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POLITICAL RECONFIGURATIONS IN AN ERA OF ECONOMIC RESTRUCTURING

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THINKING GLOBALLY, ACTING NATIONALLY: POLITICAL RECONFIGURATIONS IN AN ERA OF ECONOMIC RESTRUCTURING

Nora Hamilton

The process of globalization has increasingly reduced the ability of the nation state to exercise control over economic activity within its boundaries and has narrowed the range of policy options for domestic governments (Held, 1995: 127-134). But despite accelerated global economic changes and increasing international economic integration, the national sphere continues to be the major arena of political activity, specifically for the functioning of formal democratic institutions, and the state continues to be a major target of political action. At the same time, economic restructuring within national boundaries has led to the reconfiguration of the state itself and of its relationship with different classes and groups in society, which are also undergoing substantial change.

These structural changes in turn have implications for the process of democratization or redemocratization. Inherent in the process of economic restructuring are several potential problems for democracy. First, as noted above, the increasing globalization of economic activity and international economic integration has meant that critical spheres of activity are removed from the national or domestic domain. This means that those national actors who can perform at the international level have an obvious advantage over those whose activity is limited to the domestic sphere.

Second, it has been suggested that the effective implementation of economic liberalization requires the insulation of the state, or of relevant economic bureaucracies within the state, from political influence. This may take different forms: first, the insulation of certain activities from intervention by the government itself, e.g., through the autonomy of the central bank; second, the autonomy of the state, or its ability to make policy decisions without undue influence from the private sector; and third, the insulation of economic decision making from popular pressures. While the implementation of a coherent, long-term economic policy of any kind requires the separation of economic activity from political pressures (both internal and external), the high costs of economic restructuring in many cases, and the fact that these costs are disproportionately borne by those sectors with little or no policy input, either directly or indirectly, raises important questions for democracy.

Third, although the debate regarding the proper "sequencing" of economic liberalization and democratization is unresolved and probably unresolvable, there is a general assumption that if not an authoritarian government, a strong, centralized executive is probably a necessary condition for institutional reform and to resist political pressures from various interests adversely affected by reform (Haggard and Kaufman, 1996: 163-5; Schamis, 1995: 169, 173). As expressed by Deepak Lal: "A courageous, ruthless and perhaps undemocratic government is required to ride roughshod over these newly created special interest groups" (cited in Schamis, 1995: 169).

The purpose of this paper is 1) to examine the impact of globalization and economic restructuring on social structures and on the relative power of different groups and sectors within the national context, and 2) to examine the ways in which these changes may limit (or enhance) the possibilities for effective democratic participation at the national level. Based on the definition of democracy as government by the governed, the specific concern here is the ability of citizens to influence, either directly or through representatives that are accountable to them, decisions that have a significant effect on their lives. A fundamental assumption is that a stable democracy requires a balance of power between the state and civil society and among different groups in society, as well as the sovereignty of the nation state itself (Reuschmeyer, Stephens and Stephens, 1992; Held, 1995).

The following will examine three issues, focusing on Chile and Mexico,¹ with some examples drawn from other countries:

First, what has been the significance of the increasing empowerment of foreign-trained technocrats within the state? To what extent has this led to the "closing off" of the state to pressures from popular sectors?

Second, what have been the implications of economic restructuring for the distribution of power within the private sector and its relations with the state?

Third, what have been the implications of the changes within the state and private sector and relations between them for other sectors of society?

I. Ascendance of the technocrats

The past two decades have been characterized by the ascendance of a group of foreign-trained economists and other experts to predominant positions within the state in several modernizing countries. The most well-known example of control over economic decisions by US trained technocrats is the case of the Chicago boys in Chile - economists from the Catholic University who had been trained at the University of Chicago in the 1950s and 60s.

The presence of technocrats in government in Chile was not new; they had had a role in the elected governments of Eduardo Frei (1964-70) and Salvador Allende (1970-73) prior to the military coup, although they had shared power with more politically-oriented groups and minimized their expertise (P. Silva, 1994: 212). The rapid rise of the Chicago boys during the military regime gave the technocrats a new prominence and can be tied to a general distrust of politics and politicians shared by the military and at least some of the economic technocrats themselves. Thus, in formulating Chile's future democracy, Pablo Baraona, former Minister of the Economy, predicted "an authoritarian, impersonal, libertarian and technified democracy....which will be consistent with national security and the economic model," (P. Silva, 1994: 212; Schamis, 1995: 169).

Jose Pinera, who was Minister of Labor and Minister of Mining during the military regime, points out the importance of a team united around a basic policy approach, and specifically advocates the exclusion of other points of view in order to minimize possible interference with the economic policy-making (Pinera, 1994). The importance of a cohesive economic team sharing a common perspective on economic policies is also stressed by Leszek Balcerowicz, architect of Poland's radical reform (Balcerowicz, 1994: 169-171).

In Chile, the recruitment of technical elites continued under the succeeding democratic government of Patricio Aylwin. As in the case of the Chicago boys, many of them had been trained at foreign universities, albeit from a somewhat more diversified selection than their predecessors.² There was undoubtedly some variation in the economic orientation of the technocrats; many of the Chilean economists in the Aylwin government had initially been strongly opposed to the neoliberal policies of the Pinochet government.

At the same time, the revival of monetarism and neoclassical economics within the economics profession in the United States and other countries, and the spread of liberal ideas through institutions such as the World Bank and the International Monetary Fund, have been influential in shaping the economic perspectives of economists and other policy makers from a broad range of countries. This process constitutes a form of linkage, whereby education and training abroad as well as joint investments, trade relations, and other types of international contacts results in the identification of domestic actors with the interests and outlooks of international actors (Haggard and Kaufman, 1992: 12-13; Stallings, 1992: 52-5).³ Again, in discussing Poland's economic reforms, Balcerwicz provides an example of this influence: "In negotiations with the IMF, multilateral banks, and Western governments there was very little pressure with respect to economic strategy and its crucial details because the Polish program was basically in line with the goals of these organizations" (Ibid, 1975).

In Mexico, the increasing control of the technocrats was a gradual process. Prior to the 1980s the "tecnicos" had shared power within the Mexican state with the "politicos," the former generally associated with the

Finance ministry, the central bank (Banco de Mexico) and various development banks, while the latter tended to be career politicians who had come up through the ranks of the government party (PRI, or Institutional Revolutionary Party) and generally controlled the more "political" ministries, including Interior (Gubernacion), Labor, Agriculture, and the presidency itself. The role of the technocrats began to grow in the 1970s; Jose Lopez Portillo (1976-82) was the first president to be elected from the Finance Ministry; and with the election of Miguel de la Madrid in 1982 and particularly that of Carlos Salinas de Gortari in 1988 their power within the state bureaucracy was consolidated (Centeno, 1994).

Control of the state by the technocratic elite was undoubtedly a factor, though not the only one, in the rapidity of the process of economic liberalization, particularly after 1986, when Mexico joined GATT. Subsequently the government accelerated the process of trade liberalization, passed a series of laws to reduce restrictions on foreign investment, and privatized the major state-owned companies. The government also succeeded in insulating key policy issues from public debate. This was particularly true of the NAFTA agreement, an issue obviously of major importance to the people of Mexico: "The Mexican government has given NAFTA negotiations the equivalent status of a national security affair, keeping information almost a state secret, preventing any meaningful public debate, maintaining a close vigilance on its opponents, and transmitting only general propaganda messages to the public." (Aguilar Zinser, 1993: 207).

The Salinas government also undertook a series of reforms within the party designed to weaken the traditional "political" sectors opposed to economic restructuring, which were referred to as "dinosaurs," and to strengthen the role of the president. These included a reform of the process of recruitment which would enable individuals to join the party on a regional basis rather than on the basis of membership in one of the constituent organizations of the corporate sectors, which were controlled by the political groups. The National Solidarity Program (PRONASOL), a program to offset some of the costs of restructuring by providing for needs such as drinking water, electric power, schools, or clinics, for poor communities, was designed to bypass the corporate PRI structure (whereby membership in the governing party is based on membership in organizations that in turn are incorporated in the three major sectors - labor, peasant, and popular - of the party) and enable the president to work directly with municipal and community groups.

These changes had limited success, in part because of the extent of penetration of the PRI's political structures into society as whole (which in some cases, for example, enabled it to control the expenditure of PRONASOL funds in particular regions), in part because the government needed the PRI structure for electoral purposes. However, the process of restructuring itself was effective in undermining the traditional support base of the PRI within the labor movement and other popular sectors. Government agencies were merged, downsized and in some cases closed down, resulting in job losses for hundreds of thousands of public employees, an important base of traditional PRI politicians; the restructuring and privatization of state-owned companies, as well as the downsizing and closing down of private firms, also led to job losses and undermined the unions linked to the PRI labor sector; while the amendment to the agrarian reform (1991) and the new agrarian law (1992) undermined bureaucratic control within the ejidal sector. Economic restructuring has also limited the resources available to PRI politicians to respond to demands of constituent sectors.

The control of the technocrats within the state and the insulation of decision-making from popular pressures raises important questions for the process of democratization. The dominant role of technically-trained policy-makers, the insulation of the decision-making process, and the subordination of significant policy decisions to technical criteria to the virtual exclusion of political criteria, have been justified as necessary for economic competition in the global marketplace. However accurate this rationale, it bears a disturbing resemblance to that of the military regime in Chile (and those in other countries as well) that sought to purge society not only of Communism but also of the influence of politics. What was seen as an aberration in the early 1970s has become commonplace today.

Reconfiguration of the Private Sector

Analyses of the impact of economic liberalization on the private sector indicate that the process tends to favor those firms based on liquid assets (banks, insurance, export) or those with assets in productive activities oriented to export. Those in productive activities oriented to the domestic market will be negatively affected by liberalization unless they are internationally competitive (Frieden, 1991; Silva, 1993). At the same time, one of the most basic divisions in the private sector in many countries has been that between large, diversified economic groups, which may shift assets as needed, and small, medium and even some large firms that lack this flexibility (Silva, 1996).

State and Private Sector in Chile

As in other Latin American countries, the Chilean private sector has been dominated by a small number of economic groups, family-owned conglomerates having both productive and financial assets. These groups had input into policy through membership on the boards of the central bank and state banks; they also dominated the sectoral organizations, such as the Society to Promote Manufacturing (SOFOFA) and the National Agricultural Society (SNA) as well as the umbrella Confederation for Production and Commerce (CPC). The interests of small and medium businesses were represented by the Council for Small and Medium Enterprise (Hastings, 1993; Campera, 1995).

Opposition to the Allende government (1970-73) united business groups across sectors to support the military coup. These groups shared with each other and with the military regime a basic distrust of political parties and a belief in the need to protect democracy from its enemies (Campero, 1995: 130). This unity broke down, however, under the radical neoliberal policy that characterized Chile's economy between 1975 and 1982. Its architects, the Chicago boys, were linked to a narrow sector of business groups chiefly concentrated in finance, trade, and export industries (Silva, 1993: 546). Directors of internationally oriented economic groups, such as Cruzat Larrain and BHC, had direct access to policy making, and along with others in these sectors (or, like the Edwards family, able to transfer assets to similar activities) benefitted substantially from rapid liberalization and particularly privatization of nationalized banks. The banks were sold at prices below book value to buyers selected on the basis of "previous business experience, reputation, and social connections," and the government eliminated virtually all restrictions on credit, with the result that banks overlent to their own affiliated business and invested in speculative activities in real estate and construction. In 1979, five groups controlled 53 percent of the capital of the 250 largest enterprises (Silva, 1993: 542-8; Hastings, 1993: 211-220).

Small and medium business groups that had played an important role in events leading to the coup now found themselves economically and politically marginalized by the neoliberal program. Many complained of deindustrialization and the growing gap between the rich and the poor. As expressed by a leader of the truckowners, "if it is true that this system, in the long run, as they say, can be good, there will be very few survivors who will get to witness the success..." (**Hoy**, September 13-19, 1978, cited in Campero, 1995: 134).

The economic crisis of the early 1980s affected the large economic groups as well as small and medium producers. The Ross group, one of the twenty largest groups, declared bankruptcy, and the government was forced to intervene in the newly privatized banks which were caught between huge foreign debts and non-performing domestic loans.

Nevertheless, in contrast to the conditions leading to the military coup, which had unified business groups, the economic crisis of the early 1980s brought different responses from the small and medium business groups represented by the Council on the one hand, and the sectoral groups organized in the CPC on the other. The former issued the declaration of Valdivia, stating "We view with profound alarm the destruction of the entire agricultural and productive apparatus...the liquidation of assets...is generating social chaos in the form of

unemployment for thousands of Chileans (Campero, 1995: 135-6). Firms suspended payment of debts and leaders of the Council planned national demonstration. A meeting was scheduled to which opposition unions were invited in order to call for "a political opening to ensure citizen participation in economic decisions." However, government troops prevented the meeting; continued efforts at mobilization were met by threats of retaliation as well as partial solutions to the problems of debtors, which succeeded in undermining the cohesion of the movement (Campero, 1995).

The CPC, on the other hand, was more circumspect, presumably reflecting the fact that many of the major conglomerates were dependent on the government for survival. The fate of individual members varied: one of the leading international bankers (Jorge Vial, of the Banco de Chile and the BHC) went to jail; in some cases, as that of Cruzat, the banks were taken over but their owners were able to retain other companies of the conglomerate, and in other cases, either because the banks were economically sound or their owners had political connections, there were limited consequences. However, most of the banking system (70 percent) was taken over by the government; the banking sector was restructured; strict regulatory measures were put in place; and the banks were sold to workers and the public, distributing the shares much more broadly than before. Nevertheless, despite the government's success in breaking up the large economic groups, economic power continues to be concentrated in a few groups (Hastings, 1993: 220-226; 1995: 181-182)

While it maintained support for the military regime, the CPC began to take a more active role, formulating an alternative economic program that included the needs of domestic producers as well as continued support for the internationalist sector. Prominent businessmen were given key posts in government ministries; CPC leaders participated in government economic policy discussions, while representatives of sectoral groups negotiated with relevant ministries in policy-making (Silva, 1996A: 308-310).

With the transition to democracy, the cohesiveness of the business alliance and the concern of the new government to ensure that private investment would continue were important factors in securing the maintenance of neoliberal policies within the new government. Although businessmen did not directly participate in the cabinet of the Aylwin government, as they had under the military regime, channels of communication remained open with extensive consultation regarding major policy issues, such as tax and labor policy (Silva, 1996a, 311-313). Business groups acquiesced in the institution of a tax on profits (10 to 15 percent), but resisted significant labor reform, which would have increased job security and the bargaining power of labor (Silva, 1996b: 230-34).

Economic Restructuring, Business Groups, and State-Private Sector Relations in Mexico

As in Chile, by the end of the 1970s, Mexico's dominant economic groups, often controlled by a single family or a small number of investors, incorporated the major banks and financial institutions of the country as well as manufacturing firms, real estate companies, insurance agencies and in some cases mining and other types of enterprises. Many of these groups had become linked with transnational capital through joint investments (which had been encouraged by Mexican legislation in the 1970s requiring 51% domestic ownership) and technological agreements, and many had borrowed heavily on the international market during the 1970s. These groups were traditionally divided between those with close connections with the Mexican state, concentrated in Mexico City, and more independent groups opposed to the economic role of the state, many of them centered in the northern city of Monterrey.

To some extent small and medium firms were also divided on the basis of their relation to the state. Small and middle-sized manufacturing firms emerged during the 1930s and 1940s in response to government promotion of manufacturing, and they grew up under the protection of the state. At the same time, the economic growth that characterized Mexico in the decades following World War II had also led to an increasing differentiation within the private sector and decentralization of economic activity, with an increase in the number of small and medium firms in other cities, and with the introduction of the maquiladora program in the mid-1960s, particularly in the northern border region. Some industries in Mexico city also decentralized, opening branches in

other parts of Mexico, and some of these firms established contacts with U.S. companies to produce commodities (e.g., clothing) under U.S. brands which would then be marketed in the United States. In contrast to the protected business sectors oriented to the domestic market, business owners in other parts of Mexico were interested in a more liberal economic policy; they organized in local business chambers and some also became active in the National Action Party (PAN), the major opposition party (Heredia, 1992).

As in Chile, the private sector is organized in formal sectoral organizations, such as CONCAMIN (Confederation of Chambers of Industry), CONCANACO (National Confederation of Chambers of Commerce), and AMB (Mexican Bankers Association). Small and medium manufacturing firms are represented in CANACINTRA, (the National Chamber of Manufacturing Industries), the most protectionist and pro-interventionist of the formal business organizations, which in turn is a member of the larger industry group CONCAMIN. Independent, anti-statist business groups belong to COPARMEX (Confederation of Mexican Businessowners), a more ideologically oriented organization that has promoted liberal economic policies and took a strong stand against state intervention in the economy. In 1962, the Council of Mexican Businessmen (CMHN) was formed of the leaders of the major economic groups, and in 1975 a peak association, CCE (Business Coordinating Council), was formed, linking the different associations. COPARMEX, CMHN and the CCE were all formed for political reasons: COPARMEX in 1929 in opposition to the new labor code; the CMHN due to concerns with populism of the Lopez Mateos government, and the CCE in opposition to "statist" reforms of the Echeverria government and particularly the government's failure to follow the general practice of consulting with private sector leaders on important legislation (Luna, 1995; Alba Vega, 1997).

Following the economic crisis and the bank nationalization in 1982, the relationship between the Mexican state and private sector underwent substantial changes. The nationalization of the banks had reinforced the growing animosity of substantial groups within the private sector toward state economic intervention which had emerged a decade before in response to the populist and statist initiatives of the Echeverria government in the early 1970s. This animosity took the form of increased political activity, both by COPARMEX and the major opposition party, PAN, which linked opposition to state intervention in the economy with opposition to PRI control of the political process (Maxfield, 1989; Heredia, 1992). Several businessmen ran for office, particularly in the northern and northwestern states such as Chihuahua and Baja California.

As had happened in Chile, however, there were divisions within the private sector between the increasingly active independent groups, who took a radical stance of opposition to state intervention, and those groups linked to and dependent on the state, many of which had been directly affected by the bank nationalization, who wanted to maintain negotiating relations with the government. This division was manifested in the formal business organizations, with CONCANACO and particularly COPARMEX adhering to the more radical position, manufacturers taking a more moderate position, with other organizations, including the Mexican Confederation of Businessmen (CMHN) and the umbrella organization, CCE, somewhere in the middle (Luna, 1995).

In the context of the economic crisis, which was accompanied and reinforced by large-scale capital flight, the de la Madrid government gave priority to healing relations with the private sector and attracting foreign and flight capital into Mexico. This included the reprivatization of one-third of the bank shares and the institution of FICORA, which enabled firms that had become heavily indebted to foreign banks to restructure their loans, as well as the acceleration of economic liberalization, beginning with entry into GATT in 1986, which responded to many of the demands of the more radical business groups. The government also encouraged business groups to become directly active in PRI politics, as others had within PAN, thus reversing a long-term division of labor whereby Mexican business groups, in return for state protection of their interests, had refrained from direct participation in the political process.

The new relationship between the state and the private sector was consolidated with the signing of the Pact of Economic Solidarity in December 1987. Oriented primarily to the control of inflation, the pact was signed by government, business and labor representatives. However, labor, which in many respects bore the costs of economic liberalization, was a minor partner: as expressed by Agustin Legorretta, head of one of Mexico's major

economic groups and at that time president of the CCE (Business Coordinating Council), the peak business organization, the accord was agreed upon by "the president...with a very comfortable little group of 300 people who make the economically important decisions of Mexico (Unomasuno, May 19, 1988, cited in Valdes, 1994: 230).

These efforts were furthered by Salinas in the context of the obviously weakening of PRI's traditional support base, as manifested in the 1988 elections. The strong showing of Cardenas in 1988 also made business groups more willing to work with state tecnicos. Efforts to reconstruct the PRI's support base included various measures designed to coopt independent labor and peasant organizations as well as other social movements and to neutralize the PRD, a new center-left party formed by Cardenas and his supporters, on the one hand, and, on the other, continued overtures to the private sector as well as to PAN, including negotiation of disputed elections⁴ and legislative alliances to pass certain political reform measures.

The Salinas government was particularly oriented to those groups linked to finance and trade, which could be subdivided between those close to the state, and specifically the Salinas administration, and those linked to COPARMEX and the PAN, that were more distant. While the former group was primarily interested in ensuring its participation in economic policy-making, the latter's interest were both political and economic, concerned less with rapprochement with the government than gaining widespread support for eventually replacing the PRI in power (Alba Vega, 1997: 151). However, several reforms enacted by the Salinas administration, including changes in agrarian reform and the rapprochement with the Church, responded to some of the concerns of this group (Luna, 1995).

The economic crisis of the early 1980s and the process of economic liberalization from the mid-1980s resulted in a substantial reconfiguration of the private sector. First, there was an intensification of Mexico's international economic integration, particularly with the United States, a process that was institutionalized with the NAFTA agreement but was already well underway prior to the crisis. Joint investments as well as other forms of cooperation between foreign corporations and the Mexican private sector (marketing, arrangements, franchises, technology agreements) expanded and, by the mid-1990s, encompassed virtually every sector of the economy: agriculture⁵, manufacturing,⁶ commercial ventures,⁷ construction,⁸ and banking and finance.⁹ These links were further evident in the rapid growth of trade, with exports increasing to \$96 billion in 1996 and imports to \$89.5 billion, a substantial amount of which consisted of intra-industry and in many cases intra-firm trade.

Second, within the domestic private sector there has been a growing division between firms oriented to export or internationally competitive, on the one hand, and those oriented to the domestic market and unable to make the transition to foreign markets, on the other. Among the former, automobile industry and the maquiladora sector have been particularly important. The automobile industry is dominated by foreign corporations; but because of prior performance requirements it had also developed subcontracting arrangements with a number of domestic suppliers to provide parts. The input requirements were increasingly sophisticated, leading to a substantial program of technical training provided by the relevant multinationals as well as new technology imports. Exports of both automobiles and automobile parts grew exponentially during the 1980. The maquiladoras also became a major source of exports as well as jobs; the number of maquiladoras increased from 600 in 1983 to over 2,200 in 1995, while employment increased from 198 thousand to nearly 700 thousand (Adams, 1997).

As noted above, large firms, and particularly economic groups, were able to reorient their production toward export. This was facilitated by their ties with foreign capital and their ability to secure investment funds, technology, and markets through these contacts. Several were able to expand their own investments to the United States and other countries in Europe and Latin America.

In contrast, hundreds of firms producing furniture, textiles, shoes and toys for the domestic market closed down as a result of cheaper imports and, in some cases, dumping. Imports of manufactured products increased from 14.5 percent of the total in 1983 to 34 percent in 1991 (El Financiero, International edition, Feb. 1 1993; August 10, 1993; GEA Economics, 1993: 4). Since many of these firms were centered in Mexico City and

other large cities, this has been an added factor, along with the growth of the maquila sector and other industries along the border and in smaller cities, in the decentralization of industry. Some firms survived, but shifted from manufacturing to importing, resulting in a drop in employment (Hellman, 1994).

Third, economic liberalization has resulted in a restructuring of the dominant economic groups which has been a further factor in strengthening their economic power, tying them more closely to foreign capital, and increasing networks among them. This restructuring began with the nationalization of the banks in 1982, which were central institutions in many of these groups, in some cases holding companies for their other firms. The government of Miguel de la Madrid reprivatized one third of the bank assets as well as non-bank financial companies, such as brokerages and insurance agencies. These private intermediaries grew rapidly at the expense of the state-owned banks and in time became creditors to the government (Garrido and Puga, 1992: 144-5; Maxfield, 1989: 224-5). Many of the economic groups also benefitted from the loan program, FICORA, instituted by the government. Two of the large economic groups of Monterrey, Alfa and Visa, had debts of \$2.7 billion and \$3.2 billion respectively, and some of their firms were facing bankruptcy (King, 1992; Pozas, 1993: 14).

The government's liberalization policies in fact favored the large economic groups, as was evident in the privatization of the large state-owned companies such as the major banks, Telmex, Cananea Mining Company and Azteca television. The rationale was that successful participation in the global economy would require large, powerful economic groups in order to compete effectively (Maxfield, 1993). The privatization of the firms was carried out through the offer of large blocks of shares with controlling interest in the relevant firm. Given the size of these blocks, only the wealthiest families and groups could participate in the bidding; in many cases their purchase required alliances between groups and with foreign firms to raise sufficient capital. Shares in Telmex (Telefonos de Mexico) for example, were bought by the Grupo Carso of Carlos Slim, France Cable and Radio, and Southwestern Bell, at \$1.8 billion (LARR, 1/17/91). Several of the reprivatized banks, including the three largest banks, went to buyers linked to the new financial intermediaries (such as Roberto Hernandez of Inverlat, who bought the Banco Nacional de Mexico) or to economic groups, such as Adrian Sada of the Vitro group and former owner of Banpais, who bought Serfin; and Eugenio Garza Laguera (VISA), former owner of Serfin, who now controls Bancomer.

The increase in economic power of these groups was demonstrated by the growth in the number of billionaires in Mexico during the early 1990s, from 2 or 3 at the beginning of the decade to 24 in 1994. Although this number was reduced as a result of the economic crisis, the latest report by **Forbes** still lists fifteen among this group, most of them beneficiaries of the privatization process (**Forbes**, July 15, 1996).

Restructuring also increased networks among different economic groups throughout Mexico, and of these with foreign companies, through cross group investing (as in the purchase of state-owned assets), membership on different boards of directors, and in some cases investment by Mexican groups or firms in foreign companies (Salas Porras and Vidal Bonifaz, 1993).

The net result of economic liberalization has been an increase in the complexity and diversity of the private sector on the one hand, and increased polarization, characterized by the concentration of assets in the reconfigured economic groups, on the other. The changes in the economic groups, in the context of their increased economic power, have several implications for the balance of political power in society. First, the linking of these groups through an increasing number of networks, including cross-group investing, membership on different boards of directors, and inter-group alliances to buy controlling interest in privatized industries and reprivatized banks, suggests an increased level of cooperation and coordination among these groups (Pozas, 1993). This enhances the ability of economic groups to achieve a coherence in economic policy, and to use economic power for policy ends.

Second, joint ventures and other types of alliances with transnational corporations as well as increased investment of some of the major groups abroad further enhances their access to international resources and reduces their dependence on domestic resources. This increases their independence and thus their ability to resist the influence of the state and other domestic actors. (Evans, 1994: 208, 231).

The increased cohesion and effectiveness of the large groups was evident in their participation in the NAFTA negotiation. In 1990 COECE (Coordinator of Business Organizations of Foreign Trade) was formed with the idea of presenting a unified position of the private sector in its meetings with the government on issues dealing with trade. Although it incorporated all of the major business organizations, it was led by those groups linked to foreign trade (particularly export) and finance, which, by virtue of their economic power and cross-sectoral interests, were also prominent within the CCE. COECE took an active role in the negotiations of NAFTA, but while technically all of the business sectors could be involved, the large groups (which would benefit from NAFTA) tended to be over-represented (in part because of multiple membership in different business organizations), while the small and medium businesses were underrepresented and in any event lacked the time and resources to participate effectively (Alba Vega, 1997).

Thus while the majority of Mexicans had little opportunity to participate in debates around NAFTA, the large business groups, particularly those in finance and trade, were intensely involved in the negotiations. Business representatives did make efforts to represent all business interests, and the business sector manifested a high degree of cohesiveness. Nevertheless, many small businesses that did not share the enthusiasm for liberalization felt that their interests were not taken into account.

The restructuring of the private sector has been mirrored in its representative organizations. While the moderate "technocratic liberals," (such as CONCAMIN and the CMHN), and the "conservative liberals" (including COPARMEX and CONCANACO) are in agreement regarding the basic policy of economic liberalization, with the more protectionist CANACINTRA increasingly marginalized, another division has re-emerged based on size and to some extent political affiliation. The large business groups supported the PRI in both 1988 and 1994, as evident in large donations they made to the PRI campaigns,¹⁰ while the more decentralized groups tend to support the PAN.

And despite their ideological differences, alliances have been formed between the latter and manufacturing groups in CANACINTRA, based on common concern regarding the economic control exercised by the large conglomerates and the banks. In 1994 these organizations joined forces to draw up a proposal for the Zedillo administration (1994-2000) requiring further deregulation on the one hand, and extensive intervention to assist the modernization of small and medium plants on the other, as well as a more inclusive role for small and medium businesses in policy-making commissions (Luna 1995). More recently PAN has proposed reforms combining its customary demands, including a decrease in government bureaucracy, tax reduction and decentralization of tax collection, with proposals to re-examine the privatization process and calling for greater flexibility in the implementation of liberalization, including revision of foreign debt repayments (EFI, March 3-9, 1997).

Conclusion: Political Reconfigurations and Democratic Transitions

The above analyses suggests that despite significant differences between them, political reconfigurations in both Chile and Mexico present problems for democratic participation. These has been an apparent increase in the cohesiveness of the most powerful economic groups, evident, for example, in the role of the CPC in Chile and cross-group investing in Mexico. At the same time, these groups have become increasingly internationalized through such means as joint investments with foreign corporations and marketing arrangements as well as their own investments abroad.

This increase in cohesiveness and international integration obviously strengthens these groups relative to other groups in society, including, in some cases, small and medium business groups. Their enhanced access to foreign capital and markets reduces their dependence on domestic resources and the ability of other domestic actors to influence them (Evans, 1994: 208, 231).

Within the state restructuring has favored and reinforced the influence of technical bureaucracies and foreign trained technocrats at the expense of agencies oriented to popular sectors and more politically-oriented state bureaucrats, a process that has been described as "a battle of `the state against the state'" in that public

bureaucracies are weakened, but the implication is not necessarily a weakened state but a stronger executive (Schamis, 1995: 174). In other countries, such as Argentina and Peru, the battle of the state against the state has taken the form of a strong executive ruling by decree to bypass congress, or dissolving congress altogether.

Efforts to insulate decision-making from political pressures has only been partial, however. While popular sectors and many business groups have been excluded, large economic groups benefitted from direct incorporation in advisory and consulting commissions as well as informal ties with specific agencies and political leaders. During the military regime in Chile, the economic groups and their advisors held key posts in government. The influence of these groups has been less direct in the succeeding administrations of Aylwin and Frei, but they have input in all major economic decisions and the government depends on their continued support to the economy.

In Mexico, entrepreneurs have begun to participate in electoral politics at all levels, but the most important alliance is the informal links of the top economic groups with key ministers and the president himself, and well as through their support for the PRI. Despite differences between the two countries, as well as sectoral and other divisions within the respective business groups and between these and the technocrats within the state, the basic configuration in each country to be one of increasing cooperation between technical and internationalized sectors of the state and private sector which can only strengthen these groups relative to the rest of society.

At the same time, small and medium business groups are split between those benefitting from economic restructuring and those, chiefly domestic market producers, whose situation is often, at best, unstable. Economic crisis has had the effect of driving some of these groups into militant anti-government activity, evident in the role of the Council of Small and Medium Business in Chile during the early 1980s and the activities of Barzon in Mexico a decade later. In both cases, the state has responded with partial gestures (e.g., debt restructuring) which had the effect if not the intent of weakening the cohesion of these groups.

The processes of economic restructuring, as well as deliberate efforts of the state and the private sector, have also resulted in the weakening of organized labor, the sector that has traditionally constituted the most important counterpart to the power of business groups in liberal democracies. This has been part of a worldwide process of "flexibilization" of labor through downsizing; shifts to a part-time and/or temporary work force; the introduction of greater management control over hiring, firing and promoting workers; and attempts to introduce changes in hours and job security as well as eliminate industry-wide negotiations in favor of firm (and in some cases, individual) negotiations.¹¹

In Chile under the military regime, labor unions were prohibited, strikes outlawed, and labor leaders and militants persecuted. A new labor law was promulgated in 1979 permitting unions at the firm level but not at the industry or national level, although national level labor organizations formed despite prohibitions against them. Union membership dropped from 40 percent of the labor force during the Allende government to 9 percent by 1981, (Oppenheim, 1993: 126, 156-7). Conditions improved slightly with the restoration of democracy. Wages were increased and efforts were made to modify the labor code to enable wages to reflect productivity and permit industry-wide contracts, among other provisions; however, these reforms have been resisted by the private sector (Silva, 1996: 233-234).

In Mexico, neither the independent unions nor the corporate labor leaders have been able to mount an effective defense against the offensive by the state and private sector. Where independent unions have attempted to resist changes they have been defeated and in some cases virtually destroyed. Several automobile firms have shifted production to new sites in the north; when confronted with labor militance by independent unions they have fired the entire workforce, selectively rehiring workers and instituting new labor contracts that significantly curtail the influence of the union. Frequently employers can count on the support of state labor authorities and the corporate labor sector in these efforts. The corporate labor leaders of the PRI in turn are themselves in a difficult position; their control over the rank and file rests in large part on their ability to obtain concessions from the state; with the state less able to grant concessions or even maintain existing benefits they have little to offer their members. (Middlebrook, 1995: 277-286, 293-

Wages fell precipitously during the period of the crisis and restructuring: the real minimum wage in 1993 was less than 40 percent of its 1982 value. Four hundred thousand jobs were lost in the state sector between 1982 and 1993; many more were lost during this period with the downsizing of private firms and bankruptcy of numerous domestic market firms. The peso crisis of 1994-95 resulted in an estimated loss of one million jobs, although some have been recovered since then.

In summary, the process of economic restructuring has not only resulted in the strengthening and cohesion of the more powerful internationally oriented groups in Chile and Mexico, it has also considerably weakened what has traditionally been the major organized representative of less advantaged groups in liberal democracies. If the consolidation of a stable participatory democracy requires a balance of power among different social groups, then democratic prospects for the two countries appear to have been undermined.

However, it is important to keep in mind that this is only part of the story. First, institutions do matter, as the different political outcomes in Mexico and Chile indicate. Second, while the traditional labor sector has been weakened, other political actors have emerged or regrouped in the form of women's movements, indigenous groups, tenant organizations, environmental movements, civic action groups and other social movements and grassroots organizations that have challenged existing structures from a range of perspectives. In some cases labor organization have regrouped around a broader focus incorporating issues such as environmental concerns (e.g., along the U.S.-Mexico border) or child care for working mothers. In Mexico, guerrilla movements have taken up many of the grievances of groups that have been marginalized by change.

Ameliorative programs directed to the poorest sectors of society (such as FOSIS in Chile and PRONASOL in Mexico) as well as efforts to divide and coopt specific movements have been only partially successful in neutralizing the targeted groups and movements. The actions of these groups, and their ability to forge national and cross-national alliances and coalitions, will have important implications for the types of political structures that will ultimately emerge at the national and international as well as subnational levels.

Notes

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1. While Chile and Mexico are similar in some respects they are sufficiently distinct in terms of their recent historical trajectories, political institutions, and international relations to warrant a comparative approach based on method of agreement across dissimilar cases.

2. Foxley, Minister of Finance, had been trained at the University of Wisconsin; other members of his ministry had degrees from Boston, Columbia, Harvard, Michigan and Yale. The Minister of Economic Affairs had been at the Universite de Paris, and the President of the Banco de Estado (the central bank) at the University of Chicago (Silva, 1994).

3. Linkage has been identified as one of three forms through which external influences affect domestic actors. The other two are market and leverage (Stallings, 1992: 52-55).

4. Elections in which both PAN and PRI claimed victory were "negotiated" generally resulting in a compromise in which an interim official was selected for the position. The government also recognized PAN victories in several gubernatorial elections, which had not occurred since the founding of the government party in the late 1920s. In contrast, the government only rarely negotiated with the PRD or recognized its claims to electoral victory.

5. Mexican growers were already contracting with US agribusiness firms to sell produce in US supermarkets.

6. Mexican manufacturers needed capital and more advanced technology due to debts and the need to upgrade, while foreign corporations seeking to rationalize production, in some cases on the basis of cheaper labor in Mexico. Several Mexican and U.S. companies have entered joint marketing ventures; e.g., Modelo brewery distributes Budweiser in Mexico; Busch distributes Corona in the United States.

7. Several US discount houses, including Walmart, K-Mart, Flemming Foods (Salt Lake City) and Price Club, have joined forces with some of the largest Mexican economic groups and retail firms (Grupo Cifra, Puerto de Liverpool, Gigante, Commercial Mexicana, respectively) to open new ventures. (Aspin, 1993; Uchitelle, 1993). Fast food restaurants (MacDonald's, Kentucky Fried Chicken, Burger King, Domino Pizza) and convenience stores such as 7-11 (Dallas), Diamond Shamrock (San Antonio) and Circle K (Phoenix), have opened subsidiaries in Mexico.

8. Fluor company, WMAX Technologies, and Betchel have formed joint companies with Mexican engineering and construction firms (e.g., an agreement between Fluor and ICA, a Mexican firm, to construct petrochemical plants).

9.This was facilitated by a series of legislative measures beginning in 1990 to permit foreign investment in banks, previously off limits to foreigners (Maxfield, 1993). Foreign investment in banking increased following the 1994 peso devaluation which left many of the domestic banks strapped for cash, with high levels of non-performing loans.

10.In 1993 Salinas met with the leaders of the major economic groups and solicited campaign donations of \$25 million each for the upcoming PRI presidential campaign.

11.Recently efforts to introduce legislation curtailing labor rights have led to massive demonstrations and strikes in Argentina and South Korea. In part because in both cases the government has used or threatened extra-constitutional means to pass the new laws, labor has obtained substantial middle class support (See **Latin American Regional Report-Southern Cone**, various issues, and the **Los Angeles Times**, various issues).