Privatization and Bureaucratic Transformation in Mexico: The Strategy and Structure of a Neo-Liberal Revolution*

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* This paper draws upon dissertation research conducted with the generous financial support of a Fulbright-García Robles grant, the facilities of the Department of Social Sciences at the Universidad Iberoamericana in Mexico City and a pre-dissertation travel grant from the Department of Sociology at The Johns Hopkins University. Although the names of sources are not used here, this paper could not have been written without their assistance. Sara Schatz provided comments that helped to focus some muddled thinking. I am especially grateful to Toño whose enthusiasm and encouragement helped revive my spirits just as they were flagging. Errors and omissions remain entirely my responsibility.

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Abstract

This paper uses key-informant interviews to understand how the Mexican state privatized almost 1,000 public firms between 1982 and 1994. I argue that the growth of the "parastate" sector in Mexico between 1930 and 1982 had a paradoxical effect upon Mexico's highly centralized political system. While the growing number of firms placed more patronage at the disposal of the executive, this growth outstripped the capacity of the president effectively to administer these firms. When the strategy of state-led development was abandoned in the wake of the 1982 economic crisis, privatization became a key component of the new, neo-liberal strategy of development. Privatization, however, would require the centralization of power that had eluded the executive for more than thirty years. I examine the bureaucratic underpinnings of privatization and the characteristics of firms privatized in the three presidencies since 1982. Between 1982 and 1994, power was steadily centralized within the Ministry of Treasury while privatizations since 1994 have been characterized by bureaucratic decentralization. Privatizations between 1982 and 1988 consisted primarily of small firms in peripheral sectors of the economy while the firms privatized since 1988 have been large and have required complex restructuring.

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Structural analyses of private corporations have long recognized a relationship between the size of an organization and the capacity to control and direct the activities of the organization. Chandler's ground-breaking study of the rise of the multidivisional firm explores the relationship between the goals and actions directed toward achieving those goals -- a corporation's "strategy" -- and "the design of organization through which the enterprise is administered" -- its' "structure" (1966: 16). Chandler concludes that in the development of large, private corporations strategy determined structure: "different types of expansion brought different administrative needs requiring different administrative organizations" (1966: 60).

Surprisingly few studies, however, have sought to extend Chandler's observations regarding the private corporation to the organizational structures of states. Recent work in economic sociology explicitly rejects the question of "how much" state intervention in the economy in favor of qualitative analysis of bureaucratic structures and state-society ties (Block 1994: 696; Evans 1995: 10). Yet, Chandler's model suggests a link between the quality and quantity of organizational structure. Much like the rise of the multidivisional firm, import-substituting industrialization pursued in the developing world following the 1930s marked a qualitatively different strategy of development which was characterized by a wide range of organizational innovations including the growth of the public sector. Similarly, current trends toward privatization and the creation of "lean" states all point to the adoption of a new strategy of economic development which has required further structural innovation.

In this paper I examine the demise of Mexico's public sector as part of the changing strategy and structure of Mexican development. Parastate firms -- firms in which the state is a majority shareholder, special funds and wholly-owned "decentralized organisms" -- were an essential component of Mexico's development strategy from the 1930s through the 1970s. Industrialization through import-substitution depended upon the creation of a wide variety of public firms especially for the production of inputs that the private sector was either unable or unwilling to provide. The economic crisis of 1982 forced Mexican officials to reconsider the strategy of state-led development and, consequently, to restructure the parastate sector.

In the following pages I provide a brief overview of the growth of Mexico's parastate sector. I then examine in detail the process of privatization from 1982 to the present. I argue that the extent of Mexican "centralism" prior to 1982 has been exaggerated because analysts generally failed to consider the ways in which the growth of the parastate sector undermined the capacity of the executive to control the resources at his disposal. By the early 1980s, parastate firms had become personal fiefdoms over which lower-level bureaucrats exercised considerable personal discretion. Operational control over parastate firms provided these bureaucrats a resource base that was relatively independent of the executive.

The diffusion of power within the public bureaucracy can be seen most clearly at the beginning of 1980s when economic crisis led President Miguel de la Madrid -- 1982-1988 -- to adopt a policy of privatization. The new strategy required the creation of a new organizational structure to implement reforms and undercut the power of officials within the parastate bureaucracy. This process culminated under president Salinas -- 1988-1994 -- with the centralization of power in the Unit for the Divestiture of Parastate Entities (UDEP) in 1990. While the strategy of economic development remains largely unchanged under President Zedillo -- 1994-2000 -- the types of assets being sold during the most recent round of privatizations have required the creation of yet another set of bureaucratic mechanisms.

METHODOLOGICAL NOTE

Evans argues that serious analysis of the state requires a synthesis of different types of evidence. Journalistic sources, secondary accounts, government documents and statistical data are all necessary for arriving at an approximation of the operation of the state. However, Evans places special emphasis upon "key informant interviews" for understanding the state.

> On the ground, 'state structures' and 'state-society relations' become relations among state agencies and organizations, relations between these agencies and individual firms, historical patterns of ties among individuals -- all things that can only be appreciated by talking to individual state managers and private executives. [1995: 19]

Similarly, Schoenberger argues that the key informant interview is "more sensitive than other survey methods to historical, institutional, and strategic complexity ... [and] is particularly appropriate in periods of economic and social change that challenge traditional analytical categories and theoretical principals" (1991: 180).

Indeed, key informant interviews are the *only* means of answering certain kinds of questions. Although states generally leave a fairly wide paper trail -- laws, regulations, guidelines, studies, memos, reports, analyses -- these data often provide an idealized version of how the mechanisms of the state actually operate. The official record provides a similarly idealized explanation of the reasons why laws and regulations are drafted in the first place. Only by speaking to participants in the process is it possible to understand the motivations that guide the drafting of particular pieces of legislation and the actual operation of the bureaucracy once specific legislation is in place.

Between 1995 and 1998 I conducted 71 open-ended interviews in Mexico City and Washington D.C. with 60 different informants. The bulk of the interviews were conducted during an extended stay in Mexico City during 1997. Interviews with government officials represent the largest group of interviews -- 31 interviews with 24 informants -- followed closely by interviews with representatives of private-sector enterprises that had bought public firms -- 22 interviews with 23 informants. Interviews with labor leaders of unions in privatized firms, representatives of trade associations and miscellaneous interviews with journalists, academics and researchers for trade associations round out the sample (See Appendix A).

Informants were selected on the basis of their proximity to the privatization process. Unlike survey data that depend upon randomization and standardization to reduce error, neither of these characteristics is necessarily a virtue in collecting qualitative data. Information is generally held by specific, easily identifiable informants. The focus of the interview will vary depending upon the location of the informant within a given social structure. However, while the ideal sources of information may be readily identified, gaining access to these sources and establishing their credibility can be somewhat more tricky. There is no guarantee that informants will make themselves available to the prying researcher; nor is there any reason why informants should be expected to provide the researcher with accurate information.

I was fortunate enough to be able to interview informants directly involved in the privatization process at the Ministerial and Sub-Ministerial levels as well as lower rank officials including General and Area Directors. In order to gain the confidence of informants I offered anonymity. Follow-up interviews were especially useful for clarifying complex issues and also allowed for a greater level of familiarity and the development of trust between myself and the informants. An interval of time in between interviews also made it possible to verify or challenge information using independent sources such as the official record or another informant.

This paper is based primarily upon a series of interviews conducted in October and November of 1997. Twenty two of the interviews with officials in the Ministries of Treasury and Communications and Transportation were conducted during these two months. The clustering of interviews reflects a growing trust between myself and the informants -- informants began setting up interviews for me either by calling another official and telling them of my interest in speaking with them or, more directly, by walking me to the office of another official and introducing us. Interviews also became less formal during this period of time and began to include breakfast and lunch meetings as well as visits to the houses of informants.[1]

The researcher needs to be especially cautious that information is not being provided as a device

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[1] It is important that the researcher be vigilant and avoid letting personal relations with informants color the interpretation of events. At the same time, the cold impersonality of social scientific inquiry can be inappropriate -- indeed, offensive -- in interactions with human subjects. While rank, status and circumstance may establish an "appropriate" social distance between the researcher and some informants, other informants take a more active interest in the research, posing questions, making suggestions and raising concerns of their own. In the course of the research these informants become as much collaborators as sources of information.

for promoting a particular point of view or interpretation of events. The best protection against this is to compile a wide enough range of interviews and secondary data that tendentious interpretations may be spotted at the outset. I also found it useful to take a proactive approach in the interview. By openly challenging interpretations and confronting subjects with contradictory interpretations gleaned from other informants or the official record the researcher may gain a measure of respect and achieve a greater level of openness from the informant.

THE RISE OF THE PARASTATE SECTOR: AN OVERVIEW

The Scale and Scope of Public Ownership

Aggregate data on the growth of Mexico's public sector are contradictory. The very definition of what to include in the parastate sector was never firmly established until the 1986 Federal Law of Parastate Entities. At that time decentralized organisms, special funds known as *fideicomisos*, and firms in which the state held a majority of the stock were all included in the parastate sector while "deconcentrated organisms" and firms in which the state was a minority shareholder were excluded from the sector (Rogozinski 1997: 109).[2] Studies of the growth of the parastate sector, then, rely upon changing definitions of what constitutes a parastate firm prior to 1986 and tend to contradict one another regarding the composition of the sector.

Most studies, however, agree on two points. First, there was a rapid increase in the rate of growth of the parastate sector beginning in 1970 with the Echeverría administration. Second, despite some contradictory data, most studies settle on 1,155 firms in 1982 as the zenith of the parastate sector (Aspe 1993: 156; Bailey 1988: 67; Rogozinski 1997: 111; Teichman 1995: 29). Figure 1 shows the growth of the

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[2] Decentralized organisms cannot be created without the approval of congress but operate with a degree of autonomy because they are governed by a board of directors and sometimes generate their own resources. Deconcentrated organisms may be established by presidential decree, do not have either a board of directors or their own resources and, thus, are more directly controlled by line Ministries (Interviews, Mexico City, October, November, 1997; See also Bailey 1988: 83). Virtually every study of the parastate sector during the 1980s includes minority-owned firms in its count despite the official definition that excludes them.

parastate sector according to a study by Banamex. Consistent with data of Casar and Peres (1988: Appendix 1), it shows greater growth of the parastate sector between 1930 and 1970 making the increase in the rate of growth in the 1970s pronounced, but less dramatic than other estimates (See Figure 2).[3]

Figures 1 and 2 about here

Nationalizations of large, foreign companies under President Cárdenas -- railroads in 1937 and petroleum in 1938 -- were clearly the most dramatic examples of the state's willingness to enter directly into the process of production. Revolutionary rhetoric directed against foreign domination of the economy often served to hold together alliances of labor and capital around the joint project of modernization and economic development (Torres 1984: 21). But the expropriation of private capital was rare and the growth of the parastate sector was generally more mundane. Indeed, despite the opposition of multinational firms and their home governments, the development of the parastate sector generally served to support rather than oppose capitalist development.

Thus, despite the more limited role for the state envisioned by Cárdenas' successors, the state continued to extend its presence in the process of production during the 1940s by investing in backward linkages in the chain of production. In 1942 the government created a national steel company and in 1943 founded a fertilizer company to support agricultural development. During this period the state also began entering into joint projects with the private sector. In 1952 the state invested in a company to build rail cars and formed another company to build diesel motors and automotive parts. The state also entered into the

[3] Teichman's (1995: 29) figures show the most discontinuity between the pre-1970 period and post-1970 period indicating only 132 parastate firms in 1970. Aspe (1994: 156) and Rogozinski (1993: 34) appear to use the same source which places the number of parastate firms in 1970 at 272. Casar and Peres (1988: Appendix 1) list 159 firms in existence by 1970 out of their sample of 441 firms for which they have the date that firms were incorporated into the parastate sector.

production of newspaper and textile machinery during this period.[4]

During the 1960s the state continued to elaborate upon its role in providing inputs to the manufacturing sector. Although the Federal Electricity Commission was created in 1937, regional Light and Power Companies for Pachuca, Toluca and Mexico City were created in 1963. The state also began to use parastate firms to support the provision of essential services in transportation during this period. Airports and Auxiliary Services was created in 1965; ship-building and repair companies for the Gulf and Pacific coasts were established in 1961 and 1965 respectively, and; cable-laying companies to support the growth of telecommunications infrastructure were founded in the mid-1960s. The state also began incorporating sugar mills into the parastate sector during this decade -- a process it would complete by the end of the 1970s. The state entered into the retail distribution of basic goods with the creation of the National Company of Basic Products in 1961.

The changing priorities of the state are reflected in the percentage of federal public investment directed toward different sectors of the economy. While communications, transportation and agriculture account for more than 70 percent of federal public investment in 1946, by the late 1970s less than 40 percent of public investment is directed into these areas. Public investment in industrial promotion, in contrast, rises from 15 percent of all federal investment to almost 50 percent over the same period (See Table 1). Intermediate goods account for the bulk of the production of Mexico's parastate sector throughout the period. However, in the 1970s consumer goods began to make up a growing percentage of these firms' output (See Table 2).

Tables 1 and 2 about here

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[4] The only source that provides the year in which parastate firms were established is Casar and Peres (1988: Appendix 1). All dates in this discussion are taken from that source.

Mechanisms for Control of Public Firms

One of the most enduring propositions regarding the Mexican political system is that the president enjoys virtually absolute powers for the duration of his *sexenio* (six-year term). The president is said to dominate the Revolutionary Institutional Party (PRI), the military, the public bureaucracy and, by extension, to command state and local organizations connected to the PRI, government relations with the media, business leaders and foreign powers (Bailey 1988: 36; Camp 1996: 156; Cornelius *et al*. 1989: 8; Garrido 1989: 421-423). This assessment of presidential power is generally based upon the lines of authority; the powers of appointment -- especially of a successor; an absence of real checks and balances from the legislature or the courts; and the simple fact that, historically, presidents have wielded exceptional power during their terms in office.

The growth of the parastate sector has generally been seen as enhancing the power of the president. As the number of public firms increased, so did the patronage available for the president to dispense in the form of contracts, jobs and public works (Centeno 1994: 82). However, the increased *amount* of patronage at the president's disposal did not translate automatically into increased capacity to wield that power. While the strategy of state-led development led to the growth of the public sector, the increasingly cumbersome structure of the parastate sector required new strategies for bringing these firms under the control of the executive. Strategy determined structure; but once in place, the structure required the creation of new strategies for controlling the existing structure.

Attempts to bring the parastate sector under the control of the presidency had been underway since at least 1947 with the publication of the Law to Control Decentralized Organisms and Firms with State Participation (Casas Guzmán 1994: 35, 36). These efforts continued throughout the next 30 years. Parastate firms were shuffled between different ministries, and line ministries themselves were reorganized and renamed in an attempt to coordinate the activities of parastate firms. In 1949, the Ministry of Treasury (SHCP) managed to bring financial institutions under its direct control through the National Banking

Commission and the National Commission on Insurance and Finance. The Ministry of National Goods and Administrative Inspection obtained control over the Mexican National Railroad and the Federal Electric Commission in 1949 and 1951, respectively (Ruiz Dueñas 1988: 119).

In 1965, twenty of the most important parastate entities were incorporated into the federal budget in an attempt to gain greater control over the income and spending of parastate firms (Ruiz Dueñas 1988: 118, 119). In 1965 and again in 1970 new versions of the 1947 Law to Control Decentralized Organisms were passed (Casas Guzmán 1994: 36). In 1967, Planning Units were established throughout the parastate sector and federal government and a Coordinating Commission was created in an attempt to establish greater coordination within the so-called "triangle of efficiency" -- the Ministries of Presidency, Treasury and National Patrimony (Ruiz Dueñas 1988: 120).

The organization of the parastate sector was especially problematic because the political and economic roles that the firms fulfilled required distinct mechanisms of control. To maximize their potential as sources of political patronage, parastate firms needed to come under the direct and absolute control of the executive. As instruments of economic development, however, parastate firms would require some measure of autonomy in their day-to-day operations. During the 1970s a balance was struck between these competing goals. Beginning in 1975, executive decrees granted parastate firms greater *administrative* autonomy through the creation of Committees for the Promotion of State Socio-Economic Development (Ruiz Dueñas 1988: 120). Parastate firms were also "sectorized" during this period: placed under the control of the line ministry in whose sector the firm operated. For example, state-owned hotels were placed under the control of the Ministry of Tourism; railroads under the Ministry of Communications and Transportation.

At the same time that administrative control over parastate firms was decentralized, central control over the *finances* of parastate firms was tightened. Prior to 1976, each ministry received its share of the budget and spent it without any regard for the larger developmental plans of the executive (Centeno 1994:

85). A series of administrative reforms in 1976 began to bring the finances of individual ministries -- and, by extension, parastate firms -- under the control of the president by exercising greater control over budgets. Under the new system, line ministries would develop their own budgets based upon their evaluation of the needs of the sector. The budgets of all the line ministers would then be aggregated and passed to the SHCP which would determine how much of the federal budget would be allocated to each ministry. Once these decisions had been made, the budget was disaggregated and passed back to the line ministries which would allocate resources within their sector to match the requirements of the SHCP's budget (Interviews, Mexico City, November, 1997). The Inter-Secretarial Committee on Spending and Finance served to monitor and coordinate the activities of each ministry while the Organic Law of Public Administration and the Law of Budgeting, Accountability and Public Expenditures further strengthened the hand of the executive over the finances of the bureaucracy (Centeno 1994: 86, 87).

Centeno argues that "The administrative reforms of 1976 and the accompanying [national development] plans allowed an elite to centralize control over policy making and the general agenda of the government while apparently attempting to decentralize the bureaucracy" (1994: 87). However, this process had not concluded. Line ministers and executives of parastate firms retained a resource base by virtue of their power to execute the decisions involved in the operation of parastate firms and their control over basic information on the firms. While presidents De la Madrid and Salinas would continue to argue for the need to decentralize the state bureaucracy, the process of privatization would require that they centralize power still further.

SELLING THE STATE

"One cannot privatize oneself," insisted a high-level official who had participated in the privatization program under the Salinas administration and continued to work on privatization within the Ministry of Communications and Transportation under the Zedillo administration. The official emphasized the importance of being close to the action. However, he also pointed to the need to remain operationally separate from the entity that is being privatized (Interview, Mexico City, November, 1997).

In fact, the Mexican state *did* privatize itself, and rather successfully. Between 1982 and 1994 the number of parastate firms fell from 1,155 to barely 200 with revenues from privatizations during this period exceeding U.S. $25 billion (See Figures 3 and 4). In order for the state to privatize itself, however, it first had to transform the public bureaucracy. Presidential power over the bureaucracy appeared secure as long as the president did not threaten the core interests of lower-level public officials within the bureaucracy. When it became clear during the De la Madrid administration that the source of political power and patronage -- the parastate firm -- might actually be taken away, officials within the bureaucracy quickly developed mechanisms for resisting privatization. Thus, Mexico's new development strategy would require the creation of new structures for implementing these policies.

Figures 3 and 4 about here

This process occurred in three connected but analytically distinct phases roughly corresponding to the De la Madrid, Salinas and Zedillo *sexenios*. These three phases can be distinguished from each other by the mechanisms that were used to privatize public firms and the characteristics of the firms that were privatized. Privatizations during both the De la Madrid and Salinas administrations were characterized by a growing centralization of power within the SHCP which culminated in the creation of the Unit for the Divestiture of Parastate Entities (UDEP). This centralization of power enabled officials within the SHCP to isolate opponents of the privatization process and undercut their capacity to resist privatization by depriving them of the resources of the parastate firm. During the Zedillo administration, however, authority over privatizations was decentralized to special teams drawn from the SHCP and placed in strategic locations within specific ministries.

While the De la Madrid administration presided over the privatization of small firms in peripheral sectors of the economy, the Salinas administration began a frontal assault upon the heart of the parastate sector selling large firms that operated in "priority" and "strategic" sectors of the economy. The Zedillo administration has maintained the focus upon privatization in core sectors of the economy, however, it has generally done so through concessions and the introduction of market mechanisms into sectors of the economy that remain "public."

The Easy Phase of Privatization: 1983-1988

Miguel de la Madrid entered office barely three months after speculation against the peso and capital flight led out-going president López Portillo to nationalize the country's banking system. The nationalization of the banks swelled the size of the parastate sector, adding companies in which the banks held shares in addition to the banks themselves. It also infuriated important elements of the private sector, opening a rift between these groups and the state (Hernández Rodríguez 1986; Maxfield 1989). De la Madrid had reaffirmed the central role that the state would play in economic development during the presidential campaign of 1982. He reiterated this position in the *National Development Plan 1983-1988* which points to the role of the parastate sector in "strengthening the mixed character of the economy," "participating in the supply of socially necessary goods and services," "supporting the integration of the productive apparatus" and "regulating market activity in order to reduce the negative effects produced by income inequality" (SPP 1983: 6.3.3.1-6.3.3.5). The debt crisis and the need to reassure private investors, both foreign and domestic, would change all that. Privatizations became a key component of the new strategy to pay back the debt, reform public finances and regain the trust of the private sector.

Privatizations were always preceded by legal reforms. A flurry of legislation was passed between December, 1982 and May, 1983 culminating with the publication of the *National Development Plan* on May 31. During this period modifications were made to the Organic Law of Federal Public Administration, the Planning Law and the Regulatory Law of Public Service, Banking and Credit (Ruiz Dueñas 1988: 127). The most important reforms during this period, however, were the amendments of Articles 25, and 28 of the Constitution. State "rectory" over the economy was added to Article 25 and placed next to the state's role of "planning, directing, coordinating and orienting national economic activity." Article 28 was amended to formalize the nationalization of the banks by making the provision of banking service the exclusive province of the state. In addition, satellite communications and railroads were added to the list of "strategic" areas over which the state exercises exclusive rights (*Diario Oficial* February 3, 1983).

Important segments of private capital viewed the Constitutional reforms as a further encroachment by the state (Maxfield 1989). However, one high-ranking official from the SHCP during the Salinas administration claimed that the 1983 Constitutional reforms were indispensable for subsequent privatizations because they established the boundaries between public and private more clearly and they specified which sectors of the economy were priority and which strategic. According to the official, "without this modification, nothing else could have been done: it was essential" (Interview, Mexico City, October, 1997).

The second set of legal reforms adopted during the De la Madrid *sexenio* attempted to rationalize the administration of parastate firms. The most important measure adopted during this period was the 1986 Federal Law of Parastate Entities (LFEP) drafted by the powerful Ministry of Budget and Planning (SPP). The SPP had been at the center of efforts to rationalize public administration since its creation in 1976 and was a stronghold of reformers within the government (Centeno 1994: 89). The LFEP attempted to provide for greater vigilance and control over the parastate sector. It mandated the presence of representatives from the Treasury Ministry and SPP on the governing bodies of parastate firms (Article 9) and it linked the continued existence of parastate firms to the achievement of the broader performance goals of the public sector. Following the spirit of the National Development Plan -- also drafted by the SPP -- the Law states that public participation in firms that are neither "strategic" nor "priority," as defined in Article 28 of the Mexican Constitution, will be subject to "alienation" (*Diario Oficial*, May 14, 1986).

Together with the Organic Law of Federal Public Administration (LOAPF), the LFEP provided the first clear definition of what constituted the parastate sector.[5] In addition, Article 65 gave the Ministry of the Controller General of the Federation the right to audit parastate firms to ensure the "adequate functioning of the system of control." And, the LFEP established early draft guidelines for privatization, creating for the first time a mechanism that allowed the state to rid itself of parastate firms. Articles 16 and 32 establish that ministers to which parastate firms are attached may propose the alienation of decentralized organisms and majority-held firms to the SPP when the parastate firms cease to fulfil the goals for which they were created.

The legal reforms undertaken during this period, however, contained a variety of other measures that either contradicted the broader goals of privatization or simply muddied the process. Article 39 of the LFEP, for example, grants line ministers the right to intervene in the privatization process in order to "protect the public interest, the stock holders ... social parties and the labor rights of workers in public firms." Article 56 of the LFEP, encourages the creation of worker-management "mixed committees" to improve productivity in parastate firms. Later attempts to sell public firms would often require the *removal* of these mixed committees as a precondition for the sale of the firm.

Most important from the standpoint of pushing privatizations through the bureaucracy, the LFEP failed to wrest operational control over public firms from authorities who had a vested interest in preventing their privatization. Formal authority over privatizations moved from the Subministry of Banking within the SHCP to the Inter-Ministerial Committee on Spending and Finance (CIGF). And financial control over parastate firms was tightened by the LFEP. However, *operational* control over parastate firms remained in the hands of the various ministries of state to which the firms were attached. From their positions on the executive committees and boards of directors of parastate firms, ministers could keep a

[5] Article 2 of the LFEP refers to the LOAPF for the definition of the parastate sector. The LFEP then focuses its attention on the three entities contained within that definition: decentralized organisms, firms with majority state ownership, and *fideicomisos* (*Diario Oficial*, May 14, 1986. See also Rogozinski 1997: 109).

watchful eye on the efforts of would-be reformers. Ministers withheld information or presented contradictory and incorrect information on the parastate firms to the CIGF making it virtually impossible to evaluate the company and create a sales prospectus for potential buyers (Interviews, Mexico City, 1997).

Thus, while the number of firms in the parastate sector declined dramatically during this period, most of the reduction came from the elimination of relatively insignificant firms. Privatizations during this period were primarily 1) simple sales of small firms requiring no restructuring of the firm 2) liquidations of the assets of firms that were not viable, and 3) "extinctions:" the legal elimination of *fideicomisos* and other funds that existed only on paper.[6] Furthermore, when the LFEP changed the official definition of the parastate sector forty eight firms in which the state held only a minority of the shares were simply taken off the books and no longer included in the count (See Table 3).[7] All of the firms divested during this period -- including sales, liquidations, extinctions, transfers and mergers -- accounted for only 2.1 percent of the GDP of the public sector (Pichardo Pagaza 1988: 28).

Table 3 about here

The relative insignificance of the firms divested during this period is reflected in two other figures. First, very little revenue was generated from the privatizations undertaken between 1983 and 1988. Pichardo Pagaza, Minister of the Controller General cites figures from the SHCP showing total sales receipts through June of 1988 equalling approximately U.S.$ 436 million. However, the government assumed debts of roughly U.S.$ 32 million in the process of divesting these firms leaving a net gain of

[6] Public officials reported that the number of public firms in 1982 was actually an exaggeration caused by the counting of firms that existed only on paper thus making the reduction of the number of firms during this initial period an exaggeration as well (Interviews Mexico City, 1997; See also Teichman 1995: 132).

[7] While there is a dramatic drop in the number of minority-owned firms in the year that the LFEP passed -- from 69 in 1985 to 7 in 1986 -- it is unclear why *any* minority-owned firms remain on the books.

approximately US$ 404 million (Pichardo Pagaza 1988: 35).[8] Second, employment in parastate firms actually increased during this period. Teichman shows that the percentage of public employees working for parastate firms declined from over 20 percent of total public-sector employment to less than 18 percent between 1983 and 1991 (1995: 113). However, absolute levels of employment in parastate firms actually increased during this period consistent with a general rise in public sector employment throughout this period and into the early years of the Salinas administration. As Table 4 shows, employment in the central administration of the federal government peaked in 1989, employment in parastate firms peaked in 1990.

Table 4 about here

Privatization efforts early in the De la Madrid administration did, nonetheless, teach public officials important lessons. Although guidelines for privatization placed responsibility with line ministries for identifying firms to be sold, these guidelines were quickly abandoned in practice. Flow charts from the SHCP show the initiative for privatization coming from the line minister to which the parastate firm is assigned (SHCP 1994: 33). Officials from Treasury, however, admitted that the process also operated in reverse: within the CIGF officials from the SHCP pressured individual ministries to identify firms that could be privatized. As one official from the UDEP put it: in the early stages of privatization, Treasury asked the ministries what they wanted to privatize. In the second stage, Treasury asked the ministries what they wanted to keep and why (Interview, Mexico City, November, 1997).

Another official from the UDEP noted that early privatization attempts under De la Madrid had been "anarchic and disorganized" (Interview, Mexico City, October, 1997). Initially, each ministry was in

[8] Figures calculated on the basis of *World Tables 1995*. Pichardo Pagaza's figures were presented in June of 1988. Because the peso was slipping at a steady pace during this period a conversion of 2,367 pesos to the dollar is adopted -- half way between the *World Table*'s 1988 and 1989 conversion rates.

charge of carrying out the privatizations of firms in its sector making it impossible to impose standards for privatization or to monitor the process. Minister of Treasury, Jesus Silva Hérzog, attempted to bring some order to the process by assigning the Subministry of Banking to handle divestitures but without much success. When Hérzog left the SHCP in the summer of 1986, Gustavo Petricioli took over and placed responsibility for privatizations with a smaller group within the SHCP, the Council of Advisors.

The structure of the Council of Advisors was compact. Hugo García Blake acted as the head of the Council and oversaw the work of three advisors, each devoted to a single project. Ramón Palacios was placed in charge of restructuring the debt of Mexico's large, private conglomerates. Miguel Fausto was placed in charge of consolidating the banking system into a smaller number of stronger banks. And, Carlos del Valle Ramón was placed in charge of privatizations. Each advisor had a secretary and a chauffeur. Later, Jacques Rogozinski would take over as head the Council of Advisors and adopt a similar organizational structure for carrying out privatizations under president Salinas.

Although the Council of Advisors began moving privatizations through the bureaucracy more expeditiously, the CIGF was crucial for facilitating the process. Technically, parastate firms were the property of the president. As such, their sales should have required the president's signature. Furthermore, different categories of state income have to be handled in different ways by the bureaucracy: taxes, tolls, sales of public goods and services are each incorporated into the public treasury through different mechanisms. The CIGF worked out a scheme that allowed for the state to receive income from the sales of firms without having to get a presidential signature on each sale (Interview, Mexico City, November, 1997). A less technical explanation of the role of the CIGF came from a UDEP official who described it as a "wash basin:" since everyone was involved, no one had to take responsibility. It shared the risk of taking decisions (Interview, Mexico City, October, 1997). Taken together, the Council of Advisors carried out the actual privatizations while the CIGF provided political cover.

Another important innovation that was taking place at the same time that the Council of Advisors began handling privatizations was the use of "agent banks" as financial intermediaries in support of the privatization process. A former official from the UDEP noted that the process was exceptionally complicated, with thousands of small details that needed to be handled. By leaving the loose ends to the agent banks, the Council of Advisors was freed up to focus on selling the firms. This informant noted that the use of the agent banks had important side effects because it was in the process of serving as an agent bank that many of the financial institutions in the country began to get a grasp on financial engineering. Agent banks needed to place values on companies and prior to 1986 none of Mexico's banks had experience in this. Legal, corporate, labor, financial and accounting details all had to be dealt with by someone and these became the responsibility of the agent banks (Interviews, Mexico City, October, November, 1997).

An official from the SHCP who had participated directly in the privatization process during the De la Madrid administration contrasted his experience with that of officials who privatized firms under president Salinas. He noted that out of approximately 150 sales concluded during his time working in the SHCP, it was never once necessary to change the board of directors or get involved in any way in administrative aspects of the firms being sold. Later privatizations would require exactly this type of organizational transformation (Interview, Mexico City, November 1997).

Despite the limitations to the privatization process during this period, essential steps toward downsizing the state were taken. In addition to the learning that took place in the bureaucracy, specific sectors of the economy show significant changes. Sánchez and Corona (1993: 103) point out that by the end of 1988 the state had withdrawn from 15 out of the 28 productive areas in which it had previously participated, completely abandoning the production of bottled drinks, textiles, cement, automobiles and pharmaceuticals (See also Teichman 1995: 136). The state also abandoned its participation in secondary petrochemicals while redefining 36 categories of petrochemicals as "secondary" and, therefore opening them up to the private sector (Teichman 1995: 137).

Zamora argues that the sectoral impact of privatization during this period can also be seen in a concentration of economic power within monopolistic and oligopolistic groups. Zamora claims that "the majority of the firms sold by the state were bought by monopoly consortiums, primarily transnationals, that operate in the same branch or produce the good of the firm that was sold" (1989: 156). By the end of the De la Madrid *sexenio*, however, observers of the process of privatization generally concluded that the state had completed the process of restructuring. Pardo goes so far as to claim that "despite current attempts to reduce the size of the public sector, its influence is an irreversible fact." (1986: 245). Casar and Peres (1988) and Villarreal (1988) similarly assumed that the transformation of the parastate sector had reached its conclusion. During the following six years, president Salinas would prove these assessments very wrong.

The Long Sexenio: Deepening the Process of Privatization from 1988 to 1994

The Salinas *sexenio* began early. The CIGF had authorized the sale of one of the state airlines, Mexicana de Aviación, in July of 1986 but had been unable to find a buyer. No offer had been made that met the minimum requirements established under the rules of the sale (SHCP 1994b). In the final year of the De la Madrid presidency, another round of bidding was being organized for Mexicana when, on April 12, ground workers at the other state airline, Aeromexico, went on strike in protest over plans to reorganize the parastate firm. Three days later, the Ministry of Communications and Transportation (SCT) declared Aeromexico bankrupt allowing for the suspension of the collective bargaining agreement, massive layoffs and a wholesale reorganization of the firm.

The privatization of Aeromexico marked the beginning of a new phase of privatization. The characteristics of Aeromexico and the measures taken prior to its privatization were both more typical of the privatizations under Salinas than under De la Madrid. To begin with, Aeromexico was a large firm in an important sector of the economy. In addition, unlike privatizations during the De la Madrid administration, Aeromexico needed restructuring: specifically, the firm was over-staffed and selling it would entail confrontation with the more than 12,000 employees organized into three relatively powerful national unions. Furthermore, the size of the firm limited the potential number of buyers who might be able to purchase Aeromexico opening the door to increased foreign investment which was also more typical of privatizations under President Salinas.

The different approach that the Salinas administration would take toward privatization can be seen in the *National Development Plan 1989-1994*. "Rationality" and "economic efficiency" are elevated in Salinas' *National Development Plan* and form the basis of the administration of the public sector. Where De la Madrid's *National Development Plan* retained the vestiges of the ideology of the Mexican Revolution with its central role for the state in economic development, the 1989 Plan begins to separate the state and economy more clearly. The Plan insists upon not "confusing public firms properly understood with entities of institutional service ... whose efficiency and productivity are not always measurable in terms of financial profitability." Entities of institutional service -- which include the two social security institutions, the National Lottery and the company that provides discounted basic goods -- "realize a clear social function [which] it shall develop with the greatest efficiency distinguishing their end from the results of their operation." Having placed the institutional entities on a different footing from that of the rest of the parastate sector, the Plan goes on to note that public firms "should be subjected to criteria of profitability and should be governed according to the competition that the market imposes for their best operation and highest social utility" (SPP 1989: 5.3.9).

Regulations governing the implementation of the 1986 Federal Law of Parastate Entities were passed in early January of 1990 eliminating many of the contradictions that existed in the earlier Law. Like the *National Development Plan*, the 1990 Regulations down-played the "social" aspects of the parastate firm and for the first time began to emphasize the responsibility of the governing body of parastate firms to "establish criteria of rationality, austerity and discipline according to which the corresponding parastate entity should use its budget" (Article 23). In addition, Article 26 establishes rules for determining prices and fees for the services rendered by parastate firms which "shall be fixed according to criteria of economic efficiency and financial stabilization" and take into account prevailing prices in the international market and the costs of production. Deviations between the prices at which goods are produced and sold need to be justified by marketing strategies and must be reported to the Ministry of Treasury (*Diario Oficial*, January 26, 1990).

Salinas also pushed through a variety of important legislative reforms especially in finance and banking. Toward the end of 1989, Salinas sent to the congress a set of legislative reforms which were approved in December of the same year. The financial package included reforms to the laws regulating credit institutions, insurance companies the stock market and other forms of financial intermediation and were focused primarily on deregulation and liberalization of the financial market (See Ortiz Martínez 1994: 57-69). In May, 1990, Salinas announced his intention to re-privatize the countries banks which would require amending Article 28 of the Constitution (Banamex 1990: 323).

Legal reform carried out during the Salinas administration began to anticipate the sorts of reforms that would become still more prevalent during the following administration. Privatization of large firms operating in monopolistic or oligopolistic markets with clear social purposes would require more than simply restructuring the firm. These later privatizations would require that the entire regulatory apparatus be restructured. In some cases this involved the creation of new government entities to oversee the regulation of a specific sector, such as the National Insurance and Finance Commission created under the 1989 reforms (Ortiz Martínez 1994: 62).

The bureaucracy dedicated to privatizations continued to evolve as well. One of the keys to privatization under the Salinas administration was the continued centralization of power in the hands of a small, dedicated group of public officials within the Ministry of Treasury. Jacques Rogozinski had taken over as the head of the Council of Advisors within the SHCP and continued to oversee privatizations from that position. However, when Salinas entered office in 1988 his Minister of Treasury, Pedro Aspe, requested that Rogozinski draw up plans for a new unit that would be devoted exclusively to the sale of public firms (Interview, Mexico City, November, 1997). With the help of another official who had worked in one of the agent banks assisting privatizations under De la Madrid, Rafael García Rosas, Rogozinski created a compact bureaucracy with an obscure name operating within the Treasury Ministry: the Unit for the Divestiture of Parastate Entities (UDEP) (See Figure 5).[9]

Figure 5 about here

With a staff of only 40 people and a Coordinator with the rank of Subminister, the UDEP was, in the words of one official, a battleship: "It had very strong canons inside of a very small structure" (Interview, Mexico City, October, 1997). Another official from the agency agreed, stating that the structure of the UDEP was "small, consolidated and focused." Because all of the positions had relatively high rank, decisions could be made without having to filter their way through the bureaucracy for approval from higher ranking officials (Interview, Mexico City, October, 1997).

The UDEP continued to subcontract work to agent banks, however it also began using large, high-profile, international consulting and accounting firms to assist with the privatization process. McKinsey Co. was hired to help with the financial restructuring, evaluation and elaboration of the sales prospectus of Telmex, a sale that generated over U.S.$ 7 billion (Telmex n.d.). International accounting and consulting firms served a dual function for the UDEP. On the purely technical side they had more experience with large restructurings and understood how to place stock on international markets. These firms also served an important symbolic purpose. In order to convince foreign capitalists to take the risk in the Mexican market, the Mexican state needed the legitimacy provided by having a major international accounting firm audit a

[9] The UDEP was actually misnamed in that divestitures included liquidations, "extinctions" of firms that existed only on paper, mergers of firms as well as their transfer to state and local governments. The UDEP was concerned only with sales of public firms. Furthermore, the reprivatization of the country's banks was handled by another entity operating parallel to the UDEP.

companies books or attest to the market's potential.

The most important innovation adopted during this period, however, was the "resectorization" of parastate firms. As soon as a firm was earmarked for privatization, operational control was transferred to the Treasury Minister who would either act as the Chief Executive Officer of the firm or appoint a new CEO. Resectorization undercut the capacity of individual ministers to resist privatization by denying them the resources of the parastate firm. Resectorization also made it easier to restructure public firms. By taking the helm of the public firm, officials could restructure the finances, invest in new equipment and re-negotiate labor contracts in order to make the firm more attractive to potential buyers (Interviews, Mexico City, October, November, 1997).

The authority of the UDEP was further enhanced through passive support from the executive branch. When the UDEP began the process of privatizing parastate firms, labor leaders, ministers and executives of the firms often sought to circumvent the authority of the UDEP by appealing directly to the president. Salinas regularly sent these supplicants back to the coordinator of the UDEP forcing them to negotiate with him. This process quickly solidified the authority of the UDEP within the Mexican bureaucracy (Interview, Washington D.C., March 1998).

The creation of the UDEP was followed by the creation of another parallel entity devoted exclusively to the re-privatization of the banks.[10] The Bank Divestment Committee (CDB) was established in September, 1990, and consisted of officials from the Ministry of Treasury, the Bank of Mexico and two representatives of the private sector (Ortiz Martínez 1994: 224). Part of the work of the CDB had already been accomplished prior to 1990 within the Council of Advisors which had consolidated the 44 banks that operated in Mexico in 1982 into 18 banks by 1990 (Ortiz Martínez 1994: 24).

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[10] Although the legislation formally establishing the UDEP was not published in the *Diario Oficial* until October 30, 1990, the UDEP had been operating since the beginning of 1990. In addition to informants who pointed this out to me, Ortiz Martínez (1994: 218) notes that the UDEP was already functioning in the summer of 1990 when officials were working on creating a new apparatus for the privatization of the banks.

A senior official within the UDEP explained the problem of selling public firms in terms that indicated familiarity not only with the practice, but with the theory of privatization. The official explained that in the hands of the government, the parastate firm was like a broken watch, the value of which is zero. The watch, however, has some value in the hands of private actors who know how to fix it. The key to selling public firms, then, is finding out how much a firm *could be* worth, and then determining how to split the potential value between the public and private sector (Interview, Washington D.C., March, 1998).[11]

The notion that only the private sector knew how to make parastate firms viable, however, did not prevent state officials from undertaking a wide variety of organizational, regulatory and financial restructurings prior to privatization. One of the most important steps taken prior to privatization during the Salinas administration was the restructuring of the labor agreement covering workers in the parastate firm. The senior official from the UDEP conceded that "collective bargaining agreements were almost always renegotiated prior to the sales of firms because the government has more ability to deal with labor than the private sector does" (Interview, Washington D.C., March, 1998).

Indeed, where labor was the most intransigent, the full force of the state would be brought to bear in order to restructure the firm. President Salinas intervened directly to broker a deal with Telmex workers -- a deal that has been showcased as the model of cooperation between labor, capital and the state (See Hernández Juárez and Xelhuantzi López 1993). As a profitable firm operating in a monopoly market with excellent prospects for growth, Telmex was able to make guarantees not to fire workers of the Mexican Telephone Workers Union and the state subsidized a loan to allow the union to purchase four percent of Telmex stock. Positive-sum games, however, were the exception not the rule. When workers resisted privatization at a large state mining company in 1989, the firm was declared bankrupt and troops were sent

[11] This observation could easily have been lifted directly from the pages of an influential MIT study, *Selling Public Enterprises*: "even chronically unprofitable firms can be sold at a positive price if the buyer believes that a management turnaround will create future profits ... assets are sold when buyers and sellers value them differently, thus creating a positive-sum game where both parties can gain" (Jones *et al*. 1990: 3).

in to enforce the decision (Ortega Pizarro 1989). Restructuring of the Mexican National Railroad has entailed the layoff of approximately 50,000 workers and has depended upon the corrupt, iron grip of the Mexican Railroad Workers Union.

As the capacity of the state increased it was able to undertake ever larger and more complicated privatizations. Between 1990 and 1993, the UDEP managed to sell some of Mexico's biggest public firms including two steel mills, a fertilizer plant, a diesel truck building plant and the state-run television corporation. The UDEP also completed a number of large privatizations begun during the previous administration including the sales of Mexicana de Aviación and Aeromexico as well as the remaining sugar mills. In Salinas' first full year in office revenues from privatization increased modestly over 1988 but still remained below US$ one billion. In 1990, however, revenues jumped to over three billion, more than doubling the combined receipts of all previous privatizations. In 1991, sales receipts from parastate firms jumped once again, exceeding U.S.$ 10 billion (See Figure 4).

While leaving the control of large firms in the hands of Mexican investors, in many cases the Salinas administration allowed foreign investors to enter as minority shareholders. It completed the sale of Mexicana de Aviación to a group that included the Chase Manhattan Bank and sold the telecommunications' monopoly, Telmex, to a group that included both Southwestern Bell and France Telecom. Although the state-owned petroleum firm, Pemex, remained in the public sector, the Salinas administration continued the process of stealth privatizations begun during the De la Madrid administration. Under president Salinas, 15 more products were removed from the definition of basic petrochemicals reserved for state development (Teichman 1995: 137). In 1992, Salinas went further and proposed a major restructuring of Pemex to break the petroleum giant into four decentralized divisions (See Ramírez 1994: 31, 32).

The consequences of these large privatizations may seem paradoxical in theory: large sales translate into large amounts of revenue for the public coffers. The Salinas administration, however, was quick to resolve this potential contradiction. Resources from privatizations were placed in a "contingency fund" 80 percent of which went toward amortization of the foreign debt. Figure 6 shows the sources of revenue from privatizations through 1993. Figure 7 shows the use of these revenues.

Figures 6 and 7 about here

At the end of the Salinas *sexenio* privatization appeared once again to have reached its limit. One analysis of economic restructuring under Salinas asserts that "It is probable that the process of privatization of public firms will be completed before Salinas leaves power in 1994" (Lustig 1994: 137). On the eve of President Salinas' departure from office, the Mexican business magazine, *Expansión*, asked: "Is there anything left to sell?" (1994: 71). The Zedillo administration would soon answer emphatically in the affirmative.

Privatization under Zedillo: Decentralization and State Reform 1994-2000

In 1994, the number of firms in the parastate sector rose for the first time in twelve years, growing from 210 in 1993 to 219 firms in 1994. By 1996, the official count of the parastate sector had reached 228 firms and in 1997 grew to 234 (*Diario Oficial*, August 15, 1996; August 13, 1997). At first glance, the growth in the number of parastate firms might suggest that the parastate sector was making a comeback or, at the very least, that its decline has bottomed out. Closer examination, however, reveals that the apparent growth in the parastate sector is actually a prelude to further privatization.

While most of the privatizations conducted under the Zedillo administration followed logically from the previous administrations' programs, the economic crisis of 1995 led to *ad hoc* privatization as well. The most significant of the *ad hoc* privatizations was the partial privatization of social security. Intended as a measure to shore up the failing banking system following the peso crisis of 1994, a new social security law channeled retirement savings into private banks. Beginning January 1, 1997, Mexican workers were asked to choose among a number of private banks designated to act as Administrators of

Retirement Funds (Afores). Under the new law, workers, employers and the government all pay their portion of the roughly eleven percent of each worker's salary into the private accounts established by the Afores rather than into the state's social security fund (See Pérez Sandi 1996).

Yet, while economic crisis has dominated the Zedillo administration, a series of privatizations had already been contemplated as the natural extension of the policies of the De la Madrid and Salinas administrations. These privatizations would target two sectors in particular: energy, and communications and transportation.

As with previous privatizations, legal reforms were needed before sales could take place. Some of the legal reform had already been undertaken during the Salinas administration including a major reorganization of the Mexican ports and the passage of a 1993 law allowing for the creation of private concessions within individual ports (*Diario Oficial*, July 19, 1993). Barely two months after entering office, president Zedillo pushed a constitutional amendment through the Mexican legislature allowing for the privatization of railroads and satellites by removing them from the constitution's definition of "strategic" sectors. New laws governing the railroads and use of satellites and the radio spectrum were passed in 1995 (*Diario Oficial*, May 12, 1995; *Diario Oficial* June 7, 1995). At the beginning of 1998, new regulations allowing for the privatization of the airports were published (*Diario Oficial*, February 9, 1998).

In order to carry out these privatizations, the Zedillo administration created the Inter-Ministerial Commission of Divestment (CID) in 1995 to take over responsibility for the privatization process. The UDEP, in turn, was renamed the Unit for Investment and Disinvestment of Parastate Entities and largely removed from the business of privatization (*Diario Oficial*, April 7, 1995). The composition of the CID depends upon where the privatization is taking place. Like the CIGF, the Secretaries of Treasury, Commerce, Labor and of Control and Administrative Development all have permanent seats on the Commission. Line ministers join the Commission when privatizations touch upon parastate firms within their sectors.

The problem that the CID was created to overcome is the fact that in many cases privatizations under the Zedillo administration require the creation of both a firm and a market in which the firm will operate. After the entire port system was consolidated under a single regulatory agency during the Salinas administration, it became possible to spin off individual ports and specific services within ports as private concessions. The growth in the number of parastate firms since 1994 has been primarily in the creation of multiple new firms out of Puertos Mexicanos for the sole purpose of selling these concessions (Interviews, Mexico City, October, November, 1997). Similarly, the consolidation of the Mexican National Railroad throughout the 1980s allowed for a reorganization of the country's entire rail system and the creation of three "main lines" and a variety of short lines, all of which have been turned into private concessions (See below).

While it is possible under the structure of the CID for all ministries to move forward with privatizations simultaneously, the two areas that have received the most attention are energy and communications and transportation. The justifications for focusing attention on communications and transportation and energy are clear enough. These sectors provide essential inputs for virtually all other sectors of the economy. President Zedillo placed special emphasis upon the need to improve efficiency and productivity in order to improve Mexican competitiveness in the decree creating the CID (See *El Mercado de Valores* 1995: 19).

However, the characteristics of these particular sectors also required changing the mechanisms by which privatizations were conducted. Even proponents of privatization have commented on the need for adequate regulation of sectors that have monopolistic and oligopolistic structures (*El Mercado de Valores* 1995: 18). Where many of the privatizations under the Salinas administration required restructuring of the parastate firms, restructuring under Zedillo implied restructuring of the ministries that regulate the activities of firms.[12]

This is being accomplished by seeding line ministries with former officials from the SHCP. Rather than "resectorizing" firms and bringing them under the control of the SHCP in order to restructure them, the Zedillo administration has brought the SHCP to the line ministries. Decentralization of the privatization process under Zedillo, then, does not entail a return to the relatively anarchic period of privatizations carried out during the early years of the De la Madrid administration. Instead, former SHCP officials familiar with the privatization process have largely taken over the SCT and have been implementing ambitious privatization plans (Interviews, Mexico City, 1997).

Upon entering office, Zedillo appointed Guillermo Ortíz Martínez as the Minister of Communications and Transportation and Carlos Ruiz Sacristán as the Minister of Energy. Ortíz Martínez had acted as the head of the CDB and directed the privatization of the banks under the Salinas administration. Ruiz Sacristán had worked as the General Director of Public Credit and served on the CDB. In addition, Ruiz Sacristán brought with him a team made up of some of the key players from the UDEP. Two of the UDEP's four General Directors -- Jorge Silberstein and Rosana Ingle de la Mora -- accompanied Ruiz Sacristán.

The economic crisis of 1994, however, changed president Zedillo's plans slightly. In an attempt to calm the fears of foreign investors, president Zedillo replaced his Minister of Treasury, Jaime Serra Puche and moved Ortiz Martínez to the SHCP. Ruiz Sacristán and his team moved to the SCT. Not surprisingly, privatizations in communications and transportation have advanced considerably further than in other ministries, including energy. As one senior official from the UDEP during the Salinas administration

[12] The need for better regulation over these sectors was anticipated in the law that established the CID. Article 2 entrusts the CID with "seeking the decentralization and regional establishment of companies to the degree that this is compatible with its efficient functioning" and "promoting production and commercialization practices that are both healthy and competitive" (*Diario Oficial*, April 7, 1995: Fracciones VIII, IX). In addition, the president of the recently created Federal Competition Commission has a permanent invitation to sit on the Commission to ensure the creation of competitive conditions in newly privatized sectors of the economy.

observed, "It's logical that the structure within the SCT is better because that's where all the people who have experience and 'know how' are. All of them are in the SCT, Treasury or the private sector" (Interview, Mexico City, November, 1997).

The legislation establishing the CID suggests in very vague terms the possibility of individual ministries designating a special commissioner -- "*comisionado epecial*" -- to act as an intermediary between the line ministry and the CID (*Diario Oficial*, April 7, 1995: Article 10 fraccion IV and Article 11). In fact, within the SCT, the special commissioner has become the central player in the privatization process. The new structure for privatizations in the SCT relies heavily upon the special commissioner, a former General Director from the UDEP, Jorge Silberstein. Silberstein is in charge of a newly-created Unit for the Support of Structural Change (UACE) which operates out of the basement of the main SCT offices in Mexico City. The UACE answers directly to the Minister of Communications and Transportation while working closely with the CID. Despite the problems caused by recurrent economic crises, the UACE has managed to complete an impressive number of privatizations (See Table 5). A brief review of two areas of privatization will serve to illustrate the complexity of the current phase of restructuring.

Table 5 about here

Ports

The primary area of growth in the number of parastate firms since 1994 is in the creation of Complete Port Administrations, known as APIs. During the 1970s various attempts were made to coordinate the operation of ports and bring them under the central control of the federal government. In addition to the lack of coordination among states with different ports, four different national-level agencies organized along functional lines attempted to administer the operation of the ports.[13] During the Salinas administration a new institution, Puertos Mexicanos, was created to merge the various activities of these four agencies into a single agency. Puertos Mexicanos was created as a "deconcentrated organism" which, technically, meant that it was not a parastate firm under the 1986 definition of the parastate sector (Interviews, Mexico City, November, 1997). According to one source, Puertos Mexicanos was effectively under the control of the Ministry of Treasury, not the Ministry of Communications and Transportation (Interview, Mexico City, October, 1997).

The consolidation of the entire port system was necessary in order to bring the resources of the central government to bear on improving the infrastructure and equipment in the ports. One informant argued that if the ports hadn't passed through this phase, they would never have been attractive to the private sector: the state needed to fix them up first. In addition to this physical infrastructure provided by the state, the 1993 law gave investment security to the private sector (Interview, Mexico City, October, 1997).

As with the privatizations of large firms under the Salinas administration, restructuring of the ports required either coopting or breaking labor unions. Labor unions had become especially entrenched in the operation of the ports because the state previously granted concessions to operate port services directly to labor unions. In effect, the labor unions operated companies for the provision of services within the ports and private companies that wished to use port services needed to contract with the companies operated by the labor unions. President Salinas signalled his intentions to modernize the ports over any possible objections of the labor unions when, in April, 1991, he broke the powerful labor unions at the port of Veracruz and turned over the operation of port services to private transportation companies that had long

[13] A National Port Coordinating Commission was created in the early 1970s which operated alongside a dredging service, a General Director of Maritime Work, and a General Director of Port Operation covering 22 ports that were administered by the Federal government.

complained of the inefficiency of the existing arrangement (See Corro 1991).

Toward the end of the Salinas administration, Puertos Mexicanos was dissolved and the SCT began creating individual port authorities, the APIs. Stock is created for an API and the government is the sole owner initially. The goal of establishing each port on an independent basis is twofold. First, by removing ports from one another, cross subsidization from profitable to unprofitable ports can be eliminated and each port can be required to operate upon a self-sustaining basis. Second, once the ports are established as separate, incorporated entities, the rights to operating them may be sold as concessions. The board of directors of the API includes representation of local and state governments where the port is located as well as representatives of the private sector even though the private sector does not yet hold shares in the port (Interviews, Mexico City, October, 1997).

Since 1995, the SCT sold three concessions to operate container terminals and three concessions to install terminals for approximately U.S.$ 142 million. In 1996, the SCT collected an additional U.S.$ 73 million for selling concessions to operate dredging services and the first concession of an entire API in the port of Acapulco (See Table 5).

Railroads

Just as the creation of marketable units in the ports required breaking the organizational structure of the ports into smaller pieces, so the privatization of the railroad has required a fragmentation of the former structure of the Mexican National Railroad (FNM). Indeed, the restructuring of FNM followed a similar course to that of the ports. The Constitutional amendment of 1983 that defined railroads as strategic marked the beginning of a process of consolidation in which a variety of smaller firms were merged into FNM. Once consolidated, it was possible to assess the most viable units into which the system could be restructured. The consolidation of the entire rail system under the auspices of FNM can be seen in the sharp increase in employment at FNM from 64,000 to 95,000 between 1986 and 1990 (See Table 4).

Once FNM had brought the assorted pieces of the Mexican rail system under its control, it was possible to evaluate various plans for dividing the company into viable, marketable units. The final plan was drawn up with the help of international consulting firms and managed through the CID. FNM was divided into three main lines and a variety of short lines each to be auctioned off separately. The two northern routes connect Mexico City to the U.S. border and the southern route connects Mexico City with the Gulf port of Veracruz. A fourth line crossing the isthmus of Tehuantepec was subsequently carved out of the system (Interviews, Mexico City, October, 1997; See also Parra Domínguez 1996).

Although the restructuring of the railroads has entailed the firing of some 50,000 workers, the leadership of the Mexican Railroad Workers Union has a long history of suppressing dissent within its ranks in support of Mexico's ruling party. This is probably not what one of the lead officials directing the privatization of the railroads meant when he insisted that "The union is the solution not the problem in privatization" (Interview, Mexico City, October, 1997). However, one of the most coveted rewards given to compliant union leaders in Mexico is a political position in the House of Deputies. Following the 1997 general elections, the leader of the railroad workers' union was given a seat in the lower house by the ruling party (See Hernández López 1998).

Assessing the overall fiscal impact of privatizations during the most recent period is more difficult than under the De la Madrid and Salinas administrations because of the decentralization of the process and the nature of the privatizations. Data on the revenue collected by individual ministries from privatizations has not been aggregated to give a complete picture of the privatization process. It is also important to note that more and more privatizations under the Zedillo regime are concessions rather than outright sales. Some revenues for these privatizations will continue to accrue to the government over a period of time. Other "revenue" takes the form of agreements by private companies to invest in a particular sector, as with the concessions granted to long-distance carriers.

On the private side of the ledger, we can see the effect of the steady march of privatization on the structure of large industry in Mexico. As Table 6 shows, in 1985, eight of Mexico's largest twenty firms were state owned. By 1997, only Pemex remained in the top twenty. Most of the private, Mexican firms in the top twenty were either purchased directly from the state or are private conglomerates that have strengthened their position in the market through acquisitions of public firms and concessions to operate in newly privatized sectors of the economy.

Table 6 about here

DISCUSSION

Chandler tends to emphasize the causal relationship between strategy and structure in the development of the multidivisional firm: "a company's strategy in time determined its structure" (Chandler 1966: 476). Upon closer examination, however, the model is more iterative and takes into account the reciprocal influence of strategy and structure. Chandler points to periods of growth, followed by periods of rationalization which allow for further growth requiring, in turn, still further rationalization (1966: 479).

At a general level, the model is appealing because it asks that we take seriously the interrelationship between the purposive goals of actors and the institutional manifestations of their agency. It is equally appealing as a model for analyzing the changing structures of the state because it focuses our attention upon the essential and often neglected mechanisms by which states operate: the development of lines of authority and communication within the public bureaucracy; attempts to coordinate, evaluate and plan using these mechanisms, and; the resources available to different actors within the state and the way in which these are marshalled toward achieving a particular goal.

That said, it needs to be emphasized that the strategies pursued by states differ in important respects from those of firms. The firms studied by Chandler sought to expand through an increase in volume, geographical dispersion, vertical integration or diversification (1966: 16, 17). States -- especially developing country states -- have historically taken on the role of producer for much more complex reasons. Growth of the public sector was often a byproduct of attempting to attain other goals such as modernization or industrialization, rather than the goal itself. Market failure is one common justification for the growth of the state in developing countries (Hill 1984: 357; Jones and Mason 1982). Political control and the mediation of class conflict also explain a certain amount of state-sector growth (Teichman 1995: 49). And, where private capital or dominant states feel threatened by state growth, the domestic and international environment within which a developing country state grows may be considerably more treacherous than the environment in which private firms operate (Hamilton 1982). While all of these issues impinge upon the growth and decline of the state sector, they fall outside of the parameters of the Chandler's model and, consequently, outside of the scope of this analysis.

This level of analysis is useful, nonetheless, for highlighting the organizational contradictions that arise in the process of major structural transformations. The growth of the parastate sector in Mexico between 1930 and 1982 had a paradoxical effect upon the centralization of political power in the Mexican presidency. While increasing the amount of resources at the disposal of the executive, more power did not translate automatically into more capacity to wield that power. Conversely, one of the principal stated goals of privatizing parastate firms was to decentralize public administration and economic activity. Yet further centralization of political power was necessary in order to privatize public firms. And, privatization appears to have heightened the concentration of economic power in private hands (Zamora 1989).

Furthermore, because the state is never entirely autonomous, examination of the internal structures of the state allows us to draw inferences based upon the representation of societal interests through the mechanisms of the state. This is especially true of the Mexican state where social conflict has historically been integrated into the state apparatus through the corporatist machinery of the PRI. Centeno argues that the Mexican state was capable of undertaking economic restructuring by creating an "autonomous but embedded bureaucracy."

> First, it insulated itself from interest group pressure through its authoritarian political control. Second, it maintained a complex set of connections with social sectors through the corporatist arms of the party. The latter assured that it always could hear what society was saying, the former guaranteed that it did not have to listen. [1994: 47]

Centeno is well aware that the issue of state autonomy often begs the question, "Autonomous from whom?"[14] However, we can see from the process of bureaucratic restructuring during the 1980s and 1990s which sectors of society the state chose not to listen to and which sectors received its full attention. By establishing more complete dominance over those agencies within the state that had a vested interest in the maintenance of the *status quo*, the president was able to turn a deaf ear to line ministers, executives of parastate firms and workers in these firms. At the same time, the Mexican state strengthened the hand of the SHCP which is the agency most closely linked to the interests of private capital (See Maxfield 1990).

Centeno sees the Mexican case as "a perfect illustration of what O'Donnell and Frankel call a 'convergence of determination,' where even without the need for the blessings of international bodies, governments design orthodox stabilization programs" (1994: 72). Indeed, the privatization program also coincided with a major goal of Mexico's private sector and appears to have exceeded the wildest expectations of both international agencies and private, Mexican capital. Yet, given this close, ideological convergence, the potential autonomy of the state appears somewhat less important than the state's actual behavior. That is, even if the state had the capacity to act autonomously of dominant social groups, the fact that it did not seems here to be the most relevant datum.

This is especially true if, as Evans argues, states facilitate economic development by harnessing the individual utility maximization of public- and private-sector elites to a common project of industrial development (1995: 30). Since 1982, the only area where the Mexican state has consistently succeeded in checking the impulses of individuals to maximize their utility has been among the weakest sectors in society. Recurrent economic crises and austerity programs have eroded the living standards of most Mexicans. According to the Economic Commission for Latin America, 36 percent of households in Mexico

[14] Petrazzini (1995: 6) stretches the meaning of state autonomy when he argues that the Mexican state was autonomous because it was capable of privatizing over the opposition of entrenched interests within the public bureaucracy. State autonomy usually refers to the independence of the state -- either structurally or operationally -- from the interests of *elite* actors (See Centeno 1994: 67-73; Evans 1995; Hamilton 1982).

in both rural and urban areas now live in poverty (Howard 1997: 29). By 1992, the minimum wage had fallen to less than 40 percent of its value in 1980 (Zapata 1996: 72).

At the same time, the state has failed to limit the rapacious appetites of elites in both the private and public sector. After selling the country's banks for what appeared to be a hefty price between 1991 and 1993, the state is now being asked to absorb more than U.S.$ 60 billion in losses of insolvent, private banks: five times the U.S.$ 12 billion dollars received when the banks were privatized (See Córdova 1998; Preston 1998; Rogozinski 1997: Appendix 1). Opposition parties in the Mexican congress have leveled charges of corruption against former president Salinas, the head of the Bank Divestment Committee, Guillermo Ortiz Martínez, and various private bankers. But there is no movement for the state to return to its previous role in the economy. The transformation of the state from producer to regulator appears secure. Whether or not the Mexican state can transform itself into an agent of economic development accountable to more than a small minority of the population, however, remains to be seen. Ultimately, the task of privatization may seem trifling compared to the problems of democratization, poverty and marginalization that face Mexico as it enters the twenty-first century.

APPENDIX A

INTERVIEW BREAKDOWN

	Number of Interviews	*Number of People Interviewed*
SCT[a]	19	17
SHCP[b]	12	7
PRIVATE SECTOR	22	23
LABOR	8	5
TRADE ASSOCIATION	5	4
OTHER[c]	5	4
Total	**71**	**60**

a Ministry of Communications and Transportation
b Ministry of Treasury and Public Credit, also referred to simply as Ministry of Treasury
c Other includes a reporter, academic, researcher for a private sector association, and official of the National Securities and Banking Commission

Three interviews were conducted by phone, all the rest were done in person, usually in the office of the informant. Occasionally interviews were scheduled with more than one informant. However, most interviews were one-on-one. The shortest interviews were the phone interviews which lasted approximately 15 minutes each. The average length of the interviews was an hour and a half. Some lasted for more than three hours. Rarely did an interview last for less than a full hour.

The content of the interview was tailored to the informant and also depended upon my own level of familiarity with a given topic at the time of the interview. In this way, interviews tended to build upon one another. Typically I would begin an interview by explaining what I understood to be the process of bureaucratic transformation based upon the information provided by other informants or official documents. This would then provide the informant with the opportunity to confirm, elaborate or challenge the interpretation that I offered. In order to ensure the comfort and anonymity of informants, I did not tape record interviews. I did, however, take extensive hand-written notes and transcribe these in a form of personal debriefing following the interviews.

Movement within and out of the bureaucracy makes the specific break-down somewhat artificial. Two officials had worked in the SHCP during the Salinas administration but had moved to the SCT during the Zedillo administration when they were interviewed. Other sources had moved from the SHCP to the private sector or into international agencies.

Table 1[1]

Structure of Public Federal Investment

	1946	*1953*	*1963*	*1977*	*1981*	*1984*
Agricultural Promotion	19.3	18.3	10.2	18.5	11.2	8.9
Industrial Promotion	15.3	24.7	33.1	45.1	49.7	41.6
Electricity	3.8	8.3	12.8	14.1	11.5	13.2
Petroleum and Derivatives	11.1	14.7	14.5	23.6	28.3	20.3
Steel	--	--	1.7	2.4	3.3	3.2
Other Industries	0.4	1.7	4	5	6.6	4.9
Communications and Transportation	52.6	43.7	24.5	18.9	13.7	22.0
Urban and Rural Public Services	7.6	4.5	18.8	6.6	5.7	9.9
Health	2	0.3	6.8	2.8	4.6	4.1
Education	1	3.5	3.1	4.1	2.8	5.9
Administration and Defense	2	4.8	3.1	2.8	4.2	4.5

Source: Tamayo (1988: 661, Table 3.2.6).

[1] Columns do not sum to 100 due to the exclusion of some categories.

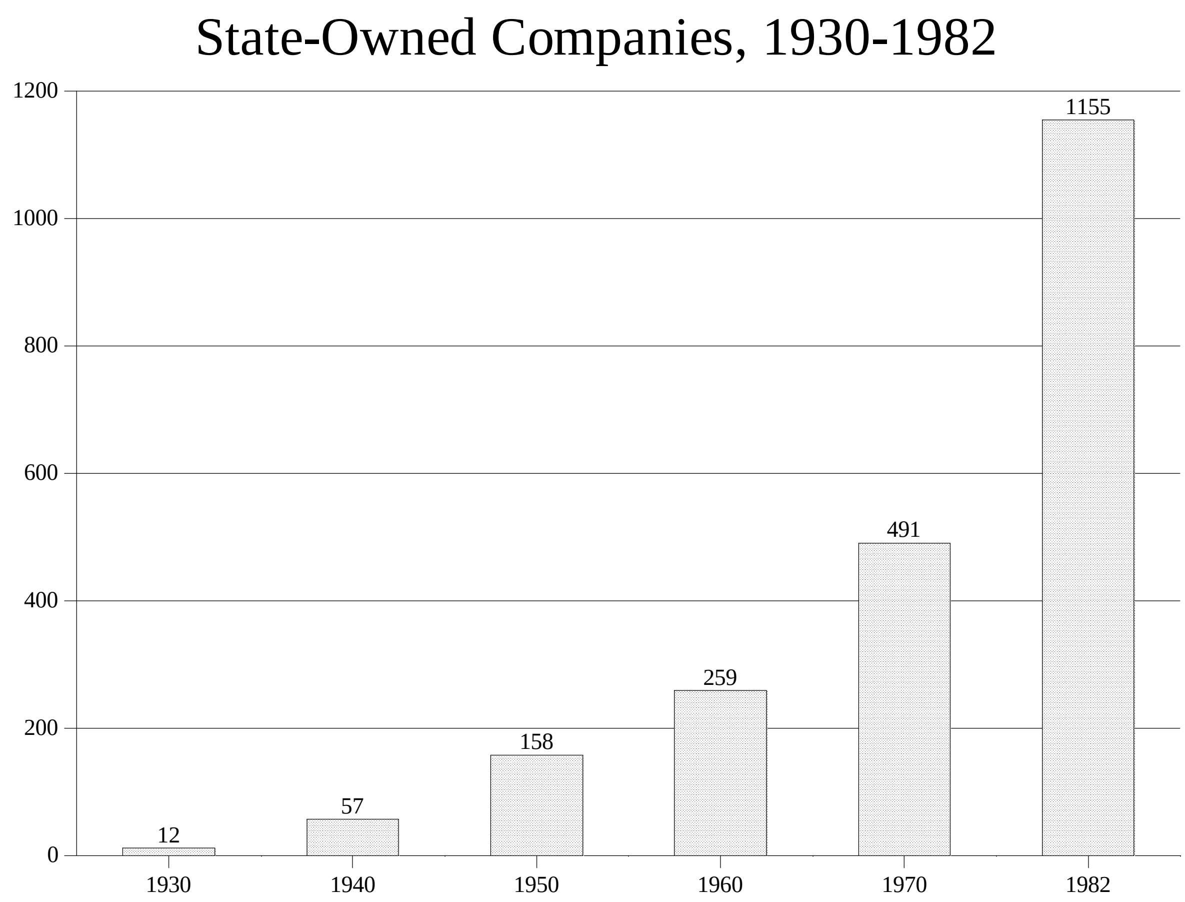
Table 2

Structure of Production in Public Sector
by Type of Good

	1960	*1965*	*1970*	*1975*	*1978*	*1981*
Non-durable Consumer Goods	8.3	6.8	9.7	10.5	18.0	16.6
Durable Consumer Goods	1.5	2.8	7.7	9.6	10.3	13.1
Non-petroleum Intermediate Goods	22.8	33.0	31.6	28.2	29.9	33.3
Capital Goods	4.9	2.8	3.4	3.2	3.0	3.9
Subtotal without Petroleum	37.5	45.4	52.4	51.5	61.2	66.9
Petroleum Refining, Derivatives and Basic Petrochemicals	62.5	54.6	47.6	48.5	38.8	33.1

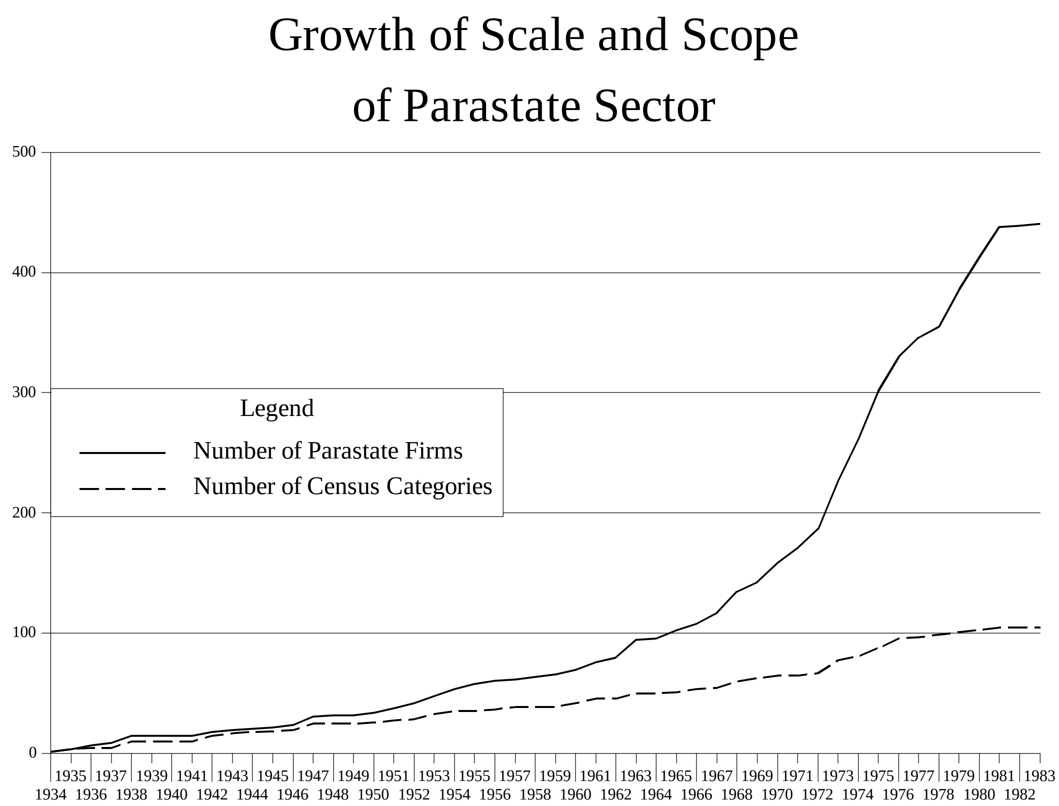
Source: Based upon Casar and Peres (1988: 47).

Figure 1



Source: Based upon Banamex (1991).

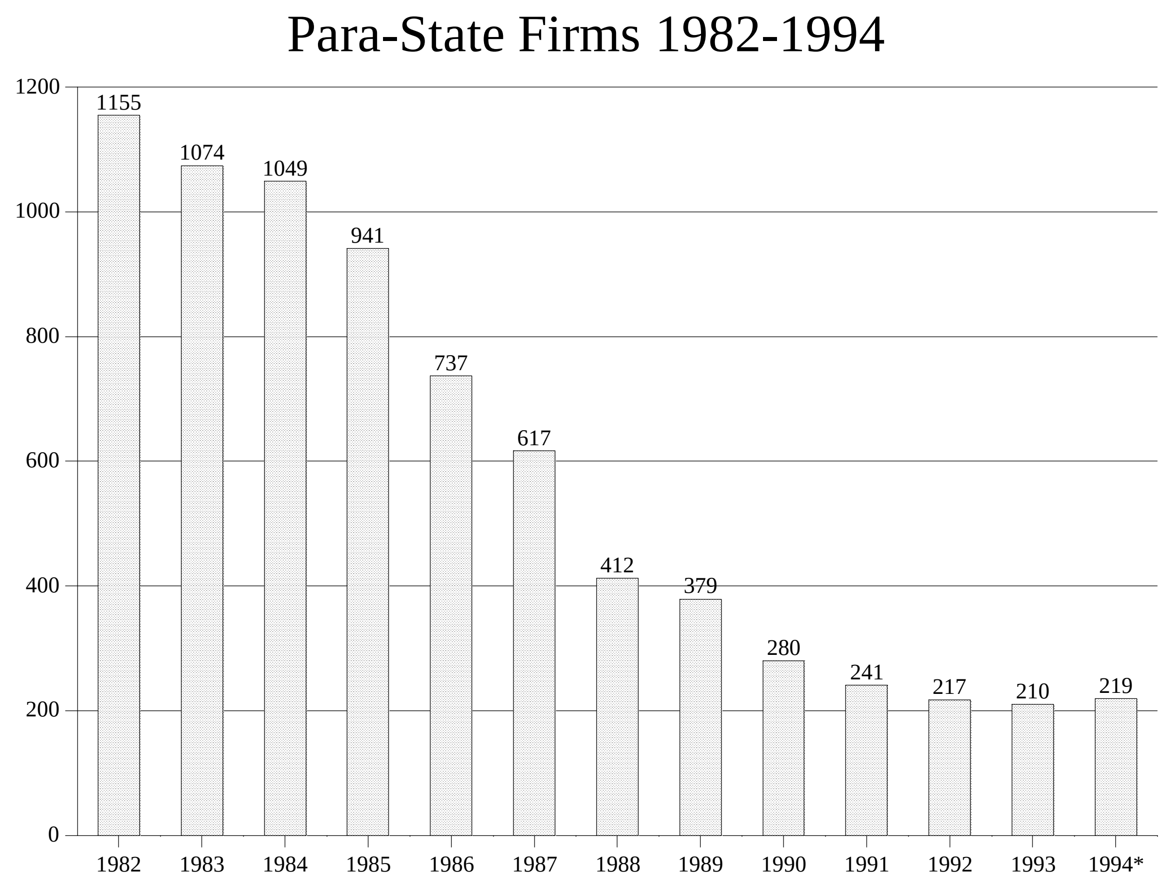
Figure 2[a]



Source: Calculated from Casar and Peres (1988: Appendix 1)

a Sample includes only 441 parastate firms of 1,155 in existence in 1982.

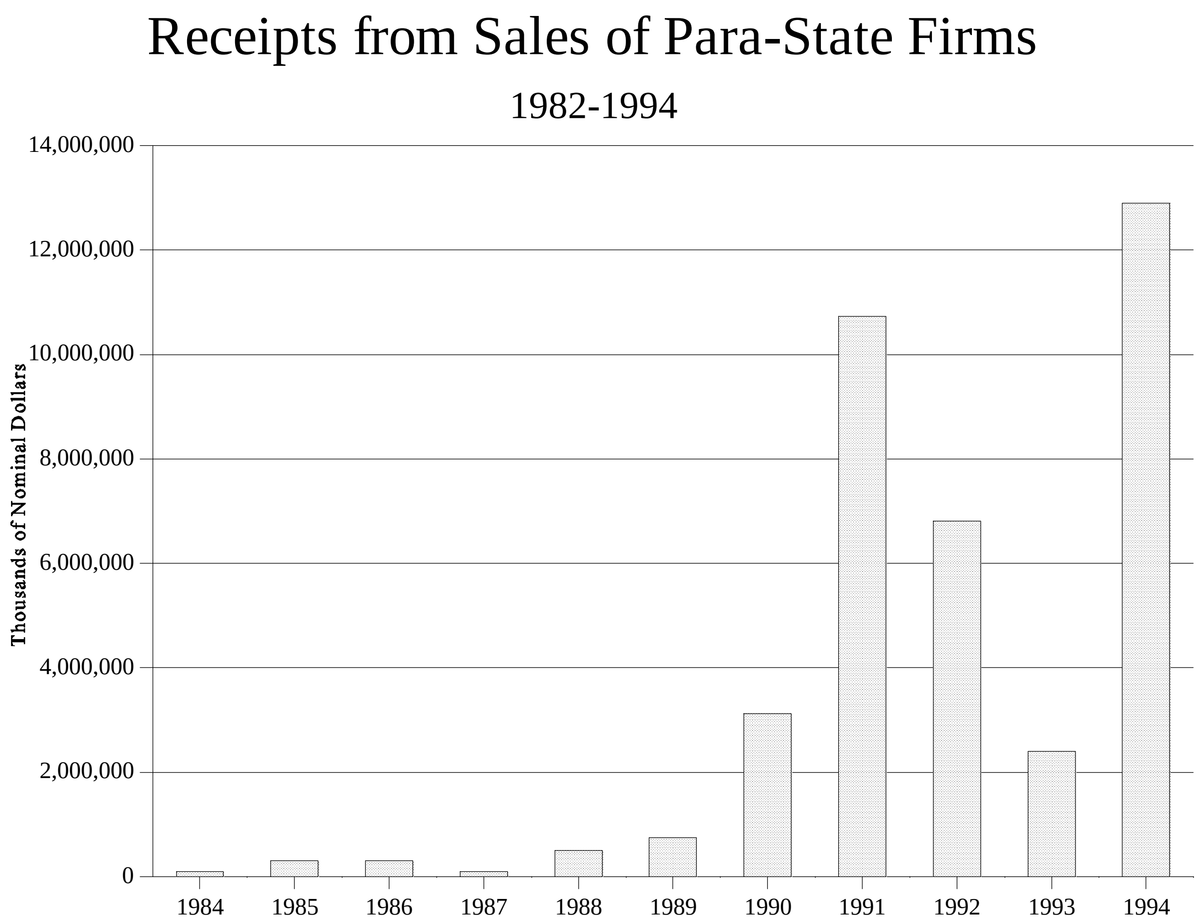
Figure 3[a]



Source: Secretaría de Hacienda y Crédito Público, El Proceso de Enajenación de Entidades Paraestatales, (1994: 10).

a Figures for 1994 are through November

Figure 4



Source: Figures for 1982-1988 from Tandon (1994: 60), 1989-1994 from Rogozinski (1997: Appendix 1).

Table 3[a]
Divestitures 1983-1988

Type of	*Authorized*	*Conclude*	*Pending*
Sales	218	116	102
Liquidations	258	138	120
Extinctions	135	102	33
Transfers	28	23	5
Mergers	78	63	15
LFEP[b]	48	48	--
Total	765	490	275

Source: Pichardo Pagaza (1988: 24, Table 2).

a Figures only until June of 1988. Counts taken at different points in time make it impossible to reconcile data from different sources.

b Firms removed from the count of parastate firms as a result of the reclassification of the parastate sector under the 1986 Federal Law of Parastate Entities.

Table 4
Evolution of Federal Government Employment

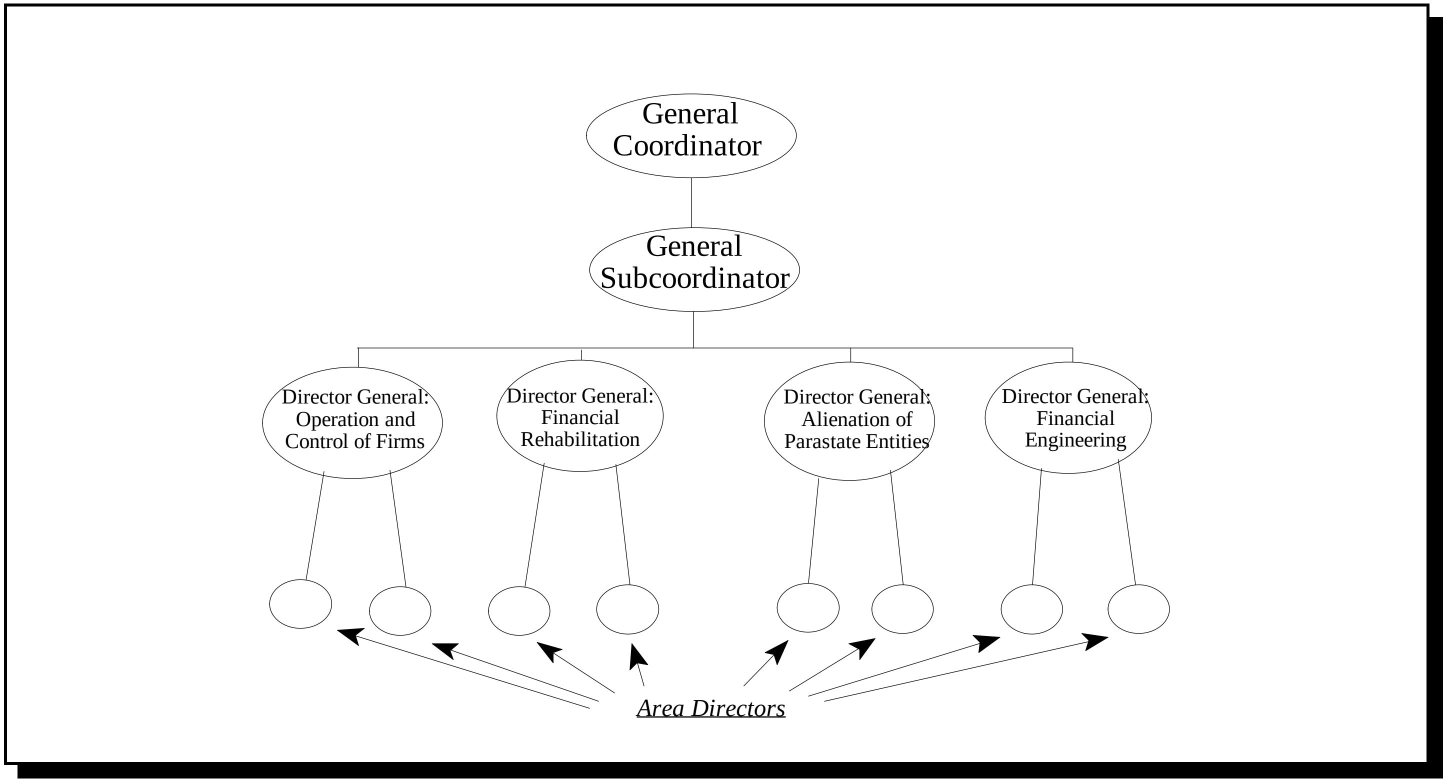
	1986	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*
Total[2]	1,496,439	1,443,493	1,970,300	1,983,277	1,453,404	1,493,593	1,511,532	819,935	843,825
Parastate Sector Employment	734,584	762,707	767,450	785,030	832,214	805,410	727,819	678,335	699,725
FNM[3]	64,040	81,670	81,583	82,928	95,322	91,012	60,340	47,096	49,421

Source: Segundo Informe de Gobierno, Anexo, 1996, Ernesto Zedillo Ponce de Leon.

[2] Total refers to federal government central administration and excludes personnel in the legislative, executive, and judicial branches of the Federal Government as well as Electoral Organisms, Agrarian Tribunes and the Fiscal Tribune.

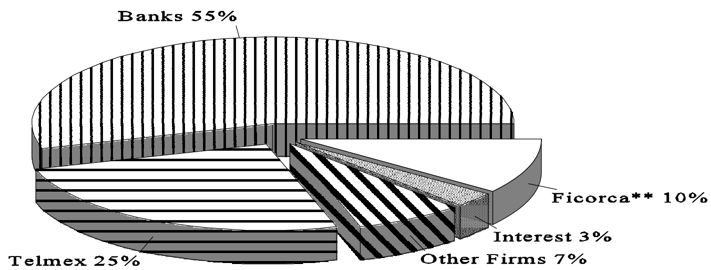
[3] Mexican National Railroad (Ferrocarriles Nacionales de México). Beginning in 1987, the railroads Pacifico, Sonora-Baja California and Chihuahua al Pacifico were absorbed into FNM.

Figure 5
Structure of the UDEP



Source: Interviews, Mexico City, 1997; *Diario Oficial*, October 30, 1990.

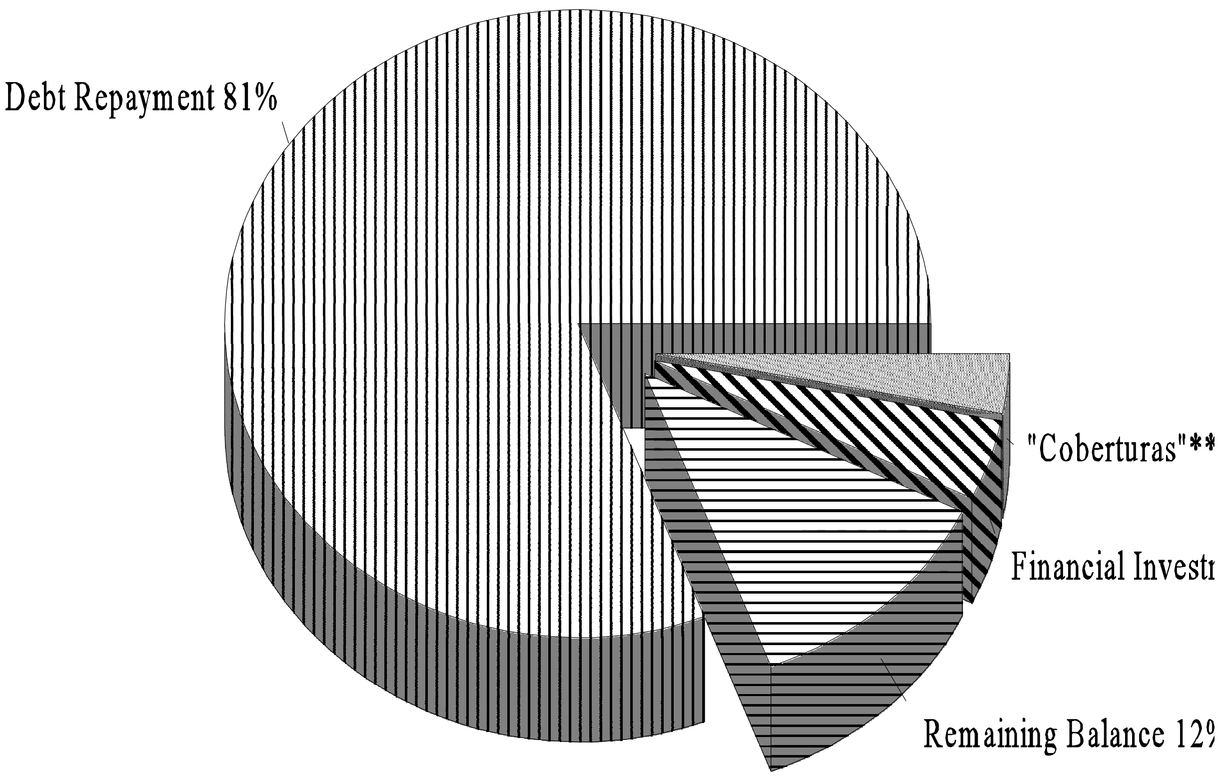
Figure 6
Sources of Revenue from Privatization*



Source: SHCP (1994b: 64)

* Through December 31, 1993
** Special fund for covering exchange rate risk (See Maxfield 1989: 226).

Figure 7*
Uses of Revenue from Privatization



Source: SHCP (1994b: 64).

* Through December 31, 1993
** Guarantees purchased to insure against a fall in the price of Petroleum.

TABLE 5
Privatizations Completed within the SCT
1995-1997

	Privatization	*Buyer*	*Price (New Pesos)*
	PORTS		
1995	Container Terminal, Altamira I	Remaconst, S.A. de C.V.	35,666,323
	Container Terminal, Veracruz	Grupo ICA, S.A. de C.V. International Container Terminal Services	673,719,571
	Container Terminal, Manzanillo	TMM, S.A. de C.V. Stevedoring SErvices of America	375,715,657
	Installation of Multiple Use Terminal, Lázaro Cárdenas I	ISPAT Mexicana, S.A. de C.V.	21,326,116
	Installation of Multiple Use Terminal, Lázaro Cárdenas II	SICARTSA	16,777,769
	Installation of Multiple Use Terminal, Manzanillo I	Operadora Cuenca del Pacífico	20,146,795
1996	Multiple Use Terminal, Altamira II	TRIBASA, S.A. de C.V. Fairway Terminal Corporation	375,685,581
	Complete Port Administration, Acapulco	TMM, S.A. de C.V.	60,000,000
	Dredging service and "equipo afecto," Coatzacoalcos	Fondo de Inversión Veracruz	34,800,000
	Dredging service and "equipo afecto," Lázaro Cárdenas	Sudamericana de Agencias Aéreas y Marítimas	37,923,120
	Dredging service and "equipo afecto," Manzanillo	Servicios Mexicanos en Remolcadoras	38,245,196
1997	Multiple Use Terminal, Ensenada	International Container Services, Inc.	42,282,111
	RAILROADS		
1996	Northeast Railroad	TMM and Kansas City Southern	11,071,900,000
	Northern Pacific Railroad	Jorge Larrea, Grupo ICA, and Union Pacific	ND
	Southeast Railroad	Grupo Acerero del Norte, Industrias Peñoles and Illinois Central	ND
	COMMUNICATIONS		
1995-1996	Concessions for Long-Distance Telephone Service	Avantel, Iusatel, Marcatel, Investcom, Unicom, Alestra, Cableados y Sistemas, Miditel	4,839,000,000[a]
1997	Satelite System	Grupo Casa Autrey and Loral Space	5,366,352,206

Source: "Resumen de los Procesos de Apertura a la Inversión Concluidos y por Realizar," (SCT: 1997); Mathews (1998: A2); Cardoso (1997); Hernández López (1998).

a Figures for Long-Distance Concessions are "Promised Investment" in U.S. Dollars.

Table 6
Mexico's 20 Largest Firms, 1985 - 1997

RANK	1985	1988	1991	1994	1997
1	Petroleos Mexicanos	Petroleos Mexicanos	Petroleos Mexicanos	Petroleos Mexicanos	Petroleos Mexicanos
2	CFE	Chrystler de México	Teléfonos de México	Teléfonos de México	Teléfonos de México
3	CONASUPO	General Motors de Mexico	General Motors de Mexico	CIFRA SA CV & Sub.	Chrystler de México
4	Teléfonos de México	Teléfonos de México	Chrystler de México	General Motors de Mexico	General Motors de México
5	General Motors de México	Ford Motor Co.	Volkswagen de México	Chrystler de México	Ford Motor Co.
6	Chrystler de México	Altos Hornos de México	Cía. Mexicana de Aviación	Gigante	Alfa and Subsidiaries
7	Altos Hornos de México	Gigante	FNM	Controladora Comercial Mex.	Cemex and Subsidiaries
8	Aurrera	Volkswagen de México	Hylsa	Grupo Modelo	Grupo Carso
9	Volkswagen de México	Cía. Mexicana de Aviación	Celanese Mexicana	Grupo Industrial Bimbo	Cifra and Subsidiaries
10	Ford Motor Company	Celanese Mexicana	IBM de México	Compañía Nestle	Valores Industriales & Sub.
11	Celanese Mexicana	Met-Mex Peñoles	Nestle	Grupo Nacional Provincial	Fomento Económico Mex. & Sub.
12	Hylsa	Kimberly-Clark de México	Kimberly-Clark de México	Tolmex SA & Sub.	Vitro & Sub.
13	Cía. Mexicana de Aviación	Hylsa	Met-Mex Peñoles	Aerovias de México	Cintra
14	Gigante	IBM de México	Cervecería Cuauhtemoc	IBM de México	Grupo Industrial Bimbo
15	Met-Mex Peñoles	Fertilizantes Mexicanos	Grupo Nacional Provincial	Cigarrera la Moderna	Empresas la Moderna
16	ASA	TMM	Tiendas de Descuento Sultana	Kimberly Clark de México	Gigante
17	Aeronaves de México	Industrias Resistol	Cigarrera la Moderna	El Puerto de Liverpool & Sub.	Controladora Comercial
18	Cervecería Cuauhtemoc	Nestle	Nacional de Drogas	(ICA)	Grupo Acerero del Norte
19	Kimberly-Clark	Aseguradora Mexicana	American Express Co.	Cia. Mexicana de Aviación	ISPAT Mexicana & Sub.
20	Nestle	Cervecería Cuauhtemoc	Industrial Minera México	México Desarrollo Ind. Minero	GE de Mexico

= State Owned **= Private Mexican Capital** **= Foreign Capital**

Source: ***Expansion*****, August, 1985, 1988, 1991, 1994, 1997.**

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