk out. It was another conflict over political survival but played out within its particular set of rules.

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<sup>202</sup> The description of the electoral system in this paragraph is from MacIntyre 1999, 146-49.



## Stability in Colombia and stabilization in Bolivia

The experience of Colombia during much of the second half of the twentieth century and of Bolivia during the post-1985 stabilization that ended hyperinflation suggest the importance of elite pacts for economic stability. Colombia's unusual stability among the large Latin American nations in 1970s and 1980s is often attributed to relatively independent economic ministries. The Colombian economist Miguel Urrutia argues:

There has been, since [widespread civil violence was ended in 1958], the practice of naming an industrialist or a technocrat as the minister of finance. In addition, institutional innovations, such as the creation of the Monetary Board to handle monetary policy, . . . have given the minister of finance virtually total power in the areas of monetary, fiscal, and exchange policy. These areas have therefore been isolated from day-to-day politics and put in the hands of technocrats. (1991, 384)

Urrutia says that "given the danger of concentrating the clientelistic potential of the Ministry of Finance in the hands of a politician" (*ibid.*), the state instead put the ministry in the hands of a technocrat. He makes a roundabout attempt to suggest why what he calls a clientelistic state – a trickle-down system of distributing money through the political ranks to build support – should cede such a potentially fabulous resource to a technocrat, but the argument is not even clear enough to summarize.

The economist Albert Hirschman (1979) suggests another answer argument along the lines of elite cooperation. His principal concern is actually the military coups that swept Latin America in the 1960s and 1970s but that Colombia escaped. He argues that, contrary to a widely accepted argument (O'Donnell 1973, Kaufman 1979) that the underlying problem was not societal struggle provoked by industrial stagnation as "easy" import substitution became exhausted, but was instead ideological escalation. Colombia, at about the same industrial stage as other large Latin American nations and therefore presumably facing the same sort of exhaustion (to the extent that it existed; Hirschman is skeptical), was able to avoid a coup in the 1960s and 1970s because the tight-knit nature of its political elites muted such escalation. As elsewhere, elites were split between defenders of business and the "entrepreneurial function," on the one hand, and defenders of workers and the "reform function," on the other. But unlike their counterparts in Argentina, Chile, or Brazil, they all belonged to one durable "oligarchy" (1979, 95). This fact was critical in rescuing a "limited pluralism" (*ibid.*):

Communication between the two groups was often strained, but was never quite cut off, in part because of personal relationships and in part because, after a while, it became obvious that the reformers . . . were by no means revolutionaries, but were acting in the best interests of their brethren.

In a seemingly odd omission for an economist, Hirschman does not ask whether this working relationship between political elites also improved macroeconomic management, which was notably better in Colombia. Probably he passed over that point because he was writing in 1979 before the devastating crises of the 1980s, but especially during that "lost decade," Colombia's stability, compared with other large Latin American nations' crises, stood out. Despite some internal banking problems in the early 1980s, it avoided the debt crisis (Stallings 1990, 156-59).

Colombia's elite politics, cooperative in much the same sense that Mexico's was before 1970 – the Liberals and Conservatives traded the presidency back and forth in a *de facto* coalition government – would seem to be a plausible reason both parties might be concerned enough about the regime's long-term stability to put technocrats in charge of Finance and other economic ministries. The Liberal-Conservative coalition emerged from a pact ending an ongoing civil war that had taken a turn for the worse after 1946. As

peasants allied with the Liberals fought other peasants allied with the Conservatives, largely over land, some 200,000 people were killed, and a whole generation came to see *la violencia* as just a normal aspect of life. In 1957 and 1958 leaders of the two parties met secretly, initially in Spain (Field and Higley 1985, 27), to work out a power sharing pact termed the National Front. The presidency would alternate between them every four years; they would evenly divide high administrative posts and the legislature; and no other party could even participate in elections. Spelled out in a formal declaration and approved by plebiscite, the pact formally lasted until 1974, but even afterwards the Constitution required that whichever party lost the presidency should retain “adequate and equitable participation” in the executive branch (Kline 1990, 240-42).

The strange fact that Colombia avoided debt crisis in the 1980s despite guerrillas, drug traffickers, and death squads roaming the countryside would only seem to underscore the importance of elite consensus as opposed to generalized social peace. However, such an consensus only works as long as it embraces all politically important elites. If external violent challengers begin to overwhelm the state – that is, the elites that belong to the pact – as began to happen in the late 1990s, it could be expected to break down.

An elite pact in Bolivia in 1985 ended one of the worst hyperinflations of all time. With an inflation over 10,000 percent and calculated to have risen to an annual rate of 60,000 percent in summer 1985 (Gamarra 1994, 104 and footnote 1), it would be impossible to fix the foreign exchange rate, so in some sense there was an ongoing currency crash, but the principal problem was inflation itself. At those kinds of rates shoppers have to pay more for a loaf of bread hour by hour. The new president, Víctor Paz Estenssoro, sought to impose his New Economic Policy plan, which included cutting public-sector employment, reducing fiscal deficits (they had reached an unbelievable 23 percent of GDP), and freezing wages and salaries. He could call a state of siege to block the Bolivian Labor Central, poised to challenge austerity measures as it repeatedly had in the past, but he could not maintain the state of siege without congressional support, and his party, the MNR (*Movimiento Nacionalista Revolucionario*), did not control a majority in Congress.

Paz Estenssoro solved his political problem by forging elite cooperation. His pact with the principal opposition party, Gen. Hugo Banzer’s ADN (*Acción Democrática Nacionalista*), publicly secured legislative support for the plan in exchange for patronage – public-sector jobs – and, in a secret addendum, pledged to back Banzer as president in the next election. The idea was to rotate the presidency between the two parties, in short, to guarantee political survival in exchange for presidential supremacy over policy during each president’s term. The *Pacto por la Democracia*, as it was called, did effectively neutralize Congress – a majority now voted as it was told – and allowed Paz Estenssoro to install a “super-minister” of planning to manage the economy relatively unfettered. Eduardo A. Gamarra argues that the *Pacto*, a smaller-scale version of the pact between Colombian Liberals and Conservatives, “was key to ensuring the continuity” of the economic plan (1994, 107). As mentioned, Paz Estenssoro brought inflation down to the 15 percent range, and while growth remained stagnant – 2 to 3 percent a year by the late 1980s – at least it was better than the negative growth of the early 1980s. Later the principal party of the left was brought into the *Pacto*, pledging to vote for tax reform in exchange for an electoral reform engineered, or so the parties hoped, to give the three of them an oligopoly on political power (Gamarra 1994, 109).

The *Pacto* fell apart in 1989. The MNR candidate, the former super-minister of planning, Gonzalo Sánchez de Lozada – so much for any notion that political independence is a requisite of economic stability<sup>203</sup> – broke with ADN and launched an American-style negative campaign (Gamarra 1994, 110). He did not get a majority, so, in accordance with the Constitution, it fell to the Congress to designate the president. Now no one was willing to cooperate with MNR, but having seen how well the pact idea had worked in the past, the left party MIR (*Movimiento de Izquierda Revolucionaria*) now made a surprise move, forging a new and renamed pact with ADN. This pact too had its problems, but the basic principle was clear: elite pacts were an effective way to govern the Bolivian economy.

### Elite politics and policymaking

The idea that elites matter politically is, of course, nothing new; perhaps Vilfredo Pareto and Gaetano Mosca, responding in the late nineteenth and early twentieth centuries to liberal and marxist mass-based theories of politics, are modern political science's starting point on the topic. Elite pacts or fissures are seen to play important roles in broad transitions from one regime to another – in creating schisms that bred the French, Russian, and Chinese social revolutions (Skocpol 1979), in promoting or retarding uncertain transitions from authoritarian to democratic rule (O'Donnell and Schmitter 1986), even in joining factions to consolidate democracy (Burton, Gunther, and Higley 1992). The structure of elites itself has also been examined; this account has often referred to the literature on Mexican *grupos* or *camarillas*. Yet how the relations among political elites affect ongoing policymaking within a regime is not so well understood.

The literature on *grupos*, for example, focuses principally on how they themselves work: why do they exist? what rules govern relationships between leaders and followers? what role do they play in political succession? Miguel Angel Centeno's *Democracy within Reason* is almost alone in asking how *grupos* affect policymaking, and even he seems to lose the courage of his convictions at a critical point. He situates his account so resolutely within the idea of state autonomy that he misses the importance of observations he himself makes about interactions among *grupos*.

Centeno says that, whereas before 1970, "cabinet positions had been . . . divided among the various factions of the 'family,' the new elite [appointed by Echeverría] represented nobody and no interests other than those of the president" (1994, 153). Presidents tended increasingly to install their own *grupos* and exclude others, culminating with Carlos Salinas: "Even more so than in previous administrations, the relationship with the president became the most important factor in anyone's career. The extended 'Revolutionary Family' was reduced to a nucleus surrounding the president" (1994, 166). Centeno argues that the ascendancy of such a "powerful, cohesive, and homogeneous elite" allowed the state to restructure the economy from *dirigiste* to free-market fast and radically (1994, 171). His argument seems sensible. Though foreign and business pressure promoted freer markets, de la Madrid dropped tariff levels to less than half what GATT requested: where it sought a maximum of 50 percent, in 1986 he cut the maximum to 20 percent and lowered many tariffs at 10 percent or 5 percent (Urquidi). Even private sector spokesmen

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<sup>203</sup> Gamarra does not claim that such independence was a necessary ingredient, or any ingredient at all, but it seems useful specifically to point out that it was not.

such as Gilberto Borja of Grupo ICA, a construction and industrial conglomerate that benefited enormously from free trade, say that from an economic viewpoint, Mexico ended protectionism too fast. Salinas then cemented these free-trade measures in NAFTA and aggressively privatized state-owned firms.

The problem with Centeno's picture of Mexican politics is that it builds up to a static snapshot of Salinas at the height of his power, manipulating *grupos* so that the unitary leviathan of the state could turn industrial strategy around. But other than describing the steady exclusion of competing *grupos*, Centeno does not pay real attention to anything going on inside this leviathan. Actually, he observes that by 1992 the Salinas group had begun to split into sub-factions already vying for presidential succession (1994, 170), but this observation does not enter his argument. It does not need to because radical economic restructuring, once effected by a powerful elite, is hard to undo, especially if written into an international treaty such as NAFTA. But his political account is incomplete if one wants to understand other policymaking, particularly policies that must be continually revisited. No momentary decision can economic secure stability once and for all; the threat of crisis is perpetual, and policies to prevent it must be sustained forever.

The question thus arises as to how elite politics plays out over time, how elites handle internal conflicts. Since, as Centeno argues, presidents from Echeverría to Salinas increasingly favored their own cliques, excluding rivals, the struggle for power during political succession would tend to become all-or-nothing, and politics inside the leviathan of state would be anything but static. To avoid repeating a story that is by now familiar, the dynamics among political elites over years and decades will importantly affect policy.

As suggested by the accounts of Argentina, Thailand, Colombia, and Bolivia, elite cooperation and struggle might play out quite differently in different political systems. Perhaps in part because of this variety, the authors who propose these accounts do not reference each other. In effect, they each notice similar phenomena but lack a more general way to frame the phenomena as a kind of elite politics.<sup>204</sup> This deficiency means that when one thinks about economic crises, one is less likely to think in these terms; there is not even a vocabulary to do so. Simply underlining the themes of elite cooperation and struggle may make it easier to notice them when they matter.

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<sup>204</sup> The possible exception is Corrales whose book on the "state without a party" is due to appear this fall.

## Appendix 1

**Regression to Isolate Political Spending Cycle**

A regression is used to capture how the Mexican political cycle affected public spending, as distinct from principal economic factors – GDP growth, providing resources to spend and increases in foreign reserves, indicating that external resources are available. The time span is 1960 through 1988, but other time spans are also tested. The regression is based on Ames' model (1987) covering all Latin American nations but omits factors irrelevant to Mexico, such as military coups and change of political parties, and is modified to accord more closely with how Mexican officials say the expenditure process unfolded. As with Ames' model, the dependent variable, current spending, is assumed to depend on its previous value, last year's spending, a typical approach for time series. (Such autoregression involves statistical complications to be discussed shortly.) Current spending is also assumed to increase (or decrease) in proportion to the growth (or decline) of the previous year's GDP and foreign reserves, as well as in response to whether it is a pre-election, election, or post-election year.

Why should public spending depend on the *previous* year's GDP growth?<sup>205</sup> There is no automatic mechanism that feeds a change in GDP into a change in public spending. (Indeed, in advanced nations, "automatic stabilizers" such as unemployment insurance are actually supposed to increase public spending when GDP declines and *vice versa*, but they are not important in Mexico.) Rather, economic performance provides a signal to policymakers – but with a substantial lag. Mexican public budgets were set in the fall of the previous year. They were then modified, sometimes by huge amounts, during the course of the year, but in a developing country before the widespread use of computers, changes in economic performance only became apparent with a long lag. For example, though the presidential economic advisor Leopoldo Solís believed that Mexico was in recession in 1971 and cutting investment back sharply to curb inflation was ill-advised, hard data were not available. Only in 1972 did the government respond when it "became clear that the economic slump was far more severe than anyone had imagined" (1981, 62).

Thus, independent variables assumed to affect spending in year *t* are:

Spndg( <i>t</i> -1)	Spending in the previous year
ChngGDP( <i>t</i> -1)	Percent GDP growth (or decline) in the previous year
ChngRsrvs( <i>t</i> -1)	Percent growth (or decline) in foreign reserves in the previous year
Y1	1 in the first, post-election year, of each administration, otherwise 0
Y5	1 in the fifth, pre-election year, of each administration, otherwise 0
Y6	1 in the sixth, election year, of each administration, otherwise 0

If the  $b_i$  are coefficients to be determined by the regression, the model is:

$$\text{Spndg}(t) = b_0 + b_1\text{Spndg}(t-1) + b_2\text{ChngGDP}(t-1)*\text{Spndg}(t-1) + b_3\text{ChngRsrvs}(t-1)*\text{Spndg}(t-1) + b_4Y1*\text{Spndg}(t-1) + b_5Y5*\text{Spndg}(t-1) + b_6Y6*\text{Spndg}(t-1)$$

<sup>205</sup> Ames uses the change in reserves from the previous year but current GDP. Instead of expressing the change in reserves as a percentage, he sets a dummy equal to 1 if reserves increase 50 percent or more and another equal to 1 if they fall 50 percent or more. The 50 percent mark does not capture the Mexican situation well; for example, during the late 1970s when resources were pouring in from abroad because of petroleum exports and foreign loans, reserves rose 35 or 40 percent a year for several years in a row. I could have used 30 percent instead of 50 percent as a cutoff, but it seemed less arbitrary to simply use the numerical percentage of change in reserves. The point is not to predict how reserves affects spending but only to control for them.

A word explaining the equation is in order. Since public spending rose by almost a factor of ten over the period, the independent variables  $\text{ChngGDP}(t-1)$ ,  $\text{ChngRsrvs}(t-1)$ , Y1, Y5, and Y6 cannot be treated as increasing spending by some *given quantity* of pesos but rather by some *portion* of the previous year's spending; their effect on current spending is thus a result of multiplying them by the previous year's spending. The coefficients are estimated based on data from 1960 through 1988.

Though Ames found significant increases in electoral-year spending across Latin America, they did not occur in Mexico. In election year spending *decreased* 12.7 percent, but in spending the pre-electoral year it *increased* of 11.6 percent, both statistics significant at better than the 99 percent level. While Ames found that spending dropped in post-election years across Latin America, there was no such pattern in Mexico. The change in spending in the post-election year is not statistically significant at all.

Because this is an autoregression, the OLS method estimates coefficients that are biased but consistent – as sample size increases, the bias disappears – and is generally adopted as the most appropriate method (Kennedy 1992, 140-41). A problem arises if the errors are autocorrelated, i.e., if there is a systematic correlation between the error for one period and the error for the next. The Durbin-Watson statistic for the regression (1.82) indicates lack of autocorrelation but is inappropriate; the so-called Durbin *m* test is the correct one (Kennedy 1992, 257). In this test, the OLS residuals are regressed on the lagged (previous year's) OLS residuals and the original regressors; an F test is then used to check whether the coefficients of the lagged residuals are significantly different from 0. (If so, there is systematic correlation between residuals and lagged residuals, i.e., autocorrelation.) These coefficients were not significantly different from 0: the F statistic was 0.186, yielding a probably  $p = 0.671$  that they were no different from 0.

How closely do these results depend on the particular model used? Very little: a variety of alternative models, including one duplicating Ames' approach and using current GDP growth instead of the previous year's, yield the same results, though with lower levels of confidence.<sup>206</sup> An alternative model, regressing the change in spending on the change in the previous year's GDP growth, change in the previous year's reserves, and Y1, Y5, and Y6 – thus avoiding autoregression – produced essentially the same results, with a Y5 (pre-electoral year) increase of 8 percent and a Y6 (electoral year) decrease of 9 percent, both significant at better than the 99 percent level. Regressing change in spending over dummies for the six years of each administration – that is, simply ignoring contributions of economic factors – again shows a large and significant fifth-year increase.

Extending the time period through 1994 administration, when electoral competition had become a real factor, weakens the results without fundamentally changing them. However, extending it back to 1948 does change them.<sup>207</sup> The significant increase in pre-electoral spending remains (again at better than the 99 percent confidence level), but there is no longer a significant decrease in election-year spending. As might be expected, large increases in 1952 when Henríquez Guzmán ran his powerful opposition campaign and the 1958 election attended by massive strikes blot out that pattern.

<sup>206</sup> This replication, however, still expressed the change of reserves in percent rather than via dummy variables.

<sup>207</sup> This regression has a major problem, though: it uses only government spending, since total public-sector spending, which even in the 1960s could be twice the size of government spending, is not available. There could well be patterns in public-sector spending that cannot be seen for lack of data.

### Regression to control for economic factors on public-sector spending

#### Variables:

Spndg(t)	Spending in year t
Spndg(t-1)	Spending in the previous year
ChngGDP(t-1)	Percent GDP growth (or decline) in the previous year
ChngRsrvs(t-1)	Percent growth (or decline) in foreign reserves in the previous year
Y1	1 in the first, post-election year, of each administration, otherwise 0
Y5	1 in the fifth, pre-election year, of each administration, otherwise 0
Y6	1 in the sixth, election year, of each administration, otherwise 0

#### Equation estimated:

$$\text{Spndg}(t) = b_0 + b_1\text{Spndg}(t-1) + b_2\text{ChngGDP}(t-1)*\text{Spndg}(t-1) + b_3\text{ChngRsrvs}(t-1)*\text{Spndg}(t-1) + b_4Y_1*\text{Spndg}(t-1) + b_5Y_5*\text{Spndg}(t-1) + b_6Y_6*\text{Spndg}(t-1)$$

#### Coefficient estimates:

	Coefficients	Standard error	t statistic	Significance
Constant	14.47	8.54	1.69	0.1049
Spndg(t-1)	0.899	0.037	24.29	0.000000
ChngGDP(t-1)	0.0156	0.0033	4.77	0.000104
ChngRsrvs(t-1)	0.000968	0.000294	3.30	0.00345
Y1	0.0038	0.0503	0.08	0.9406
Y5	0.116	0.036	3.22	0.0041
Y6	-0.127	0.033	-3.79	0.0011

#### Model summary:

R Square	Adjusted R square	Durbin-Watson statistic
0.986	0.982	1.819





## Appendix 2

**Data notes**

## Mexican fiscal data

Revenue and spending figures are often taken from Instituto Nacional de Estadística, Geografía, e Informática (INEGI), *Estadísticas Históricas de México*. They give fiscal data from the best and most basic source, the Finance Ministry's *Cuenta de la Hacienda Pública Federal*, published in yearly volumes and not widely available outside of the Finance Ministry's own library. For example, Cárdenas 1994, Table A.25, and Cárdenas 1996, table 1.7, use *Estadísticas Históricas*.

Unfortunately, the way *Estadísticas Históricas* – and many other secondary sources – present fiscal data poses serious problems. For one thing, *Estadísticas Históricas* data prior to 1980 treats borrowing as part of revenue and includes it in data on revenue (INEGI 1994, Table 17.6, pp. 760-61; also graphics 17.6a and 17.6b). Obviously, if borrowing is included in revenue, there is no such thing as a deficit or surplus (except to the extent that the government over-borrows or under-borrows in any year). This problem can be corrected easily: *Estadísticas Históricas* gives the amount of borrowing, so one can net it out to obtain real revenue, as I have done.

The other major problem – found in a great deal of Mexican fiscal data from secondary sources as well as *Estadísticas Históricas* and often not identified – is not so easy to correct: amortization is included as well as interest in debt payments. Amortization is not real spending. For example, suppose a government raises \$100 billion in revenue, spends \$105 billion, and must borrow \$5 billion; its total spending is, obviously, \$105 billion. Now suppose everything is the same but the government has \$15 billion worth of short-term debt to pay off and renew during the course of the year (many Mexican government 28-day bonds must be constantly paid off and renewed). Now the government raises \$100 billion in revenue, spends \$105 billion, borrows \$20 billion, and amortizes, or pays off, \$15 billion worth of principal. Its real spending is still obviously \$105 billion, but if amortization is included, the data indicates that it spent \$120 billion. Typically, on the order of 15 percent of Mexican government spending, even during the 1960s, actually was amortization of debt, and the portion varied considerably from year to year. Budget data that includes amortization (properly called “*gasto bruto*” or “gross spending” in Mexican statistics, but often not properly labeled) is therefore erratic and extremely problematical, especially for tracking yearly changes. Amortization is also often included in state-enterprise spending, where it can be particularly hard to detect or weed out.

The best long-term series of fiscal data, going back to 1965, excluding amortization (properly referred to as “*gasto neto*”), is found in the appendices to the Carlos Salinas *Informes de Gobierno*. Unfortunately, the Zedillo administration discontinued that long-term data series. Even in other series, fiscal data given in the “*situación financiera*” of the federal government, Mexico City, and state enterprises typically does excludes amortization, or indicates it and nets it out, but unfortunately this type of data usually only gives current spending and the capital-spending *deficit*, but not total spending or revenue. (And the *situación financiera* is not provided at all in *Estadísticas Históricas*.)

Unless one goes to the Finance Ministry for data before 1965, one is therefore stuck with *Estadísticas Históricas* (and other sources that are no better such as Nacional Financiera, *Economía Mexicana en Cifras*). Amortization is not indicated and so cannot be netted out. Izquierdo 1995, Tables VII.4 and VII.5, using the same basic series, does give amortization figures separately for the years he covers, 1959-70. Likewise, INEGI, *Información sobre gasto público, 1970-1980*, Table 1.6, p. 5, details amortization as a portion of public-sector spending for the decade of the 1970s. Correcting data from *Estadísticas Históricas* by netting out amortization given by either of these sources gives essentially the same figures as the Salinas *Informes* for 1965 on.

I have always deducted borrowing from revenue figures, but since I do not have data on amortization before 1959, I have simply left it in total spending, as almost everyone else does. Thus, data on total spending and the total deficit for the period before 1959 should be treated with more than the usual suspicion.

Spending *excluding* debt service – thus excluding both amortization and interest – is reliable, as far as I know. Spending growth can therefore be calculated from it with reasonable confidence, and it is a good indicator of deficits (but of course lower than the total deficit would be).

Izquierdo's figure for total debt payments in 1965 is incorrect – it is lower than the amortization figure – apparently because of a clerical error. His amortization figure is correct for this year, as it checks with Salinas 1992, *Cuarto Informe*, giving the correct *gasto neto*, net of amortization. Thus, I kept his amortization figure and corrected his total debt figure, available in INEGI, *Estadísticas Históricas de México* 1994, Table 17.10.

#### Regression data

The regression is based on spending excluding interest payments, but including them does not change the basic results or significance. All public-sector spending and GDP data is in real pesos, recalibrated to an index value of 100 in 1963 (the method Ames uses), so it could be used in a cross-national comparison.

- Federal government spending from 1948-1960, used to test the model before 1960, is from INEGI 1994 (*Estadísticas Históricas*) Table 17.10. For these years, consolidated public-sector spending is not available.
- Total public-sector spending from 1960-65 is from Izquierdo 1995, 250 (Table VII.22). Public-sector spending net of interest is not available for these years. State and Mexico City spending is not available, either, but their deficits are available, and are included in public-sector spending.
- Total public-sector spending from 1965-88, including state enterprises, with and without interest payments, is from Salinas 1992 (*Cuarto Informe de Gobierno*), 168.
- Total public-sector spending from 1989-93, including state enterprises, with and without interest payments, is from Salinas 1994 (*Sexto Informe de Gobierno*), 59.
- Total public-sector spending for 1994, including state enterprises, with and without interest payments, is from Secretaría de Hacienda y Crédito Público 1994, *Cuenta de la Hacienda Pública Federal*, 60, 76.
- GDP and deflators for 1948-70 are from INEGI, *Estadísticas Históricas* 1994, Table 8.1 (GDP in current and 1970 pesos), and for 1970-94 are from Cardenas 1996, table A.4 (GDP in current and 1980 pesos, recalibrated to 1970=100). These are the same series on

GDP. Using the IMF's GDP deflators makes no significant difference. Using the consumer and wholesale price indices only accentuates the predicted fifth- and sixth-year effects in 1987-88 and slightly increases the overall significance of the results.

- International reserves are all in U.S. dollars. Reserves from 1950-1960 are from Cárdenas 1994, Table A.21. Reserves from 1960-1970 are from Ortiz Mena 1998, 149. Reserves including gold from 1970-1994 are from International Monetary Fund 2000, *International Financial Statistics Yearbook 2000*, 698-99, gold values from 78-79.
- Ames includes a dummy variable with a value of 1 if there was an IMF agreement late in the previous year or early in the current year, otherwise 0. Including such a dummy did not substantively affect the results, but it seems inappropriate since while some IMF agreements are bad deals, others are good deals: whereas Mexico's 1976 and 1982 IMF agreements were harsh, in 1986 the Salinas team got a large sum – \$12 to \$15 billion dollars – of fresh loans (see chapter 8). In any event, IMF agreements were: none in 1954 despite devaluation (Ortiz Mena 1998, 37), February 1959 (Ortiz Mena 1998, 86), end of 1976 (Lustig 1998, 19), end of 1982 (Lustig 1998, 29), end of 1986 (Lustig 1998, 47).



## Interview list

This list includes public officials, as well as a few private-sector and labor leaders, who were interviewed; academics who were interviewed are generally only included here if they were also high officials who had first-hand knowledge about policymaking.

- Abedrop, Carlos (president of Banco Atlántico) 14 August 1997, Mexico City.
- Alejo, Francisco Javier (secretary of National Industries, 1975-76), 11 October 2000, Mexico City.
- Barnes, Guillermo (subsecretary for administration, or *oficial mayor*, and other posts in Finance; leader of PRI delegation from Mexico City in late 1990s), 23 March 2000.
- Bassols, Angel (academic; father was secretary of Interior and opposition party leader), 23 October 2000, Mexico City.
- Bazdresch, Carlos (economist known for work on economic crises), 17 April 2000.
- Beteta, Mario Ramón (economic posts beginning in 1960, subsecretary and secretary of Finance, 1970-76), 12, 16, and 24 October; 16 November 2000. Mexico City.
- Borja Navarrete, Gilberto (president of Grupo ICA), 7 April 1997.
- Bracamontes, Luis Enrique (subsecretary of Public Works, 1952-64; secretary of Public Works, 1970-76), 18 October 2000, Mexico City.
- Bravo, Victor (advisor to Alfredo del Mazo, 1987 presidential precandidate; father was education secretary, 1970-76), 7 December 2000, Mexico City.
- Camacho Solís, Manuel (economic posts, 1972-88; Salinas political advisor; head of Federal District, 1988-93; presidential precandidate), 5 December 2000. Mexico City.
- Cárdenas, Enrique (economist known for macroeconomic history of Mexico), 14 April 2000.
- Carrera, Eduardo (executive secretary, CIHAC, construction industry group), 3 February 1997.
- Carrillo Gamboa, Emilio (Telmex official, 1960-75; director of Telmex, 1975-87; father was finance minister 1952-58), 15 August 2000, Mexico City.
- Carvajal Moreno, Gustavo (president of National Executive Committee of PRI, 1979-81; father was interior secretary, 1952-58), 17 November 2000, Mexico City.
- Chávez Presa, Jorge (head of budget control in Finance in 1990s, economist in Bank of Mexico in 1980s), 25 August 2000, Mexico City.
- Corona del Rosal, Alfonso (politician since the 1940s, governor of Mexico City 1967-70, presidential precandidate 1969), 31 March 2000, Mexico City.
- De la Madrid, Miguel (Bank of Mexico and Finance, 1960-79; secretary of Planning and Budget 1979-82; president of Mexico, 1982-88), 10 November 2000, Mexico City.
- De la Vega Domínguez, Jorge (commerce secretary 1977-82; presidential precandidate 1981; president of PRI 1986-88). Mexico City, 12 December 2000.
- De Oteyza, José Andrés (economic posts since 1965, secretary of National Industries, 1976-82), 15 August 2000, Mexico City.
- Echeverría Álvarez, Luis (subsecretary and secretary of Interior 1958-70, President of Mexico, 1970-76), 16 and 19 December 2000
- Fernández Hurtado, Ernesto (Bank of Mexico, 1948-70, director of Bank of Mexico, 1970-76), 27 October 2000, Mexico City.

- Flores de la Peña, Horacio (economic official, 1959-70; director of Economics Faculty, UNAM; secretary of National Industries, 1970-75), Mexico City, 6 December 2000.
- Gamboa de Buen, Jorge (urban development director of Mexico City, 1988-94), 9 August 2000, Mexico City.
- Ghigliazza, Sergio (Bank of Mexico official since 1960s, assistant director, 1985-90; director, Center of Latin American Monetary Studies), 20 October 2000, Mexico City.
- Giménez Cacho, Luis (industrialist, steel industry, beginning in 1940s), 3 February 1997, Cuernavaca.
- Gómez Villanueva, Augusto (secretary of Agrarian Reform, 1970-75; presidential precandidate), 18 December 2000, Mexico City.
- González Blanco Garrido, José Patrocinio (official in Presidency, 1960s; interior secretary, 1992-94; father was labor secretary, 1958-70), 20 November 2000, Mexico City.
- Gout, Gonzalo (construction industry entrepreneur, beginning in 1950s; vice president, CONCAMIN, industry federation, 1960s) 25 February 1997, Mexico City.
- Ibarra, David (ECLA official 1958-73, finance secretary 1977-82), 28 August 1997, 2 May 2000, Mexico City.
- Izquierdo, Rafael (advisor to finance secretary, 1964-70, advisor to President, 1976-82), 12 May 2000, Mexico City.
- Labastida Ochoa, Francisco (national industries secretary, 1982-86, governor of Sinaloa; interior secretary, 1998-99, presidential candidate 2000), 7 December 2000, Mexico City.
- Luján, Berta (leader of independent union, FAT), 26 August 1997, Mexico City.
- Mancera Aguayo, Miguel (economic official since 1957, director general of Bank of Mexico, 1982-96), 24 August 2000, Mexico City.
- Martínez, Ifigenia (economic official in 1960s and 1970s, opposition party leader, PRD, academic), 4 September 1997, Mexico City.
- Moctezuma, Julio Rodolfo (economic official since 1959, finance secretary, 1976-77), 19 May 2000, Mexico City.
- Moreno Toscano, Alejandra (secretary general of Social Development, Mexico City, 1988-94; father was prominent politician 1940s to 1960s), 9 November 2000, Mexico City.
- Moreno Valle, Rafael (secretary of health, 1964-68, close friend of President Díaz Ordaz), 17 October 2000, Mexico City.
- Muñoz Ledo, Porfirio (labor secretary, 1972-75; close to President Echeverría; opposition party leader 1987 through 1990s) 24 November 2000, Mexico City.
- Ojeda Paullada, Pedro (attorney general, 1971-76, labor secretary, 1976-81, presidential precandidate), 14 November 2000, Mexico City.
- Ortiz Mena, Antonio (director of Social Security, 1952-58, finance secretary 1958-70, president of Inter-American Development Bank, 1971-88), 16 May 2000, Cuernavaca.
- Ortiz Salinas, Antonio (official since 1958; finance secretary of Mexico City, 1997-99; friend of opposition party leader Cuauhtémoc Cárdenas), 8 November 2000, Mexico City.
- Rey Romay, Benito (director of National Finance Bank, 1970-81; academic), 30 Jan 1997, Mexico City.
- Romero Kolbeck, Gustavo (economic posts since 1944; director of Bank of Mexico, 1976-82), 21 November 2000, Mexico City.

- Romero Pérez, Humberto (public relations director for Ruiz Cortines, 1953-58; private secretary for López Mateos, 1958-64; journalist), 15 November 2000, Mexico City.
- Salinas Lozano, Raul (economic posts since 1946, secretary of Industry and Commerce, 1958-64, father of Carlos Salinas), 11 July 2000, Acapulco.
- Sánchez Navarro, Juan (director general of Grupo Modelo, private sector spokesman), 11 August 1997, Mexico City.
- Silva Herzog, Jesús (economic posts since 1956, finance secretary, 1982-86), 9 November 2000, Mexico City.
- Solana, Fernando (secretary general of UNAM, 1966-70, secretary of three ministries – Industry and Commerce, Education, and Foreign Relations – during the years 1976-94), 15 August 2000, Mexico City.
- Suárez Mier, Manuel (Bank of Mexico official since 1960s, academic), 24 March 2000.
- Tello, Carlos (economic posts since 1959; secretary of Planning and Budget, 1976-77; director general of Bank of Mexico, 1982; López Portillo advisor), 2 September 1997.
- Urquidí, Victor (economic posts since 1940s; director of ECLA's Mexico City office in 1950s; advisor to finance secretary, 1958-64; president, Colegio de Mexico, 1966-85), 4, 5, and 15 May, 2000.
- Zapata Loredo, Fausto (subsecretary of presidency, close to President Echeverría, 1970-76; journalist), 13 December 2000, Mexico City.





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