

**Monetary Mismanagement and Inadvertent Democratization in Technocratic Mexico**

Pamela K. Starr

Instituto Tecnológico Autónomo de México  
Departamento de Estudios Internacionales  
Río Hondo 1  
Colonia Tizapán, San Angel  
01000 México, DF  
Mexico  
525-628-40-00 x3926 (phone)  
525-628-40-92 (fax)  
starr@eniac.rhon.itam.mx

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Thinking about the emergence of democracy in the developing world, both within western policy-making circles and in the academic community, continues to be dominated by the traditional concepts of modernization theory. From this perspective, economic development is an essential, even if not sufficient, ingredient for the development of democratic politics, and a capitalist market economy is the most effective means of generating economic advancement (Lipset, 1959 and 1994; Rostow, 1971; Huntington, 1991; Przeworski, 1991; Ruescheimer, Stephens and Stephens, 1992; Weintraub and Baer, 1992; and Diamond, 1989). Economic policies which favor the free operation of markets would help generate economic advancement, produce social differentiation, encourage liberal individualism and thereby strengthen the foundation for democratic politics in developing countries. Underlying this argument there is also the implicit assumption that liberal democracy will tend to reinforce economic liberalism and thus long-term economic growth. Expanding individual liberties in one realm will inevitably encourage citizens to demand equivalent freedoms in the other. This inherent compatibility between political and economic reform thus has the power to create a virtuous circle of democracy and development in developing countries (Packenham, 1973; Shattuck and Atwood, 1998).

This line of thinking is anything but unchallenged. An opposing school of thought argues that political and economic liberalization are necessarily incompatible—not only does economic reform, and market-based economic policies more generally, undermine democracy (Waisman, forthcoming; Acuna and Smith, 1994; O'Donnell, 1994), but democracy also threatens the implementation of economic reform as well as the effective functioning of markets (Olsen, 1982; Przeworski, 1991). Democratic practices increase the capacity of individuals to punish politicians who implement policies which damage their interests. Under these circumstances, politicians will have an incentive to avoid politically costly economic reforms, to rely on non-democratic means to

achieve their economic objectives, and/or to respond to the demands of powerful actors rather than preserve the efficient functioning of the economy.

The battle for supremacy between these two schools of thought persists largely because there is a large body of empirical evidence supporting each perspective. Numerous case studies identify a long-term relationship between higher levels of economic development and democracy, in both developed and developing countries, showing that at least in some instances, economic and political reform can be highly compatible. A growing number of empirical studies, however, indicate that the opposite is often true. This theoretic conundrum has spawned a third school of thought which accepts that although political and economic reform can be reinforcing, they also can be highly contradictory. More important, these two reform processes often interact in surprising and often ambiguous ways. These analysts argue that the link between democracy and market economics is not simple and unidirectional but complex, dynamic and driven by factors whose significance has been overlooked by many analysts. (Conaghan and Malloy, 1994; Geddes, 1994; Nelson, 1994; Haggard and Kaufman, 1995; Oxfhorn and Starr, forthcoming).

The complicated and potentially ambiguous relationship between political and economic liberalization is evident in the case of Mexico. A cursory glance at Mexican political and economic development in the post-war period seems to paint a portrait of modernization at work. Fifty years ago, Mexico was a largely agrarian country with an authoritarian political structure. In the ensuing years, rapid development transformed Mexico into a middle-income country based on a growing manufacturing sector and an increasingly differentiated economy. Until the debt crisis of the 1980s, this development process was directed through extensive state involvement in the economy. Beginning in the mid-1980s, however, Mexico implemented a series of market-based economic reforms to reduce the traditionally centralized, hierarchical, and paternal characteristics of the Mexican economy and thereby increase its efficiency. As the role of the market increased, Mexico gradually emerged from its debt-induced economic crisis.

This process of economic development in Mexico has been neatly correlated with a gradual process of democratization. Beginning in 1978, the Mexican government instituted a series of electoral reforms which, very gradually at first and quite rapidly from 1989 onward, pushed Mexico toward an expansion of democratic practices, including opposition control of the lower house of the national legislature beginning in September 1997 (for the first time since 1913). It would thus appear that economic advancement based on capitalist development and later market reform pushed forward democratization in Mexico.

Within this neat story of modernization, however, one can also find evidence of political and economic reforms not only undermining one another but also operating in quite unanticipated ways. A controlled yet significant expansion of democratic practices during Salinas administration (1989-1994) ultimately helped obstruct the effective management of Mexico's expanding market economy which led to the late 1994 peso crisis. During the ensuing administration of Ernesto Zedillo, government efforts to consolidate market-based reforms initially opened the door to an expansion of Mexico's budding democracy. This same policy objective, however, later created incentives for the government to restrain the scope of democratic practices. Further, when the consolidation of economic reform did promote democracy, it did so in a way predicted neither by modernization theorists nor their critics. This outcome was not the consequence of free markets initiating a virtuous cycle of improving living standards and expanded democracy but instead the consequence of an economic crisis.

That an economic crisis would help undermine the legitimacy of the established government and thereby promote political reform is clearly not surprising. This relationship is actually one of the very few aspects of the link between political and economic reform on which most analysts agree. Rather the surprise is found in the precise sequence of events in the Mexican case. An expansion of democracy helped usher in an economic crisis which created a political environment initially conducive, but later inimical, to the expansion of democracy. This paper will

analyze these surprising characteristics of political and economic reform in Mexico during the 1994-1997 period to illuminate the ambiguity which often pervades the link between economic and political liberalization and thereby help advance our understanding of the logic behind this theoretically confounding complexity.

The story begins with the efforts of the ruling party, the Institutional Revolutionary Party (PRI), to ensure its political survival in the wake of limited democratic reforms. In advance of the 1994 presidential elections, it manipulated monetary policy to improve its electoral chances. Although successful politically, this strategy carried with it a great economic risk—it deepened existing instabilities in the Mexican economy which ultimately culminated in the devaluation of December 1994. The ensuing economic crisis generated deep public disgust with both the market reforms perceived to be responsible for the crisis and the ruling party which had instituted these reforms. To preserve both social stability and market reforms in the midst of a sharp and thus very costly stabilization program, the government offered the public a series of palliatives including democratic reforms. It was not the government's intention that these reforms would construct a real democratic opening; quite to the contrary. Nevertheless, electoral reforms instituted to preserve Mexico's market-based economic program produced an opposition majority in the lower house of the Mexican legislature.

Attuned to the public's anger at market reforms and interested both in exerting and expanding its new-found political influence, the opposition soon initiated a legislative effort to alter Mexico's neoliberal economic program by proposing modifications to the 1998 federal budget. Although these efforts were unsuccessful, the government encountered surprising difficulty in assuring the opposition votes required to approve its budget proposal, and soon thereafter it faced a surprisingly strong backlash within the ruling party in opposition to the political-economic strategy upon which the budget accord was based. These developments raised serious doubts within the government about its ability to protect Zedillo's economic project from the inevitable

political/legislative onslaught it would face as the 2000 presidential elections approached. The Zedillo Administration thus acted to limit the scope of democracy's reach and thereby contain the threat it might pose to market reform. It proposed to expand both the economic policy prerogatives and the autonomy of a Central Bank dominated by Zedillo's appointees and led by the President's closest economic policy adviser. If approved, these reforms will place a large portion of macroeconomic policy decision-making beyond the reach of elected politicians and place it in the hands of an institution dedicated to preserving Zedillo's neoliberal economic program.

### **Political Instability, Monetary Mismanagement, and the Devaluation of 1994**

Carlos Salinas initiated his presidency (1989-1994) in an environment of economic crisis and political illegitimacy. The previous seven years had been characterized by crisis, inflation, stagnation, and the resulting sharp deterioration in Mexican living standards. It has also culminated in the stock market crash of October 1997, price increases verging on hyperinflation, and a renewed stabilization effort which drug the economy back into recession. The inability of the government to extract Mexico from this devastating cycle of economic stagnation and crisis, combined with its strikingly inept response to the 1985 earthquakes, severely eroded public confidence. Between 1983 and 1987, the percentage of the population which felt that the government was doing a good job fell from 45% to 29% (Basanez 1990; 100). On election day in July 1988, Mexicans made their dissatisfaction known—Salinas garnered the lowest vote percentage ever for any presidential candidate of the ruling party [fn on pri]. Further, although Salinas was accorded 50.4% of the vote, this result was widely seen to be fraudulent. The veracity of this result was marred by an inexplicable collapse of the electoral commission's computer system which delayed the announcement of the final vote tally for a week. The election was

followed by months of opposition-led protests and relentless questions about the legitimacy of the Salinas government.

Carlos Salinas took office lacking the legitimacy to govern yet with plans to implement a dramatic deepening of the market-based reforms he had initiated as planning minister during the previous administration. Salinas' first challenge was thus to build the political legitimacy essential for carrying out such a radical reform of the Mexican economy. To this end, Salinas quickly responded to the core complaint registered by a majority of Mexicans—those who had voted for opposition candidates calling for the expansion of democracy in Mexico. [fn on structure of opposition; democracy which was the central pillar of the opposition campaign]. In his inaugural address Salinas promised Mexicans that he would “seek an opening in our democratic life”,<sup>1</sup> and the following month he opened discussions with the opposition which culminated in a limited reform of Mexico's electoral system (irregularities in the 1991 mid-term elections led to a second phase of reforms approved in 1993).<sup>2</sup> The Salinas government also recognized an increasing number of electoral victories by candidates from the opposition National Action Party (PAN). Most notably, Salinas accepted the victories of PAN candidates in gubernatorial elections for the first time in more than half a century. Although each of these reforms increased the fairness of Mexican elections, they were never intended to democratize Mexico. Their aim was to placate a public dissatisfied with PRI governance and to forge a strategic alliance with the PAN to ensure legislative approval of Salinas' economic reforms (the 1988 elections had deprived the PRI of the

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<sup>1</sup> Cited in Alcocer V., 1995: 58.

<sup>2</sup> A detailed analysis of the electoral reforms enacted during the Salinas Administration is found in Alcocer V., 1995 and Prud'homme, 1996.

2/3 legislative majority required to amend the constitution) and thereby to enable the implementation of economic reform while preserving the political dominance of the ruling party.

Salinas' strategy of limited political reform coupled with radical economic reform worked quite well in the short term. By mid-1991 the economy was growing again (growth averaged 3.8%, 1989-1991), inflation was on the wane (from 159% in 1987 to 19% in 1991 and 7% in 1994), and electoral reform combined with a few important opposition victories had created the perception of expanding, even if very far from complete, democratic practices<sup>3</sup>. The effectiveness of this approach to rebuilding the legitimacy of PRI governance is visible in the results from the 1991 mid-term elections—the PRI increased its percentage of the vote for the lower house of congress from 49% in 1988 to 61.5% and recaptured the 2/3 majority it had lost three years earlier.<sup>4</sup>

The economic growth which formed an essential element of the Salinas strategy of governance, however, was both limited and unevenly distributed throughout the economy. Although some sectors and firms flourished in the new economic environment, many others, including those responsible for the majority of employment in the economy, struggled to survive. Further, three years of moderate growth was simply not enough to overcome the costs associated with nearly a decade of recession. For the majority of Mexicans, therefore, by the close of 1991 the Salinas reforms had produced only a small improvement in their living standards. These reforms had, however, dramatically altered their expectations. Although most Mexicans had not yet personally felt the benefits of a revived economy, they expected that their turn would come soon. Good times, they believed, were just around the corner.<sup>5</sup>

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<sup>3</sup> An October 1991 Los Angeles Times poll noted that half of the Mexicans interviewed believed that Mexico had become more democratic during Salinas' presidency. Cited in *Este Pais* (December 1991): 33.

<sup>4</sup> Craig and Cornelius, 1995: 274.

<sup>5</sup> An August 1991 poll conducted by the Centro de Estudios de Opinión Pública (CEOP) showed that 44% of Mexicans believed they were better off in 1991 than in 1990 and more than half believed that their personal situation would improve in 1992. *Este Pais* (August 1991): 4.



The survival of this positive outlook and the support it produced for the Salinas project required continued economic growth, yet growth fell off sharply in 1992 and 1993. Growth fell to 2.8% in 1992 (below the 3.4% rate required to create enough jobs to employ new entrants into the job market) and measured only 1% in 1993 owing mostly to a government effort to cool the economy in response to a yawning current account deficit (spawned in part by the overvalued currency used to fight inflation) but also due to emerging weaknesses in the financial sector.<sup>6</sup> This is not what the Mexican population had been promised. The Salinas administration had repeatedly assured Mexicans that the sacrifices associated with restructuring the economy would lead to high growth and improved living standards. Further, the administration's electoral success in 1991 was due in large measure to its success building support in urban areas (a sector of the population where the PRI is traditionally weak) based on the promise of improved economic conditions. The economic slowdown directly threatened these votes. As the economy weakened, the owners of small and medium-sized businesses and the broader urban middle class began to express their dissatisfaction with the government and its economic policies.<sup>7</sup> Salinas thus needed to reestablish economic growth to prevent these voters from defecting to the opposition.

Given these circumstances, it is not surprising that the government abandoned its effort to reduce the country's current account deficit by restricting domestic economic activity. In

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<sup>6</sup> The current account deficit totaled \$23.4 billion—6.4% of Mexican GDP—in 1993 (IMF, 1993 & 1996), spurred on by an overvalued currency. The banking system had been hit by investment losses during 1992 and by a rapid increase in past-due accounts in 1993. By the end of 1994, the Mexican banking system struggled under the weight of non-performing loans which totaled 9% of total assets (measured according to Mexico's relatively loose accounting standards of the time).

<sup>7</sup> Voter concerns with the lack of growth in the economy were strikingly evident in government-sponsored polls in advance of the 1994 elections. When asked "what issues should become a top priority for the next Mexican president", respondents in nation-wide opinion surveys conducted for the PRI campaign mentioned "create new jobs" far more often than anything else (52%) while the second more common answer was "improve wages" (23%). Concerns about economic stability (12%) and reducing inflation (6%) trailed badly. Cited in Andres Oppenheimer. *Bordering on Chaos*. New York: Little Brown, 1996: 153.

September 1993, the government announced a series of modifications to its economic program to provide a modest boost for the economy. The government hoped that this restrained action would be transformed into a large economic bump by the capital inflows (and thus declining domestic interest rates) which would follow the hoped for approval of the North American Free Trade Agreement by the US Congress.<sup>8</sup> President Salinas promised Mexican voters that the resulting economic expansion would finally enable Mexico to “reap the harvest” of the national effort to defeat inflation.<sup>9</sup>

The November 1993 decision by the US Senate to approve the NAFTA accords seemed to place this political strategy on the path toward success. Soon renewed economic growth would rebuild public optimism and this would underwrite a PRI victory in the July elections. A series of unanticipated events during 1994, however, placed this strategy in jeopardy.<sup>10</sup> International interest rates began a year-long rise beginning in February 1994. The rising profitability of investments outside of emerging markets increased investors’ incentives to shift their money out of Mexico. Given Mexico’s dependence on capital inflows to finance its large current account deficit, this development could produce a severe retrenchment in the Mexican economy.

At the same time, a series of events within Mexico increased the risk of investing in the Mexican economy. In late March 1994 the presidential candidate of Mexico's ruling party, Luis Donaldo Colosio, was assassinated. This first assassination of a prominent politician in over 50 years came only three months after a guerrilla uprising in the southern state of Chiapas and was followed by a series of high-profile kidnappings of businessmen closely associated with the

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<sup>8</sup> These policy changes were contained in the annual renewal of the Pacto, the accord between the government, business, and labor which established the means by which economic stability would be maintained. An analysis of the economic consequences of the 1993 pacto is found in Ramirez de la O, 1993.

<sup>9</sup> Quoted in *Proceso* 912 (25 April 1994): 6-7.

<sup>10</sup> A much more detailed analysis of the political and economic events leading to the December 1994 devaluation is found in Starr, forthcoming.

Salinas government. This series of events shook investor confidence deeply—over \$11 billion flowed out of Mexico in the weeks following the assassination. This massive outflow of capital radically altered the government's macroeconomic strategy for 1994. Although the government permitted the peso to depreciate 11% and watched as interest rates rose nearly seven percentage points, it feared the electoral consequences of further adjustment in the domestic economy.

The capacity of the Salinas administration to withstand an adjustment-induced recession in the run-up to presidential elections was constrained not only by the population's demand for economic growth but also by increased uncertainty within PRI regarding its capacity to win the elections even in good economic times. To the electoral reforms of 1991 and 1993 the Salinas administration added a third set of reforms in the wake of the Chiapas uprising (one of the rebels' core demands was democracy).<sup>11</sup> This third electoral reform granted autonomy to the Federal Electoral Institute, the institution charged with overseeing national elections. This change dramatically reduced the capacity of the PRI to manipulate the vote count on election day, one of the party's traditional tactics and the one which saved the presidency in 1988. Further, although the party continued to enjoy great advantages during the electoral campaign (favored access to the media, large supplies of human and financial resources, and the power of incumbency), instability within the party and a weak candidate raised serious concerns about the ability of the PRI to garner a legitimate majority on election day.

The capacity of the ruling party's political machine to generate votes for its candidates had declined significantly during the late 1980s.<sup>12</sup> The impact of this decline was most evident during

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<sup>11</sup> The need to rebuild the government's aura of a democratizing force in the wake of the Zapatista rebels' violent indictment against the representative qualities of the Salinas government and the generalized support the rebellion received in Mexican public opinion was clearly a dominant force behind the 1994 electoral reforms. The pressure on the government to increase the credibility of the electoral process also emanated from international investors concerned that the absence of further reforms could threaten political stability. See Elizondo, 1998.

<sup>12</sup> On the declining capacity of the PRI to generate votes, see Klesner, 1994.

the 1988 presidential campaign when the party was unable to deliver a clear victory for its candidate, Carlos Salinas. The threat of a broader breakdown of the party machine emerged at the end of the Salinas administration due to a sharp division within the party. The market reforms implemented during the Salinas administration weakened the traditional core of the party by eliminating many of the sources of patronage which formed the essential foundation of its power. Salinas attempted to further undermine the power of the traditional sectors of the party, and thereby their capacity to obstruct Salinas' reform project, by creating patronage networks outside of the party (most particularly Pronasol) and through a failed attempt to restructure the party.<sup>13</sup> These actions did not endear Salinas to what is known as the old guard or the "dinosaurs" of the PRI and consequently delivered a severe blow to internal party unity.

The choice of Luis Donaldo Colosio as the party's presidential candidate in the 1994 elections did little to reassure the old guard. Rather than choose an individual acceptable to both Salinas and the old-guard, Salinas chose a protégé, an individual who owed his entire political career to the patronage of Carlos Salinas. The old guard interpreted this action as an attempt by Salinas to perpetuate his policies and influence beyond his term in office. Not only did this action imply a permanent break with the party tradition of balancing power among its internal factions, it also seemed to guarantee that the new administration would continue to ignore the central concern of the old guard—that the Salinas reforms threatened the very survival of the PRI and the broader political system on which national political stability, as well as their personal power and prestige, depended.

The severity of this split within the ruling party was laid bare in the wake of the Colosio assassination. Elements within the old guard tried to take advantage of the political chaos created

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<sup>13</sup> On the consequences of Salinas' economic and political strategies on the PRI, see Dresser, 1994. On the political objectives of Pronasol, see Dresser, 1991.

by the killing to force Salinas to choose a candidate more to their liking.<sup>14</sup> After nearly a week of uncertainty Salinas successfully imposed his preferred candidate, Ernesto Zedillo, but at a price. Salinas apparently agreed to give the old guard substantial influence over Zedillo's campaign to help close the schism in the party and thereby ensure the effective functioning of its political machine throughout the campaign.<sup>15</sup>

An additional source of uncertainty surrounding the PRI's capacity to win fairly on election day was the weakness of its presidential candidate. Ernesto Zedillo was a non-charismatic technocrat and a poor public speaker who was ill-at-ease on the campaign trail. These characteristics produced a dramatic drop in the polls for the PRI candidate during the first weeks of the campaign.<sup>16</sup> By late spring, only three months before election day, his capacity to garner even a plurality of votes was unclear at best. And although Zedillo's polling numbers improved substantially in June and July, his ability to win the election by a large enough margin to

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<sup>14</sup> The day after the assassination, about twenty party veterans (mostly ex-governors and ex-legislators) sent a letter to Salinas insisting that they had the right to participate in the selection of Colosio's successor. This was followed by pronouncements of support for a rival to Salinas' preferred candidate.

<sup>15</sup> . In the days following the unveiling of the new candidate, Salinas loyalists were replaced in several key party and campaign posts by loyalists of Carlos Hank Gonzalez, a prominent representative of the old guard. Ignacio Pichardo Pagaza occupied the post of party secretary-general and later took over as Zedillo's campaign manager. Loyalists of Hank also occupied the party's secretariat for electoral action and retained the secretariat of finance. In addition, Salinas' most trusted and powerful political adviser, and a strong Zedillo backer, Jose Cordoba, was taken out of the campaign by being named Mexican Ambassador to the Interamerican Development Bank.

The battle over who would succeed Colosio as the party's candidate dominated the media in the days following the assassination. The daily developments of the battle can be found in the newspapers *La Jornada*, *Reforma*, and *El Financiero*. A less detailed but equally illuminating discussion of these events is found in the magazine *Proceso*, issues 908 (23 March 1993) and 909 (4 April 1993).

<sup>16</sup> For an account of Zedillo's difficulties on the campaign trail, see Elias Chavez. "Zedillo va en su campana de tropezon en tropezon" *Proceso* 917 (30 de May 1994): 6-7.

Polls published in *Este Pais* and *Reforma* concurred that Zedillo's popularity dropped approximately 10% from early April to late May. See *Este Pais*, August 1994: 2; *Reforma*, 15 April and 29 May 1994.

overpower public suspicions that election would not be truly free and fair remained quite uncertain.<sup>17</sup>

Given the high electoral uncertainty created by urban swing voters clamoring for economic growth, a democratic reform which prohibited manipulation of the vote count, a party machine handicapped by internal party disunity, and a weak candidate, it is not too surprising that the Mexican government decided to abandon its “responsible” management of the economy during the Spring of 1994. Rather than accept the recessionary consequences of adjusting to declining investor interest in Mexico, the government fudged. It front-loaded its spending for 1994 (spending significantly more than half its annual budgeted spending during the first half of the year), and used the national development banks to increase the supply of credit in the economy.<sup>18</sup> The government also dramatically increased the emission of the infamous tesobonos—dollar-denominated securities which absorbed exchange rate risk associated with investing in a turbulent political setting. As risk fell, capital flows stabilized, interest rates fell, and economic activity rebounded.

This policy achieved its aims. It produced an expanding economy—4.8% in the second quarter of 1994 and 4.5% in the third quarter—which helped underwrite a stunning victory for the PRI in the August 21 presidential elections (Zedillo not only won an absolute majority of the vote, but his vote total reached nearly double that of his nearest rival). But this politically driven mismanagement of monetary policy also risked destabilizing the Mexican economy. It increased the government’s short-term dollar liabilities (tesobonos) and its current account deficit despite

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<sup>17</sup> The Mexican government feared that if Zedillo won the election by only a small margin, the opposition would enjoy a margin of believability for a claim of fraud. This could generate social unrest, demands for new elections, and, once again, a lack of political legitimacy for the president-elect.

<sup>18</sup> This economic strategy is discussed in Hale, 1996; Heath, 1995; IMF, 1995; Ramirez de la O, 1995; and Sachs, et al, 1995. According to the Bank of Mexico, the development banks lending during 1994 totaled 8.6% of Mexico’s GDP (Financial Times of London, 17 April 1998, p. 5).

sharply reduced foreign exchange reserves. In other words, Mexico increased borrowing and spending despite a drop in its capacity to pay. This increased significantly the risk that Mexico's creditors would lose confidence in the country's ability to meet its debt payments and thus would cease lending. Without these capital inflows to balance its books, Mexico would be forced to cut its spending dramatically (recession) in order to pay its debts.

This electorally determined economic gamble might not have had catastrophic consequences if Mexico had begun to adjust in the months following the presidential elections. In the three months between the presidential elections and Zedillo's inauguration, however, Mexico's economic strategy—for both economic and political reasons—remained unchanged. Economically, a sudden rise in interest rates to attract capital flows or a sudden devaluation of the peso to reduce the current account deficit would have threatened both the solvency of several Mexican banks and the fiscal health of the government. Weakened by its huge portfolio of non-performing loans, the Mexican banking system was in no condition to absorb the increased default rate associated with higher interest rates nor the increased payments on its dollar debts that would accompany a devaluation.

From the political perspective, Ernesto Zedillo had won over urban voters by insisting that the well-being of their families could only be protected through a PRI victory and the perpetuation of its economic reforms. In order to retain the support of these voters in the transition period, and thereby deny the opposition the fodder for the election protests the PRI still feared could materialize, the government needed to deliver on its promises. The Zedillo team also hoped to draw on their candidate's electoral success to strengthen his position within the party. Their aim was to enable Zedillo to build a governing team composed of loyalists rather than have secretaries of state imposed upon him by the old guard (as they had been imposed on his campaign team) or by Salinas. Continuing sharp divisions within the ruling party ensured that this would not be an easy feat. The difficulty of this task was placed in bold relief by the late September assassination of the

secretary general of the PRI. Although the intellectual author of the murder remains a mystery, the death of Francisco Ruiz Massieu was almost certainly the outgrowth of disputes within the ruling party.<sup>19</sup> The Zedillo team thus adamantly opposed any recessionary adjustment which might undermine the President elect's standing with the Mexican electorate while the Salinas team refused to consider devaluation.<sup>20</sup> The Mexican government thus opted to roll the dice one more time—to risk economic stability in the interest of a stable political transition. It was a bad bet. Declining foreign exchange reserves forced the Mexican government to float the peso in late December 1994 ushering in the deepest depression in post-war Mexico.

The Salinas sexenio thus introduced limited democratic reforms with the objective of legitimizing the Salinas government and its strategy of market-based economic reform. The resulting reforms of election procedures, combined with the preferences of Mexico's key swing voters and disputes within the ruling party, created sufficient electoral uncertainty that the Salinas administration felt it unwise to risk recession on the eve of presidential elections. The consequent mismanagement of monetary policy, perpetuated in the post-election period by a weak financial sector and renewed conflict within the ruling party, spawned the 1994 peso crisis.

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<sup>19</sup> The deep split between the Salinas Administration and the old guard was clearly evident in the biting editorials of the magazine *Siempre*, considered to be the mouthpiece of the dinosaurs. In September, these columns attacked Salinas for marginalizing and humiliating old line politicians throughout his presidential term (No. 2151, 14 September 1994). Following the murder of Ruiz Massieu, *Siempre* argued that Salinas was attempting to intimidate Zedillo and destabilize the transition in order to perpetuate his political influence into the next term (No. 2155, 12 October 1994).

<sup>20</sup> The Zedillo team's preoccupation with avoiding a recession in the transition period can be seen in their persistent public promises of growth, constant rumors of sharp disagreements between Zedillo's supporters and Pedro Aspe and Miguel Mancera (Finance Minister and Central Bank President respectively and proponents of a tight monetary policy to protect the exchange rate) over economic strategy in the weeks following the election, and the comments of one member of the Zedillo economic team, Guillermo Ortiz, who implied that a bit more flexibility in exchange rate policy might even be acceptable in order to promote growth.



## **Balancing Governability with Sustained Neoliberal Reforms**

Throughout 1994, political necessity in the light of limited democratic reforms weakened the Mexican government's ability to sustain the macroeconomic stability which its neoliberal market reforms had been designed to preserve. During 1995 and 1996, the interplay between political and economic reform change markedly. The deep economic crisis produced in large measure by 1994's monetary mismanagement pressured the new Zedillo administration to accept further democratic reforms in a heroic effort to protect market reforms. This effort to win public acquiescence of the administration and its economic strategy in exchange for increased democracy, however, did not please the ruling party. The old guard believed that the crisis bore out their long-ignored concerns over the negative consequences of market reform and were convinced that additional democratic reforms would further undermine the capacity of the PRI-system both to function and ultimately to survive. In a striking change from the past, however, these PRI dissidents will not fall into line behind the president and his policies. The depth of the crisis and a president severely weakened by his less than auspicious start emboldened the hard liners to challenge the policies of the new administration. The story of the first two years of the Zedillo administration is thus the story of a see-saw battle between the government's efforts to protect market reform by granting more democratic reforms and the old-guard's efforts to protect the PRI from the negative consequences of this political-economic strategy. The compromise which ultimately emerged, however, did not satisfy the bottom line of either actor, but it did inadvertently produce a the democratic opening Mexico has long awaited.

### **The Opening Round (January-June 1995):**

As is well known, the Zedillo team sorely mishandled the December 1994 devaluation, making a difficult economic situation much worse. Their first mistake was to try to widen the

peso's flotation band without sufficient reserves to underwrite this new regime. When the markets inevitably tested the peso's new value, the government could not defend it and thus was forced to allow the peso to float. This sequence of events undermined confidence in both the value of the peso and the skill of the government's economic team. Making matters worse, the government neglected to present an economic contingency plan to back up its new exchange rate policy. The government delayed two full weeks before announcing a stabilization program, and it was forced to postpone Zedillo's speech announcing this program several times because of strong opposition from labor (a key segment of the party's old guard). The program Zedillo finally presented on January 3, however, was seen by investors to be internally inconsistent and simply insufficient to stabilize the Mexican economy. This comedy of errors had two principle consequences: Mexico's economic crisis deepened significantly and Zedillo's presidency weakened dramatically.<sup>21</sup>

In a desperate effort to rescue its economic program from a feared wave of social unrest, the Zedillo government adopted a series of measures designed to increase its standing in the public eye.<sup>22</sup> These actions included overseeing gubernatorial elections in the state of Jalisco in mid-February from which the opposition National Action Party (PAN) emerged the clear winner, and the arrest later in the month of former President Carlos Salinas' brother on charges of masterminding the September assassination of the PRI's secretary-general. The most significant measure, however, was Zedillo's attempt to follow through rapidly on his campaign promises of increased

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<sup>21</sup> Analyses of the devaluation of 1994 are numerous. A selected sample includes Calvo and Mendoza, 1995; Gil Diaz and Carstens, 1995; Hale, 1995; Heath, 1995; Sachs et al, 1995, and Edwards and Naím, 1997.

<sup>22</sup> The fear of unrest emanated not only from the consequences of a collapsing economy, but also from the public's sense of having been tricked by the Salinas administration and candidate Zedillo into thinking that prosperity was just around the corner when in fact another crisis was around that corner. An exchange during a union meeting on January 3 is particularly illuminating. The leader of the civil servants union complained that "For months we were told that we were on the verge of sustained economic growth, then suddenly everything falls apart. We need to know what happened." The response came from Fidel Velazquez, the then 94-year old godfather of Mexico's pro-government unions: "they tricked us, comrade. They tricked us." Quoted in LARR (19 January 1995): 2.

democracy. The administration feared the outbreak of post-election violence in the wake of numerous state elections scheduled throughout the year, and the possibility that this could build into broader social unrest capable of threatening the government's economic program. The administration thus moved quickly to reach an agreement with Mexico's three main opposition parties on the basic principles which would guide negotiations on political reform. The agreement was announced to the public on January 17.<sup>23</sup> The reaction of the old guard was immediate.

Initiating negotiations on political reform with the National Action Party was relatively easy given the series of political compromises reached between the PAN and the government in the Salinas years. Bringing the Democratic Revolutionary Party (PRD), the main leftist opposition force, to the bargaining table, however, was complicated by the Salinas' efforts to disable if not eliminate this party. Zedillo thus made a compromise to entice the PRD to join the negotiations: two gubernatorial victories registered by the PRI in late 1995 and contested by the PRD as fraudulent would be reversed in exchange for the PRD's participation in the reform talks. One of the two effected governors, however, Roberto Madrazo of Tabasco, a key figure in the party's old guard, refused to yield. The day following the signing of the electoral reform agreement, the local PRI in Tabasco organized demonstrations in support of Madrazo's election victory and, with the assistance of the state police, violently removed the PRD supporters who had occupied the state house in Villahermosa.<sup>24</sup>

Faced with the defiance Madrazo and his state party organization, and the strong support his behavior received from a bloc of hard-line PRI governors, Zedillo quickly backed down. On

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<sup>23</sup> The agreement, *Compromisos para un Acuerdo Político Nacional* or the *Pacto de Los Pinos*, included basics such as making the electoral authorities independent of the government, limits on campaign financing and spending, assuring equal access to the media, and the immediate resolution of post-electoral conflicts. See *Acción*, 834 (23 January 1995): 3ff.

<sup>24</sup> On the Zedillo administration's agreement with the PRD, see *Acción*, 833 (16 January 1995): 3ff; on the reaction of Governor Madrazo, see *Acción* 835 (30 January 1995): 3ff, and *LAM* (March 1996): 2.

the afternoon of January 19, the president of the PRI announced that Madrazo's victory was "valid and legal" and the interior minister denied that he had ever negotiated Madrazo's gubernatorial tenure with any opposition party.<sup>25</sup> Four months later, on a trip to Tabasco, Zedillo set in stone his new policy in Tabasco by announcing that he and Governor Madrazo would work together for Tabasco until 2000—the year both their terms would expire.

Pressures from party hard liners also played a role in Zedillo's decision to revise his policy approach to the rebellion in Chiapas. He had begun his administration promising to negotiate with the Zapatista rebels, who had still refused to sign a peace treaty with the government two years after their initial uprising. Their continuing refusal to talk during the first two months of the Zedillo administration generated growing frustration and ultimately an ultimatum in early February—if the rebels did not return to the negotiating table, the government would adopt other means. When the Zapatistas took no notice, the sent in the military. Although popular opposition (and the failure of the military to capture the charismatic leader of the rebels, subcommander Marcos) convinced Zedillo to call off the offensive after only four days, the operation had several positive consequences for the new government. The government regained control of all the municipalities the rebels had occupied since early 1994, it substantially reduced the capacity of the rebels to cause problems by forcing their retreat into the jungle and establishing a military cordon which encircled them, and it helped convince the rebels to return to the negotiating table beginning in March. Zedillo's actions and their consequences on the ground in Chiapas also helped improve

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<sup>25</sup> Cited in *Accion* 835 (January 30 1995): 4. The support given to Madrazo's rebellion came as well in the editorials of *Siempre*. Through this medium, the old guard argued that the effort to negotiate away the PRI victory in Tabasco was a "basic political error" which violates the "sovereignty of Tabasco." (No. 2171, 26 January 1995).

his political standing with the old guard which had been calling for a harder line against the EZLN since late 1994.<sup>26</sup>

The Chiapas offensive was not free of political costs, however, particularly for the government's relationship with the PRD. Chiapas was the second state (in addition to Tabasco) included in the government's January agreement with the PRD in which disputed election results were to be resolved through the resignation of the elected PRI governor. Less than a month after Zedillo's change of heart in Tabasco, the offensive in Chiapas seemed to demonstrate that the government was backing away from this agreement. The PRD withdrew from the political reform talks in protest.

The events of January and February show that Zedillo was caught between a rock and a hard spot. He needed to quiet what he feared would be a restive population and to build legitimacy for his presidency, but he also needed the support of a unified PRI to implement his economic program effectively. Yet the party's old-guard would not easily fall into line. These politicians strongly felt that the economic crisis was not their fault but that of Salinas, his successor, and their misguided economic policies. Further, they believed Zedillo's preferred solution—bestowing favors on the political opposition to convince them to participate in a “definitive” electoral reform designed to win public acquiescence for the high economic costs of salvaging neoliberalism from the crisis into which it had fallen—would force the PRI to absorb virtually all the political costs of reestablishing Zedillo's credibility. Why, the dinosaurs reasoned, should the PRI pay the political price for preserving an economic program whose implementation had served to undermine both the

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<sup>26</sup> In early October 1994, *Siempre* counseled the president-elect to prevent the Zapatista rebels and their allies from taking control of Chiapas by reestablishing “respect for authority” in the state despite Zedillo's understandable desire not to initiate his presidency with “indigenous blood on his hands” (No. 2154, 5 October 1994). On the day the Zedillo administration began its military action against the Zapatistas, *Siempre* insisted that were Zedillo to respond militarily to any further provocation by the Zapatistas, “no honest person could accuse him of being intolerant.” (No. 2173, 9 February 1995). And in the wake of the order to send the military into Chiapas, *Siempre* fully supported Zedillo's decision to defend “the stability of the country.” (No. 2174, 16 February 1995).

internal strength of and popular support for the party? Why should they support a political-economic strategy which they firmly believed would bring the opposition to power? The Zedillo administration was thus left a very narrow space between the demands of the PRI and those of the opposition within which it would have to operate.

It was within the context of this difficult political-economic bind that Zedillo announced his long-delayed stabilization program in early March. The program was designed to stabilize the economy in a very short period of time, even though this would certainly bring with it a sharp fall in economic activity. The government's strategy was two-fold: to announce a plan which would generate confidence in the markets and, equally important, be painful but short. The administration hoped that the inevitable recession would be concentrated in 1995 and that it would give way to a healthy recovery in 1996 which would pave the way for the PRI's electoral victory in the all-important mid-term elections of 1997 (not unlike what occurred during the first half of the Salinas administration). Despite strong reservations about this program, and especially regarding the 50% increase in the value-added tax it contained, a measure sure to be highly unpopular with Mexican voters, the PRI-controlled legislature bowed to the party's tradition of deference to the President, and to its fear that to do otherwise would further weaken an already frail government, and dutifully passed this program into law.<sup>27</sup>

Following this legislative victory, gubernatorial elections in the states of Guanajuato and Yucatán in late May again demonstrated the difficult position in which Zedillo found himself throughout early 1995. The opposition PAN scored a decisive victory in Guanajuato, but the PRI

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<sup>27</sup> Details of the March 9, 1995 stabilization program are found in EIU (2<sup>nd</sup> Quarter 1995): 10-12; LARR (30 March 1995): 2. The old guard's fear that violence and anarchy could be on the horizon if the government did not begin to come to grips with the political and economic crisis it faced was voiced repeatedly in the editorials of *Siempre* throughout the first half of 1995. The deference of the old guard to the party's tradition of internal hierarchy had weakened somewhat by this time, as was demonstrated by Roberto Madrazo's recent rebellion. But the editorials of *Siempre* continued to criticize strongly deviations from party discipline, demonstrating the weight this tradition still carried within this party faction.

machine squeaked out a victory for a prominent member of the old guard in Yucatán. The PAN protested the results. With the lessons of Tabasco still fresh, on the heels of an informal accord among the hard-line governors of six southern states to oppose any effort by the federal government to reverse the results of state elections,<sup>28</sup> and without solid evidence of fraud, the Zedillo administration let the results in Yucatán stand. Once again, a concession to the old guard had negative consequences for Zedillo's political reform project—in late June the PAN followed the lead of the PRD and withdrew from the reform talks in protest.

As the summer rainy season took hold, the negotiations on political reform looked about as healthy as the economy—both of the main opposition parties had withdrawn to protest, in effect, the continuing influence of the old guard in government affairs. In an effort to reinvigorate the talks, Zedillo asked for the resignation of his closest associate in the cabinet, interior minister Estebán Moctezuma. Moctezuma's inability to fulfill the promises he had made to the opposition in the January 17 accord on political reform had undermined his credibility both as an honest broker and as someone who could deliver on his promises. Nor was he very popular with the old guard who believed he was too young, inexperienced, and technocratic to lead the interior ministry, as evidenced by his misguided plan to trade the resignations of two PRI governors for PRD participation in the political reform talks.<sup>29</sup> Zedillo hoped that his new interior minister, Emilio Chuayfett, would be able to make effective use of the good relations he enjoyed with both the opposition and the old guard.

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<sup>28</sup> Known as the “Declaration of the Southeast”, this accord was signed in late April by the Governors of Yucatán, Quintana Roo, Chiapas, Tabasco, Oaxaca, and Campeche with the coming elections in Yucatán as its motivating force. LARR (15 June 1995): 3.

<sup>29</sup> The old guard's view of Moctezuma can be found in *Siempre*, No. 2172, 2 February 1995 and No. 2194, 6 July 1995.

### **Holding Action (July-September 1995):**

Despite the expectations generated by Chuayfett's entrance into the cabinet, the reform talks remained moribund throughout the summer and into the fall. This was largely the result of a modified political calculus within the administration. The pressures from the old guard to avoid concessions to the opposition were as great as ever, but the urgent need for an electoral reform to evade social unrest seemed to have declined.

By the end of June, the potential for social unrest seemed to be dissipating. The government had survived two sets of state elections without any serious unrest, and even the large opposition demonstrations on labor day (May 1) had not deteriorated into more generalized unrest. Although the labor unions were irate in January and had refused to endorse the March 9 stabilization package, they ultimately bowed to tradition and helped the government implement its stabilization program by quietly accepting its requisite reductions in real wages and by canceling the traditional march by pro-government unions on May 1 to minimize the chance for unrest. And although only one business confederation was willing to support the March 9 program initially, they all came on board gradually. More generally, after some initial public protests of the government and its policies in the wake of the devaluation, the population seemed to be settling into an attitude of resignation rather than activism. And once the economic recovery the government anticipated for late 1995 or early 1996 took hold, the potential for social unrest would dissipate even more.<sup>30</sup>

The electoral calendar also reduced the government's sense of urgency regarding political reform. Gubernatorial elections were scheduled for August 6 and again in early November, but

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<sup>30</sup> As late as the end of July, the government was still predicting that the second quarter will have been the low point of the recession with a 5-6% decline in economic activity (the actual fall was 10.5% with an equally massive fall in the third quarter) and that growth should pick up again in the second half of the year leading to a 2-4% decline for the entire year (growth did not reemerge in 1995, leading to a total fall of 6.2% for the year). LAM (August 1995): 2 and Banco de Mexico, 1997: 26 & 39.



after that the electoral calendar was clear until November 1996. The public's tendency toward social unrest therefore dropped just as the opportunity for unrest emanating from disputed election results declined. The need for electoral reform to buy public acquiescence of the government's economic program, therefore, no longer seemed urgent.

Pressures from within the party to scrap reform, meanwhile, continued unabated. After a win in legislative elections in Chihuahua in July, the PRI suffered new defeats in early August, including the gubernatorial election in Baja California. The August defeats brought the total to three governorships lost in just seven months (in a country with no opposition governors until 1989). These results did little to rebuild support for Zedillo and his economic policies within the old guard. To the contrary, the old guard blamed the Salinas-Zedillo economic program—the dislocation, unemployment, and poverty it had created—for this setback and insisted that the government was placing its very survival at risk if it did not change economic course. This point was delivered powerfully in September in the person of Luis Echeverría. Breaking the tradition of political silence among past presidents, he blasted the neoliberal economic policies of Carlos Salinas and, by implication, Ernesto Zedillo, and called on the PRI to return to its roots in revolutionary nationalism.<sup>31</sup> The old guard also went after President Zedillo for having effectively abandoned the PRI. They sharply criticized the President for relying on the party to approve unpopular constitutional reforms such as the value-added tax, but at the same time marginalizing it, weakening it, and behaving as if he were ashamed of it. They insisted that this behavior change for it was both strengthening the opposition and weakening the ruling party, and without the party Zedillo would be unable to govern.<sup>32</sup>

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<sup>31</sup> *Siempre* No. 2199, 10 August 1995 and No. 2206, 28 September 1995; Echeverría cited in LARR (18 January 1996): 4.

<sup>32</sup> *Siempre* No. 2200, 17 August 1995 and No. 2203, 7 September 1995..

Continuing political pressure from within the PRI coupled with a seemingly stable social situation, and the continued refusal of the PAN to take their seat at the negotiating table, dictated that political reform would remain dormant throughout the summer. And despite the decision of the PRD in August and of the PAN in October to return to the talks, real progress in the negotiations toward political reform would have to wait until the government's need for an agreement to protect market reforms once again outweighed the cost of further antagonizing the old guard. The wait would not be long.

### **Renewed Reform Talks and Open Rebellion in the PRI (October 1995-December 1996):**

By early November the President's hold on power seemed so shaky that rumors of a coup once again circulated in Mexico. Zedillo's inability to quell a series of battles within the PRI, brought into question his capacity to control the party and thus to govern the country.<sup>33</sup> Things were not any better on the economic front. The economic contraction during the second quarter was not the 5-6% decline the government had anticipated but 10.5%, nor was this the low point of the recession—figures released in November showed that the economy continued to contract at a torrid pace (9.6%) in the third quarter. Despite this collapse of economic activity, inflation continued to ravage the economy—prices continued to increase well over 2% each month. The poor performance of the Mexican economy combined with coup rumors to produce a sudden outflow of capital in late October and again in early November producing a 10% drop in the value of the peso. Under these circumstances, the old guard toned down their criticism of the President and the party hesitantly united behind Zedillo to help shore up his position.

The surprising depth and duration of the depression in the Mexican economy, combined with the shock of a renewed depreciation of the peso, began to wear on the patience of the Mexican

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<sup>33</sup> This battles between hardliners and reformers culminated in the resignation of prominent reformer, Manuel Camacho.

population, especially in light of the repeated promises of Zedillo and his treasury minister since summer that recovery was just around the corner. Evidence of this popular discontent is clear in Zedillo's poll numbers. Voter approval of his presidency bottomed out in June and, after a small recovery in September, revisited its low point in December—only 31% of Mexicans approved of his performance.<sup>34</sup> Toward the end of 1995, the government also began to feel pressure from both business and labor to relax aspects of its stabilization program.

Unwilling to sacrifice its stabilization efforts to these growing popular demands and with a narrow breathing space within the PRI, the Zedillo Administration once again turned to the palliative of political reform.<sup>35</sup> Following Mexico's extensive year-end holidays, reform talks resumed in mid-January.

Zedillo's capacity to provide political reform was threatened once again in mid-February by the withdrawal of the PAN from the reform talks, this time due to an electoral dispute in the state of Puebla.<sup>36</sup> The PAN argued that if the government was unable to prevent its local party organizations from perpetrating fraud, how could it ever ensure the enforcement of broader electoral reforms? Despite the PAN's absence, the government insisted on pushing forward the now tripartite talks (among the PRI, PRD, and the PT, the labor party). The government ensured,

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<sup>34</sup> *Reforma* (3 June 1997): 1.

<sup>35</sup> The extent of Zedillo's breathing space should not be over-stated. Although the PRI-dominated Congress easily approved the President's budget for 1996 in early December, opposition to the economic policies that budget reflected remained strong in the party. In early January, the same legislators who had approved Zedillo's budget sent him a 40 page letter calling for a number of policy changes, including an end to his neoliberal economic policies in favor of a more active role for the state in promoting growth and supporting the poor, albeit while maintaining price stability. LARR (22 February 1996): 2.

<sup>36</sup> The PAN withdrew from the talks after an electoral commission refused to overturn the results of a municipal election the PAN perceived as fraudulent. The hard line taken by the PAN over such a minor office also reflected internal party politics. With elections for a new party president only a month away, and with the governing faction under fire for its tradition of compromising with the PRI, the party leadership saw it to its advantage to make every effort to appear tough in its dealings with the PRI. LARR (13 June 1996): 2; *Acción* 888 (26 February 1996).

however, that the main concerns of the PAN were addressed at the negotiating table to ease that party's return to the talks once the problems in Puebla were resolved.<sup>37</sup>

The talks took place in the midst of deep public pessimism about their future economic prospects. Although the economy was finally beginning to pull out of its deep depression during the Spring, the recovery was led by the export sector and therefore was not tangible for most Mexicans. Further, given the extensive economic losses registered in 1995 both in physical and psychological assets, recovery would inevitably take a long time. It also seemed that the battle against inflation could not be won—prices continued to increase an average of over 2.5% each month during the first quarter of 1996. In this setting, prepayments on the government's debt with the United States gave Mexicans the impression that Zedillo was selling them out in favor of foreign investors. Indicative of this public attitude was a March 1996 Gallup poll showing that 47% of the population believed their situation to be either worse or much worse than a year earlier.<sup>38</sup> At the same time, labor unions expanded their efforts to force the government to grant wage increases above those permitted in the economic program.

Under this pressure, the negotiators of the PRI, PRD, and PT reached an accord on political reform in mid-April. But the government still needed to bring the PAN into the agreement prior to sending the proposal to the legislature and the states (there were a number of constitutional reforms in the package) for final approval. Without the participation of the most prominent opposition party, the reform package would lack legitimacy in the eyes of many voters. The PAN, however, held firm to its insistence that it would not return to the talks until the electoral dispute in Puebla was resolved to its satisfaction. Meanwhile the old guard governor of Puebla, Manuel Bartlett, made clear his opposition to any reversal of the PRI victories.

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<sup>37</sup> Carlos Ramírez, "Indicador Político", *El Financiero* (8 March 1996): 47.

<sup>38</sup> Cited in *Acción* 890 (11 March 1996): 2.

Caught in this dilemma, Zedillo ultimately decided to do what was best for market reform in Mexico—he sided with the PAN in the Puebla dispute as the price for bringing them back into the political reform talks.<sup>39</sup> This decision led to an August agreement on electoral reform which both the national legislature and state governments will quickly approved.<sup>40</sup> The cost in terms of Zedillo’s relationship with the PRI and the party’s grudging tolerance of the government’s political-economic strategy, however, was very high.

In the wake of Zedillo’s action in Puebla, the old guard sent an unusually blunt message in the editorial of their weekly publication, *Siempre*. It warned that the delayed recovery in the economy and the continuing lack of presidential leadership had produced “anger and rebellion of governors, deputies, and senators of the PRI who are unwilling to shoulder the errors of the leadership.” In addition, *Siempre* publicly accepted that the party faced a serious dilemma: should it continue supporting the president and his policies or should it defend the principles of the party and protect its political future, for it was now clear that the two no longer coincided. Two months later, *Siempre* speculated about the possibility of a mutiny in the party against Zedillo and his policies if the microeconomy did not rebound by December.<sup>41</sup>

Faced with a President whose policies and preferences ran counter to its interests, the PRI began to take matters into its own hands. It organized a campaign to counter the benefits conferred on the PAN by the administration by publicizing unpopular policies and political shortcomings in regions governed by National Action. The most visible acts of rebellion against Zedillo’s policies, however, came in September and November. During the PRI’s 17<sup>th</sup> party convention in late

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<sup>39</sup> Carlos Ramírez, “Indicador Político”, *El Financiero* (24 March 1996): 41.

<sup>40</sup> The central components of the electoral reforms included strict limits campaign spending, increased public financing of political parties, the independence of the Federal Electoral Commission, direct election of the mayor of Mexico City, and a reduction in the number of seats any one party can hold in the lower house of the Congress.

<sup>41</sup> *Siempre* No. 2234, 11 April 1996; speculation about a possible mutiny appeared throughout June.

September (the first during Zedillo's presidency), the party made several changes to its internal procedures which amounted to a repudiation of Zedillo and his economic project. A virtually united convention voted to oppose the privatization of PEMEX's (the national oil company) petrochemical facilities, a policy promise Zedillo included in his March 9, 1995 stabilization program. It also voted to return party doctrine to its traditional, pre-Salinas roots of social justice, sovereignty, nationalism, and democracy. Party activists further agreed to end the close cooperation with the National Action party characteristic of both the Salinas and Zedillo administration, and to deny Zedillo the President's traditional power to name his successor. Finally, the party changed the requisite qualifications of its presidential candidates with the clear aim of disqualifying all the technocrats in the Zedillo cabinet (candidates now had to be party members for at least ten years and have held elective office). Disgusted with the way in which their President had led them to a seemingly endless string of electoral defeats, the party thus moved to take control of its own destiny. These decisions sent a clear message that the PRI was extremely unhappy with Zedillo and his policies and it raised doubts about the willingness of the party to continue holding its nose and backing the administration.<sup>42</sup>

Zedillo's response—placing one of his closest advisers (the former interior minister) on one of the party's key governing bodies—was supremely insufficient in the face of the depth of party discontent and the results of the November 10 elections. Weighed down by a recovery in the nation's macroeconomy which still refused to trickle down to the majority of Mexicans (plus continuing corruption scandals and rising crime rates), the party suffered heavy losses in three states, the most important being the state of Mexico. Not only had the historically strong party machine in Mexico state proved insufficient to the challenge, the state's close proximity to the federal district was a very bad omen for the outcome of the first ever election for the extremely

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<sup>42</sup> *Accion* 918 (30 September 1996): 1ff; LARR (10 October 1996): 2.

important post of Mexico City mayor scheduled for July 1997. Further, the losses had not come just at the hands of the PAN, but also to a rejuvenated PRD.<sup>43</sup>

Confronted by the stark message contained in these election results—that the capacity of the PRI to retain control of the Mexico City mayor’s office and the national legislature in July was in serious doubt—the party again took unilateral action to save its skin. On November 14 it forced through 16 modifications to the electoral reform legislation Zedillo had sent to the Congress in August. The most important of these changes included a large increase in the campaign spending limits for each party, an agreement that breaches of these limits would not be considered a criminal offense but an “administrative error”, an increase the PRI’s access to the media, sharp limitations on coalition candidates (to prevent the PRD and PAN from running a single candidate for Mexico City mayor), and reinstatement of a provision to permit any party receiving more than 42% of the vote to retain majority control of the legislature. These revisions of the electoral reform agreements were an obvious effort by the PRI to increase its electoral chances in July, and they were an equally obvious affront to the president who had negotiated them.<sup>44</sup>

Like a cold slap in the face, these actions woke President Zedillo to the renewed recognition that the party’s discontent with his administration posed a real threat to his policies and his capacity to govern. He therefore made no attempt to use his veto power to salvage the electoral reforms his government had spent a year and a half negotiating.<sup>45</sup> Zedillo also named a new president of the party, the PRI’s legislative leader, a politician much more closely allied with the thinking of the old guard than with that of the technocrats. And the president began to campaign

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<sup>43</sup> The PRD’s sudden reversal of fortunes owed much to its determination to unify in the face of the gains by the PAN. But it also reflected the efforts of a new party president, Andres Manuel López Obrador, to focus the party’s attention on just two things—social justice and winning elections. *Proceso* 1074 (1 June 1997): 12ff.

<sup>44</sup> *Acción* 925 & 926 (18 & 25 November 1996): 3ff, EIU (1<sup>st</sup> Quarter 1997): 11, LAM (December 1996): 2.

<sup>45</sup> *Acción* 926 (25 November 1996): 3ff.

forcefully for the PRI and its candidates for the first time in his presidency. Equally striking, Zedillo sacked his attorney general, Antonio Lozano, a member of the opposition National Action Party. Lozano's presence in the cabinet was a sign that the collaboration between the PAN and the Salinas Administration continued into the Zedillo sexenio. The presence of a "PANista" in such an important post, however, irritated the old guard. They not only believed the post was too sensitive to be occupied by a member of the opposition, but they were convinced that Lozano had used his post to discredit the PRI and they feared that he would do further damage during the electoral campaign.<sup>46</sup>

Zedillo, however, found it difficult to remove his attorney general, despite mounting evidence that he was not up to the job. To remove Lozano would signal a permanent break in the administration's increasingly rocky relations with the PAN, and the public would likely interpret this move as a government effort to cover-up politically damaging findings in the investigations of the 1994 murders of Luis Colosio and the PRI's secretary general. Zedillo's dilemma was eased by a bizarre set of events which so discredited Lozano that he could be dismissed without severe repercussions.<sup>47</sup> Lozano received his walking papers on December 2.

Throughout 1995 and 1996, Zedillo was forced to walk a political tightrope in order to preserve market reforms in Mexico. It was essential to retain party support for his government and his economic program as the only way to ensure his ability to carry out painful yet necessary

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<sup>46</sup> *Acción* 928 (9 December 1996): 3ff. *Siempre* No. 2201, 24 August 1995 and No. 2279, 20 February 1997.

<sup>47</sup> The events involved a seer who supposedly found the mutilated body of the missing congressman who was said to have masterminded the 1994 assassination of the party's secretary general in cahoots with Raul Salinas, the former president's brother. The body was conveniently found buried at one of Raul Salinas' ranches. Lozano announced publicly this great break in the case. After DNA testing, however, it was shown that the body was not that of the missing congressman, but a relative of the seer. It seems that the special prosecutor on the case, who disappeared before he could be brought to justice (and has only recently been found in Spain), had paid the seer for her special services. Under the embarrassment of this scandal, Lozano resigned. An entertaining treatment of this bazaar tale is found in Alma Guillermoprieto, "Whodunnit?" *The New Yorker* 71:29 (September 25, 1995): 44ff.



economic reforms and to prevent a popular yet costly reversion to populist policies. Yet Zedillo also needed to deliver democratic reforms to ensure that a population disgusted with 15 years of crisis, corruption, and rising crime would accept the persistence of an economic program which seemed to have fathered these maladies. The culmination of this balancing act was a watered-down electoral reform which initially pleased no one. Yet quite surprisingly, this reform package (and specifically its provision for a truly independent federal election commission) will serve as the midwife to a democratic opening in Mexico which will compound Zedillo's policy challenge and thereby raise serious doubts about the sustainability of his vision of market reform in Mexico.

### **Sustaining Market Reform in the Midst of a Democratic Opening**

Although the PRI dramatically increased its electoral advantages during the 1997 campaign as a result of its unilateral revisions of the electoral reform, this action was not sufficient to save the day. The PRI's fortunes were severely hampered by the public's perception of the corruption and impunity perpetuated by PRI governance, the huge increase in crime during the previous two years, and a microeconomy which began to recover only in the last months of the election campaign—too late to change public perceptions of their personal well-being. The PRI's capacity to manipulate the vote was also highly restricted by an electoral reform they let stand—the independence of the Federal Electoral Institute, the agency charged with overseeing the elections. In an increasingly desperate attempt to snatch victory from the jaws of defeat, the party repeated its 1994 strategy of combining a fear campaign with a bit of mud-slinging. This time, however, it did not work. The PRI not only lost the election for governor of Mexico City by an embarrassingly wide margin, the victor was a person particularly despised by the old guard,

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Cuauhtemoc Cardenas. Further, the party failed to obtain even the 42% of the vote needed to assure it majority control of the national legislature.

These election results did not, however, inevitably deny the PRI control of the Congress. The party still enjoyed a comfortable majority in the Senate (and most legislation is required to be approved by both houses), and it was only 12 votes short of a majority in the Chamber of Deputies. All the PRI needed to do was buy off a few legislators and thereby ensure that the opposition would be unable to unite against it. This task did not seem so difficult given that the opposition vote was divided among four parties, two of which had a history of cooperating with the government, and given the great ideological differences between the PRD and the PAN.<sup>48</sup>

Miscalculations and tactical errors, however, closed this window of opportunity. The PRI failed to calculate correctly the impact of its campaign to discredit the PAN by exposing its ties with Carlos Salinas, Mexico's national Satan. Burnt by the revelations of its previous accords with the PRI, the PAN's legislative contingent was motivated to avoid any appearance of a special relationship with either the Zedillo government or the PRI. PRI leaders also underestimated the impact of National Action's less than impressive showing at the polls. The party whose string of electoral victories during 1995 had doubled the number of citizens it represented failed to increase its number seats in the Chamber of Deputies in the July 1997 polls (although it did win two governorships). The party which had previously believed its position as the dominant opposition party to be unassailable now began to reconsider the wisdom of shunning cooperation with its opposition rival—the PRD.

Interior Minister Chuayfett, the orchestrator of the PRI's post-election legislative strategy, also underestimated how much political clout his party had lost as a consequence of its poor electoral showing. In the past, the PRI had exploited its monopoly control over governance to

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<sup>48</sup> The composition of the Chamber of Deputies determined by the July 7 vote was: PRI 239 seats, PRD 125, PAN 123, PT (the labor party) 5, PVEM (the green party) 8.

convince opponents to cooperate. As the only game in town, the PRI could offer lucrative government posts otherwise inaccessible to the opposition in exchange for their collaboration. The July 7 election results burst the PRI's mystic of invincibility. The PRI's losses provided, for the first time, the sense among opposition legislators that they finally had a viable option other than caving in to the PRI's demands. Finally, Chuayfett's strategy neglected a cardinal principle in politics—"my enemy's enemy is my friend." In response to the opposition's call for negotiations, the PRI demurred and delayed in order to buy the time needed to convince twelve legislators to abandon the opposition front and align themselves with the government. In the face of the PRI's arrogant refusal to recognize their new status in the legislature, the four opposition parties were reminded of a pivotal interest they all shared—to deprive the PRI of control over the Chamber of Deputies. As the August 30 date for the opening session of Congress drew near, opposition unity persisted. Chuayfett and the PRI leaders in Congress grew increasingly concerned. In a last ditch effort to break up the opposition coalition, they brought Mexico to the brink of a constitutional crisis. At the last moment, the PRI acquiesced and admitted defeat, but its final gambit to retain control of the Chamber reinforced, rather than weakened, the opposition's determination to overlook its internal differences in order to deprive a common enemy of victory. It also ensured that the PRI legislative bloc would be denied every important seat of power in the new legislature.<sup>49</sup>

This string of embarrassing defeats generated deep discontent and disorientation within the PRI. Many party members became convinced that such incompetence could not be accidental. It must instead be part of an intentional strategy designed by the technocrats to demonstrate their democratic credentials by driving the party out of existence. Party hardliners even voiced their fear that Zedillo himself was selling out the party to build his international reputation as a democrat.

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<sup>49</sup> Chuayfett's final gambit which nearly provoked a constitutional crisis is detailed in *Acción* 964 (8 September 1996): 3ff, and *Proceso* 1088 (7 September 1996): 6-10

The old guard was extremely concerned that the expanding role of the opposition in the legislature would weaken the presidency and further undermine Mexico's PRI-based political system, and they insisted that the President to take the necessary measures to break up the opposition bloc.<sup>50</sup>

Dissatisfaction with Zedillo's leadership and legislative strategy also animated the mid-September formation of the Grupo Galileo, a new critical current within the PRI based in the Senate. This group of PRI legislators, who together could deny the PRI a majority in the Senate, reflected a belief shared by many PRI legislators that they did not win their seats because of the President but in spite of him. When these legislators began to cast votes in the new Congress which would further their political careers, this would not necessarily translate into support for the personal wishes of President Zedillo. The members of the Grupo Galileo made this new political calculus public: they stated clearly that they would not blindly adhere to the tradition of a disciplined party line vote for all government initiatives. Suddenly, not only did the Zedillo Administration lack a majority in the newly-invigorated Chamber of Deputies, its majority in the Senate was also at risk, as was the unity, enthusiasm, and effectiveness of its supposed allies in both houses of the legislature.

Despite this apparent disaster brewing in the Congress, the Presidency did not reflect the depth of concern clearly visible in the PRI. The administration modified its legislative agenda only slightly and took a very hard line in its negotiations with the Chamber of Deputies. Despite the refusal of opposition leaders to meet with the President's official interlocutor, Interior Minister Chuayfett (because of his obstructionist behavior during August), the President would not acquiesce to their demand that he personally meet with them. The result was a negotiation stalemate; hardly the action of a man who believed that the opposition alliance had the capacity to

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<sup>50</sup> *Siempre*, 24 July, 21 August, 4 September, and 18 September, 1997.

block the most important piece of legislation he would send to the Congress prior to the end of the year—the budget for 1998.

President Zedillo's concerns about the prospects for his legislative agenda in the opposition-controlled Chamber of Deputies, although significant, were muted by both the character and the behavior of the leadership of the National Action Party. The policy agenda of the PAN, particularly as expressed by its leaders, was more closely aligned with the objectives of the Zedillo administration than with the aims of the PRD, especially on economic policy matters. It thus seemed almost certain that as the budget debate progressed, sharp disagreements would develop within the opposition block which would ultimately split it apart. The administration could then reach a reasonable agreement with the PAN. Further, the hierarchy of the PAN had serious reservations about their party's participation in the opposition bloc.<sup>51</sup> The leadership agreed with its legislative contingent that an alliance with the PRD would benefit the party by placing its members in positions of power in the Chamber of Deputies and by diverting attention away from the party's previous association with Carlos Salinas. But party leaders were never excited about sharing the spotlight with the PRD, and even less about operating in its shadow. Yet in the PRD's shadow is precisely where the PAN found itself throughout September owing to the legislative dominance and rhetorical flourish of the PRD's legislative leader, Porfirio Muñoz Ledo. Lastly, PAN leaders had no interest in seeing their legislative colleagues exploit their new-found political prominence to increase their influence within the party. It thus seemed that the opposition alliance would not persist for long.

Indeed the president of the PAN, Felipe Calderón, moved to undermine the cohesion of the opposition bloc in early October. He sharply criticized the behavior of Porfirio Muñoz Ledo during a painful chapter of Mexican history while he was still a member of the PRI, and implicitly

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<sup>51</sup> The leadership group is centered on three personalities: party President Felipe Calderón, Diego Fernández de Cevallos, and Carlos Castillo Peraza.

questioned his moral capacity to lead the opposition.<sup>52</sup> A torrent of name-calling ensued, which served Calderon's purposes perfectly. When the smoke had cleared at mid-month, the PAN's association with the PRD had been downgraded from a legislative alliance to a governing accord. The PAN had reemerged from the shadows, and had shaken the foundation of the opposition alliance in the process.

Yet the Group of Four, as the opposition bloc was now known, survived the onslaught of the PAN leadership. Legislative leaders from the four parties continued their efforts to forge a common agenda on issues extending well beyond the mere governance of the chamber, including the budget. Although the proposals of the PRD and the PAN to revise the government's budget plan differed markedly, they also agreed on some key points. There were thus able to form a common front around several basic changes, including a controversial yet extremely popular proposal to reduce the value-added tax from 15% to 10%. Although the budget proposal the President sent to the Congress in early November included a measured response to some opposition demands on spending, it was much less flexible on the revenue side, and any reduction in the value-added tax rate was simply non-negotiable. This opposition proposal was regarded by the President as an irresponsible budget-buster proposed solely for political gain and without regard for the threat it posed for Mexico's recently reestablished economic stability and growth.

The July 1997 elections had thereby created a new center of political power whose budget proposals were unacceptable to the Zedillo administration and with whom the administration seemed unwilling to negotiate. Legislative stalemate seemed to be in the offering unless the PAN reversed its course. Unfortunately for the Zedillo government, the emergence of an independent

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<sup>52</sup> A week after the anniversary of the Tlatelolco massacre of October of 1968 in which hundreds of protesting students were killed by the Mexican military, Calderón wrote a column for a Mexico City newspaper which accused Muñoz Ledo, a member of the government at the time, of defending the actions of President Gustavo Díaz Ordaz that day. *Reforma* (9 October 1997).

legislature also had the unexpected consequence of creating a new center of power within each of the two main opposition parties. In the case of the PAN, this not only produced a legislative contingent strong enough to perpetuate its alliance with the PRD despite the opposition of party leaders, but also created an alternative power source capable of challenging the authority of the party hierarchy.

Unable to exert his authority over his legislators, Calderon moved to increase his leverage. In early November he sent a note to President Zedillo proposing an interview to discuss democratic reforms (the reform of the state initiative) and other current issues, the most important being the budget. The President responded immediately and agreed to meet with Calderon three days later. After two months in which the President had refused to meet with legislative leaders from any of the opposition parties, the speed with which he accepted Calderon's invitation sent a strong message. The President knew that he needed the support of the PAN to get his budget passed, and that this required reestablishing Calderon's authority over his party's deputies. Zedillo thus sent a clear message to the PAN: He was willing to negotiate—he was willing to make some compromises on issues of great importance to the PAN in order to win their support—but this negotiation would have to take place through the party leadership.

The government also employed more unsavory measures to increase the pressure on the PAN deputies to break their legislative alliance with the PRD. Throughout the fall, government actions indicated that was considering bringing charges against Zedillo's former Attorney General from the PAN, Antonio Lozano, for authorizing his personnel to plant evidence and pay witnesses to build a case against Raul Salinas (the brother of the former president imprisoned in February 1995 for complicity in the murder of the PRI secretary general in September 1994). Lozano's defense had long been that the special prosecutor in the case, Pablo Chapa Bazanilla, had taken these actions without the attorney general's knowledge or approval. Chapa, meanwhile, was in a Spanish prison where he had been fighting his extradition to Mexico since his arrest in May. In

early October, the government turned up the heat on Lozano and his party by suddenly arranging the extradition of the former special prosecutor (after fighting extradition for months, Chapa suddenly requested it). Once in Mexico, Chapa offered testimony in the case and his declarations incriminating Lozano were quickly leaked to the press. The government never pressed its case against Lozano, however. A personal scandal which exploded onto the front pages of Mexico's newspapers in late November forced him to step down as Secretary General of the party.

As Lozano faced legal and personal problems, the PAN governor of the state of Nuevo Leon, Fernando Canales Clariond, came under attack for his membership on the board of directors of Banca Confia, a financial institution which had recently fallen into bankruptcy. "Evidence" suddenly appeared in the last weeks of November suggesting that not only had the governor been aware of the fraudulent activities which had led to the bank's collapse, but that the bank's jailed president, Jorge Lankenau, had bankrolled Canales Clariond's gubernatorial campaign. Along with its carrots, the government was now, not so subtly, displaying its sticks.<sup>53</sup>

This double-edged campaign to pressure the PAN to change its legislative strategy was given an unanticipated boost in early December when a legislative fiasco in the Chamber of Deputies made the institution and its members appear comical and even inept. The leaders of the PAN and the PRD had agreed to a PRI initiative to pass a package of non-controversial, miscellaneous fiscal measures. At the last minute and for reasons which remain unclear, the PRD changed its vote. Apparently fearing the political implications of voting with the PRI and against the PRD, PAN legislators also switched their votes. A gross legislative error ensued, leaving the bill not only defeated but ineligible to be reconsidered until the next session of Congress. The damage to the reputation of the Chamber of Deputies produced by this legislative blunder was multiplied by the ensuing brawl on the Chamber floor. The PAN deputies found themselves, along

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<sup>53</sup> The series of accusations and counter-accusations between Clariond and Lankenau is recounted with relish in the Salinista paper, *Cronica*, 8-29 November 1997.



with their legislative colleagues, the subject of ridicule at the hands of the media and the public. As the prestige of the PAN's legislative leadership plunged, so did their capacity to resist the onslaught directed by the party leadership and the Zedillo Administration. Within this window of opportunity, the PAN leadership and the government hammered out a budget agreement which met many of the PAN's demands, but left the value-added tax unchanged. To ensure its approval, the PAN party leadership enlisted the support of its governors (who had never fully supported the proposed cut in the value-added tax because of its negative fiscal consequences for the states) to pressure their deputies to vote for the new budget. Party president Felipe Calderon also paid a visit to the legislature during the vote to ensure discipline.

Zedillo thus had his budget. But the administration's strategy for success—convincing the PAN to betray the opposition alliance and approve the government's budget proposal with only limited modifications—had very nearly failed miserably. Further, the government's strategy of adjusting to the new democratic cast of Mexican politics by reestablishing its legislative alliance with the PAN incited a strongly negative reaction from the hard line within the ruling party. The rebirth of the government-PAN alliance to preserve the neoliberal economic program encompassed virtually everything these politicians opposed in the Zedillo Administration. The president was again promoting the political fortunes of the PAN at the expense of the PRI to sustain an economic program which was seen to be responsible for the party's political losses since early 1995. Led on this occasion by the Governor of the state of Puebla, Manuel Bartlett, the hard line directly challenged the president and his political-economic strategy.

In late January 1998, the PRI-dominated state legislature in Puebla approved a law proposed by Bartlett which altered the terms of the Zedillo-PAN budget accord. This agreement included a provision to distribute more money to the states for local governments on the basis of population size. Since the PAN's base of support is in larger cities, this agreement would have put

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more funds into the hands of PAN mayors. Governor Bartlett exploited a lack of clarity in the law to alter the distribution of these funds. They would now be distributed on the basis of need and hence favor the poorer (e.g. PRI-dominated) municipalities. Although the PAN challenged the legality of this law, the courts ultimately ruled in favor of the state of Puebla. Governor Bartlett's legal maneuver significantly complicated Zedillo's legislative strategy. It was now clear that the old guard would act to block agreements between the executive and the PAN when this was possible. Yet without the capacity to guarantee implementation of its accords with the PAN, the Zedillo administration would find it difficult to negotiate similar agreements in the future.

Governor Bartlett also directly challenged Zedillo's leadership of the PRI. The governor broke sharply with the ruling party's political norms by announcing his desire to be the party's presidential candidate in 2000. Exploiting widespread discontent within the party over the president's apparent lack of concern for the party and its future, Bartlett announced that he was a candidate for the party's presidential nomination in 2000 (something never before done in the modern history of the PRI) and made a series of campaign-style speeches in which he aired his dissatisfaction with the "party leadership". In an early February meeting before former and current PRI legislators, Bartlett insisted that the party was at war against "a mortal trap organized from above, a series of grotesque betrayals which we should not tolerate. If we do not fight, the party will be liquidated."<sup>54</sup> Although Bartlett toned down his behavior following a private meeting with the Interior Minister later in the month, he continued his "campaign" for the party's presidential nomination. Bartlett's point was clear—Zedillo could persist with his late 1997 political-economic strategy only if he were willing to pay a very high price in terms of support from and influence over the PRI.

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<sup>54</sup> Bartlett made this statement on 11 February 1998. Cited in *Acción* 986 (23 February 1998): 8.

Thus constrained by the old guard in his ability to rely on the PAN to protect his economic program from what was likely to be persistent and increasing legislative challenges, and doubtful about the PAN's reliability as a legislative partner given its performance throughout the fall, Zedillo needed a new strategy. The President also needed to protect his economic strategy from the real possibility of either an opposition victory in the presidential elections in 2000, or a PRI victory but behind a candidate not of the President's choosing. Bartlett's rebellion combined with the prerequisites for presidential candidates imposed by the party in late 1996 and still in effect raised very serious doubts about the president's capacity to impose his preferred candidate on the party. How could Zedillo guarantee his preferred legacy as the father of renewed stabilizing growth in Mexico in the face of the new and seemingly unpredictable threats emanating from his declining influence within the PRI and from Mexico's emerging democracy?

As the challenge was two-sided, so was Zedillo's answer. He first attempted to reestablish his control over the party and to sideline Bartlett. Clear evidence of this effort is Zedillo's March 7 announcement that he was terminating the "healthy distance" between the executive and the PRI which he had promised in his inaugural address and had attempted to maintain throughout his presidency. Meant as a sign of Zedillo's commitment to democratization, for the party it stood as a symbol of Zedillo's lack of concern with the party and its long-term viability.

The second component of Zedillo's response was an effort to reduce the range of economic policy open to democratic decision making. At the end of March, Zedillo proposed expanding the policy responsibilities of Mexico's central bank and converting it into a truly independent institution. Beyond its traditional responsibility for monetary policy, the President proposed that the Bank of Mexico also enjoy exclusive control over exchange rate policy (currently shared with the Finance Ministry) and oversight of the banking system (by making the Banking Commission a dependency of the Bank). Zedillo also appointed as the Bank's new governor an individual who had demonstrated his dedication to the reestablishment and preservation of stable economic growth in

Mexico—former finance minister Guillermo Ortiz. With Ortiz' confirmation, Zedillo's confidants controlled a majority on the Bank's board of governors. If approved by the Congress, the proposed legislation would create a circle of economic policy-making beyond the reach of elected officials and dedicated to the preservation of Zedillo's economic program. To protect market reforms within the new and unpredictable political environment created by democratization, the regime hopes to construct a fortress of economic policy making which democratic practices can not penetrate. Not unlike the Chilean transition to democracy of 1990, the Mexican executive has proposed circumscribing democratic practices in the interest of economic stability.<sup>55</sup>

Whether or not Zedillo's strategy to protect his economic program from the inefficiencies of democratic politics remains to be seen. Although the new democratic Congress rationally opposes this effort, they must confront Ernesto Zedillo's dogged determination to be the father of Mexico's renewed stabilizing development.

## **Conclusion**

The interplay between political and economic reform in Mexico has taken a path not fully predicted by neo-modernization theorists or their critics. The Mexican events during these last few years demonstrate that economic growth and market reform are not necessarily correlated neatly with the advance of democratic practices. During the Salinas and Zedillo administrations, political opening was not the "ultimate consequence of economic opening" as two analysts of Mexican economics and politics argued several years ago.<sup>56</sup> It was not the case that "the logic of

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<sup>55</sup> This argument is made by Delia Boylan in "La democracia como rehén: La autonomía de la banca central en la transición del autoritarismo al la democracia". *Política y Gobierno* 5:1 (primer semestre 1998): 47-94.

<sup>56</sup> Sidney Weintraub and M. Delal Baer. "The Interplay between Economic and Political Opening: The Sequence in Mexico." *Washington Quarterly* 15:2 (Spring 1992): 187-201.

economic reform”—the expansion of individual initiative and greater economic choice which accompany market opening—led to the acceleration of democratic reforms in Mexico. Rather, limited democratic reforms were offered as the price of public acquiescence to the economic pain associated with Mexico’s recent cycle of economic crisis and reform. The gradual expansion of democracy in Mexico was not the consequence of market reforms but was the mechanism which enabled the implementation of these reforms.

Further, each administration intended to offer only superficial political reforms—just enough to buy off a public interested in change after years of persistent economic crisis. The hope always was that once limited democratic reforms enabled the implementation (1989) or the preservation (1995) of market reforms, the reforms would work their magic and generate economic growth which would attenuate the public’s desire for democratic change. This strategy worked under Salinas: economic reform actually inhibited popular demands for further political reform. During the Zedillo administration, however, the longer than anticipated delay prior to renewed economic growth, and the deeper than expected economic crisis, inhibited the effectiveness of this strategy. Supposedly superficial electoral reforms thus opened the door to a real democratic opening.

Equally surprising for neomodernization theorists, democratic reforms during the Salinas years actually led to powerful political incentives to mismanage the economy. This development is instead something which might have been predicted by the critics of neomodernization who insist that democratic practices inevitably undermine economic efficiency and tend to block economic reform (Olsen, 1982; Przeworski, 1991). But events in Mexico during the past decade also suggest that the critics of neomodernization theory do not have all the answers either. In the Mexican case, economic reform was not necessarily a bad thing for the expansion of democracy.

To the contrary, throughout the last decade the implementation and perpetuation of economic reforms has been an essential ingredient in the Mexican recipe for political opening.

In the final analysis, Mexico's recent experience with political and economic reform detailed in this article shows the inevitability of the interaction between these two reform processes, but it also demonstrates the complexity and often seemingly unpredictable nature of this interplay. Political reform led to market reform, but then created the incentive to mismanage the new market-based economic policies. In the ensuing economic crisis, political reform ensured the preservation of market reforms, but it also again increased the electoral risks for the ruling party. Stung by the costs of manipulating the economy for political gain in 1994, the 1997 strategy relied on manipulating the political rules instead. When this strategy surprisingly failed, the threat democratic politics presented for sustaining Mexico's experiment with market reform created the incentive to restrict the reach of democracy. This Mexican experience with political and economic reform suggests that those analysts who have moved away from simplistic models of the interaction between these two reform processes are on the right path. Democracy theorists and analysts of economic reform must consider the inevitable interplay between political and economic reform in a new light. They must concentrate on illuminating the still undiscovered logics which drive this complex and at times seemingly unpredictable relationship.

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