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MEXICO'S DEMOCRATIC TRANSITION: THE SEARCH FOR NEW REFORM COALITIONS

Carol Wise*

IN July 2000, after holding on to the presidency tenaciously for some seventy years, Mexico's ruling Institutional Revolutionary Party (PRI) was finally turned out in an election that proved to be the country's cleanest ever. Given the near universal trend toward democratization in Latin America over the past two decades, this particular transition perhaps should have been regarded as par for the course. Yet, even the most astute observers of Mexican politics refrained from officially declaring the region's longest standing semi-authoritarian regime the anachronism that it had finally become. In part, this was due to the PRI's uncanny survival skills and the time-tested ability of party leaders to repeatedly renovate the PRI's image and re-energize its core constituency. But also, as the 1982 debt shocks marked the end of inward-looking state-led development policies across the region and the rise of a market-based internationalist orientation, some argued that despite the potential weaknesses of a dominant-party system, Mexico enjoyed "organizational advantages that can facilitate both the initiation and the consolidation of economic reform."¹

By all outward appearances, the PRI regarded itself in this same light: few would dispute that the ruling party's original intentions were to restructure radically the economy along market lines while indefinitely retaining control over Mexican politics. However, the PRI's reliance on old-style politics (e.g., clientelism, corruption, coercion) to forge an entirely new economic model (e.g., liberalization, privatization and deregulation) ultimately proved to be its undoing.² Although the PRI's autocratic style may have been propitious for launching market reforms, their successful consolidation would require political skills (e.g., negotiation, transparency, accountability) that did not come naturally to any of the ruling party's various factions. This basic contradiction was first

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1. STEPHAN HAGGARD & ROBERT KAUFMAN, *THE POLITICAL ECONOMY OF DEMOCRATIC TRANSITIONS* 306 (1995).

2. Francisco Panizza, *Beyond Delegative Democracy: Old Politics and New Economics in Latin America*, 32 J. LATIN AM. STUD. 737 (2000).

driven home by the PRI's near loss of the hotly contested 1988 presidential election, as internal party rifts and a prolonged and severe post-debt crisis adjustment threw the PRI's historic support base into serious question. Despite the ruling party's remarkable comeback in the 1991 mid-term elections and its legitimate victory in the presidential race of 1994, the PRI's long secular decline at the polls finally translated into the 2000 presidential victory of opposition candidate, Vicente Fox, on the center-right National Action Party (PAN) ticket.

There has been no shortage of explanations for the demise of authoritarian rule in post-debt crisis Latin America, although there are some gaps when it comes to understanding the decline of a dominant single-party system such as Mexico's. For example, in contrast to earlier transitions from authoritarian rule in Argentina, Brazil, and Chile, Mexico's transition has been a strictly civilian affair, albeit one with no prior episode of democratization from which to draw institutional strength.³ Moreover, rather than a series of elite negotiations that worked to bring democracy to life, Mexico's transition represents the gradual unraveling of old secretive corporatist pacts between the PRI and its mass bases that had seemingly been set in stone since the 1930s. The escalation of political economic crises since the 1970s certainly contributed to the decline of elite politics, but the increased willingness of voters to opt for untried political alternatives, and the rise of civil society, opposition parties, and a more participatory mass politics, must also be factored in to Mexico's transition equation.⁴ The current juncture, in short, is one in which various new political alliances are being pursued in an increasingly more transparent and party-competitive environment.

In this article I analyze the trend toward more vibrant, competitive, and participatory politics in Mexico within the broader context of the economic transformation that has underpinned this trend. But rather than focusing on a single strand of cause and effect, I explore the ways in which deep market restructuring since 1982 and gradual political reforms interacted erratically over time to prompt an almost inadvertent democratic transition in Mexico.⁵ And, I explore the ways in which Mexico's political and economic liberalization have become, on balance, mutually reinforcing in the post-reform era. In essence, market reforms shifted the country's political calculus, as liberalization unleashed new poles of dynamism across some regions and sectors, and redrew class lines according to the new winners and losers in the market.

While better for some and worse for others, Mexico's economic transformation over the past two decades also became the institutional locus for a new political market—an alternative organizing principle for party

3. See Joseph L. Klesner, *An Electoral Route to Democracy? Mexico's Transition in Comparative Perspective*, 30 *COMP. POL.* 477 (1998).

4. See VIKRAM K. CHAND, *MEXICO'S POLITICAL AWAKENING* (2001).

5. Pamela K. Starr, *Monetary Mismanagement and Inadvertent Democratization in Technocratic Mexico*, 33 *STUD. COMP. INT'L DEV.* 35 (1999).

politics, civic action, and other forms of social mobilization. Against this backdrop, periodic economic crises (e.g., 1982, 1994-95), and the PRI's own self-inflicted political shocks (e.g., assassinations, electoral fraud, government graft) clearly eroded the hegemony of single-party rule at the federal level. At the state and municipal level, opposition parties were also able to whittle away at the PRI's share of the regional vote by running performance-based campaigns and delivering on concrete issues. A main blow for the PRI, amongst numerous others, was its failure to make good on its reform promises at the microeconomic level, after unrealistically raising the electorate's expectations about upward mobility.

In order to set the proper political economic baseline for this discussion, I begin with a brief analysis of Mexican politics and economic policy prior to the 1982 debt shocks. A second section traces the PRI's electoral decline from 1982-1988, the flip side of this decline being the unprecedented ascendance of a pocketbook or normal economic vote in Mexico. A third section examines the PRI's revival from 1988-1994, and with it a brief resurrection of the electorate's good will. The fourth section charts the rise of truly competitive politics in Mexico since 1994, and in doing so identifies the demand for another generation reforms as a key contributing factor. The final section analyzes the efforts of the Fox administration to reconcile the completion of the remaining reform tasks with the much higher levels of political competition and democratic accountability now present in Mexico. While it is too soon to tell, political responses since the transfer of executive power from the PRI to the PAN suggest that no one party can continue to count on the bloc of votes that had historically been reserved for the PRI. Rather, as in most democratizing regimes, Mexican voters now appear to be opting for substance over symbol, for concrete performance over hollow promises of future gains.

I. PRE-REFORM POLITICS IN MEXICO: THE SHADOW OF THE PAST

Since its inception in 1929, the PRI controlled the presidency, the congress, and most locally elected positions by linking itself, both materially and symbolically, with the nationalistic and distributional goals of the Mexican revolution. Early on, PRI leaders reorganized Mexican society along sectoral lines (labor, business, peasants) and tied each unit closely to the party through its complete control over the federal budget. As this political arrangement became intermingled with the launching of the Import-Substitution Industrialization (ISI) model in the 1950s, PRI politicians became quite adept at administering various incentives and disincentives to keep their followers on board and their enemies in check. The latter included opposition parties, which were circumscribed tightly. A main exception was the center-right PAN that came to play the role of the loyal opposition by colluding with the PRI from time to time in congress. The PRI also proved to be highly resilient and skillful in changing

with the times, as the party has cast itself in a new image at numerous critical turning points since the 1940s.

Though a distinctly non-democratic arrangement, by scheduling federal, state, and local elections at regular intervals, Mexico was able to project an image of competitive politics and, thereby, distance itself from the more starkly authoritarian military regimes that had emerged in the Southern Cone during the 1960s and 1970s. This is not to say that the PRI resisted the same kinds of authoritarian tactics that characterized these other regimes. Dissenters and critics were invariably dealt a heavy blow, as witnessed in the government's violent response to university protestors in the late 1960s and to the numerous opposition journalists, politicians, and intellectuals that met untimely deaths. During the "Stabilizing Development" era of low inflation, generous state largesse, and high growth rates—averaging over 7 percent annually in the 1950s, 1960s, and even the more volatile 1970s, the PRI was able to distract the electorate from its darker side via government patronage and constant reference to the ideals of the Mexican revolution.

Yet, this nostalgic politics of prosperity in semi-authoritarian guise began to lose its appeal in the 1970s, as reflected in the PRI's declining electoral performance in presidential and congressional elections. Table 1 (see Appendix A) shows that at the presidential level, the PRI's share of votes dropped from nearly 87 percent in the 1976 race to barely over 50 percent in 1988.⁶ Congressional elections mirrored this trend, as the PRI's share of seats in the house of deputies fell from a little over 85 percent in 1976 to just more than 50 percent in 1988.⁷ Under conditions of authentic political competition and accountability, this would appear to be the very point at which voters' prospective affinity toward the PRI began to shift: what was best for the nation or the party was gradually becoming less important than one's own immediate economic well-being. But such assessments are muddied by the complete lack of transparency, including the crude state of public opinion polls at this time, and the PRI's astute ability to manipulate "revolutionary" symbols and put its own favorable spin on the most dismal of events. At any rate, while Mexicans may have begun voting with their feet in the 1980s, rumors of the PRI's pending death would turn out to be premature.

There are other contributing explanations for the electoral slippage that comes through so clearly in Table 1 (see Appendix A). First, as detailed in Table 2 (see Appendix B), was a series of political reforms launched by the PRI beginning in 1978—gestures meant to revive lagging party support after PRI presidential candidate José López Portillo ran completely uncontested in 1976. Meant to counter the rising political apathy but also to legitimize the PRI's self-proclaimed birthright to the

6. *PRI Records Worst Ever Poll Results*, Latin American Regional Reports: Mexico and Central America, Aug. 18, 1988, at 2.

7. Joseph L. Klesner, *Electoral Politics and Mexico's New Party System*, Paper delivered at the LASA Meeting, Chicago, Sept. 24-26, 1998, at 37.

presidency, these early political reforms sought to encourage higher levels of political contestation at the congressional level. For example, in 1978 a total of seven political parties were officially recognized for the purposes of electoral participation, and the house of deputies was expanded from 300 to 400 seats. The additional 100 seats, increased to 200 in 1986, were designated according to each party's respective share of the total vote, as opposed to the previous majority vote that had always locked in the PRI's victory in congressional races.⁸

A second shorthand explanation for the ruling party's electoral slippage was the increased sophistication of the electorate under the country's long post-war economic expansion, and the flight of voters in response to the chronic economic stress that marked the late 1970s. On the first count, higher literacy rates and the emergence of a Mexican middle class proper rendered the PRI and its bullying tactics less politically appealing. On the second count, certainly the mounting crisis made it more difficult to ignore that, in fact, the PRI had never delivered on the distributional commitments that had long been the cornerstone of its development program. Thus, Mexicans were finally beginning to cast economic votes, although disenchantment with the regime itself, including the PRI's repressive and underhanded authoritarian tactics, had also poisoned the electoral waters.⁹

II. THE RISE OF THE "ECONOMIC VOTE" AND THE PRI'S ELECTORAL DECLINE, 1982-1988

Up until the 1980s the PRI had refined political spending to an art, with the usual manipulations of fiscal and monetary policy around election time and the thick web of patronage that maintained the party's broad constituency. The severity of the 1982-1983 external shocks and the explosion of debt service payments in the fiscal accounts constricted these options more drastically than ever before. As Table 3 (see Appendix C) shows, the dire stabilization challenges inherited by the incoming De la Madrid administration (1982-1988) persisted through the entire *sexenio*, regardless of the consecutive reform packages that sought to tackle inflation and reactivate the economy. With GDP growth plummeting to an annual average of less than 1 percent under De la Madrid, a fiscal deficit averaging around 12 percent of the GDP, and inflation approaching triple digits, this period marked the end of the PRI's ability to maintain any semblance of its old-style politics of prosperity. It also meant that the perpetuation of PRI electoral "victories" would require additional non-material resources, namely, coercion and fraud.

8. Chappell Lawson, *Mexico's New Politics: The Elections of 1997*, 8 J. DEMOCRACY 13, 14 (1997). The author notes that "[t]he complex formula for assigning those two hundred proportional-representation seats means that one party can achieve a majority either by winning more than 250 of the SMDs [single-member districts] (a nearly impossible feat), or by securing at least 42.2 percent of the overall tally."

9. JORGE I. DOMÍNGUEZ & JAMES A. McCANN, *DEMOCRATIZING MEXICO: PUBLIC OPINION AND ELECTORAL CHOICES* 28 (1996).

The main focus of attention under De la Madrid was macroeconomic, and the tone was decidedly orthodox. With the public debt approaching an astronomical 45 percent of GDP, austerity was the order of the day. Real public spending dropped by more than 20 percent and public investment as a percentage of GDP fell by almost 3 percentage points. By raising tariffs on imports and steadily devaluing the peso, the economic team was able to expand exports and garner the foreign exchange necessary to cover the country's mammoth debt service payments—now approaching 20 percent of GDP—at least until this stopgap measure had run its course by 1985. Amidst ongoing debates within international financial circles as to whether these grave difficulties represented a problem of liquidity or outright insolvency, average Mexicans readily confirmed the latter. The most immediate political impact of the economic crisis was to deepen rifts that had already appeared between traditional societal actors and to create new divisions under the full weight of the adjustment burden.

The deepest rift centered on the De la Madrid administration's commitment to couple the orthodox macroeconomic stabilization program with a more penetrating set of market reforms (liberalization, privatization, deregulation). Debates concerning the proper sequencing of market reforms and the advisability of implementing these simultaneously with an aggressive macroeconomic stabilization program prior to achieving efficiency gains were just getting underway when Mexico's reform effort gained momentum. Yet, despite a growing consensus that a stabilization program could be derailed by an ill-timed introduction of deep structural reforms (e.g., the liberalization of the capital account before the banking system had been modernized) few policymakers in Latin America of the 1980s found the economic breathing space necessary to heed this advice.¹⁰ Such was the case with the new generation of U.S.-trained technocrats that had arrived in 1982 with the De la Madrid administration.

The PRI itself split over this issue, as former PRI member Cuauhtémoc Cárdenas joined with other disaffected party members to form the Party of the Democratic Revolution (PRD), which went on to be the first party to credibly challenge the PRI's hold on the presidency.¹¹ Apart from their distrust of the staunch market rhetoric under De la Madrid, those politicians and constituents that left the PRI with Cárdenas reflected the ways in which the PRI's support base had gradually changed. By this time, a typical PRI loyalist came from the less industrialized parts of the country where illiteracy rates were high and access to quality education and to urban-based media channels were still low.¹² In contrast, the PRD attracted a growing contingent within the PRI that was better educated and politically informed, and it became a halfway house of sorts for the

10. Sebastian Edwards, *The Order of Liberalization of the External Sector in Developing Countries*, in *ESSAYS IN INTERNATIONAL FINANCE* 156 (Princeton Univ., 1984).

11. For a full account of the rise of the PRD, see KATHLEEN BRUHN, *TAKING ON GOLIATH: THE EMERGENCE OF A NEW LEFT PARTY AND THE STRUGGLE FOR DEMOCRACY IN MEXICO* (1997).

12. Klesner, *supra* note 7, at 23-30.

growing army of urban informal sector workers that had been ejected from the countryside due to massive cuts in rural spending.¹³ Neither of these diverse constituencies was convinced that the liberal economic strategy being touted by PRI technocrats was in Mexico's best long-term interests or that the combination of a market shock and a very gradual political opening would necessarily work in their favor.

This division between those with nationalist inward policy preferences and those with aggressive economic liberalization goals similarly was evident within the PRI's traditional corporatist bases (i.e., small business, labor, and peasants) as the deepening of trade liberalization from 1985–1987 drove a wedge between the PRI and these groups. As the ISI model was dismantled, so too were the PRI's corporatist ties with those workers, producers, and peasants who depended on the domestic market and demanded a return to protectionism and state support. However, the response of those internationalized segments of the private sector was the reverse: stung by the López Portillo administration's nationalization of the banks in 1982 and hurt by the high transaction costs under ISI, these outward-oriented producers took advantage of exchange rate devaluation under De la Madrid and increasingly engaged in exports and intra-industry trade in the 1980s.¹⁴ It was this contingent that began clamoring for measures that would further streamline the economy and enhance tradable producers' competitive position in the North American market; and, of course, it was this segment of the Mexican private sector that eventually bonded with the PRI technocrats during the subsequent Salinas administration (1988–1994) and went on to forge the powerful government-business coalition that secured Mexico's entry into the North American Free Trade Agreement (NAFTA).

Most incumbent parties would have feared the worst under such circumstances, especially in light of the economic malaise and the internal bickering that preceded the election, and the PRI was no exception.¹⁵ These fears were partially realized. Despite the PRD's lack of equal access to the media or to state campaign financing, the Cárdenas campaign hit a civic nerve with those more vulnerable voters whose wages had been slashed since 1982 and who could not identify with the technocratic likes of De la Madrid or the PRI's 1988 hand-picked presidential candidate, Carlos Salinas. Early reports of Cárdenas's heavy win in Mexico City (49 percent) was the first electoral jolt in 1988, prompting PRI operatives to quickly jam the vote-counting system so as to produce a Salinas "victory." The PAN, too, saw a slight jump in its standing in the presidential tally, from around 15 percent of the vote in 1982 to 17 percent in 1988. But even the PRI's blatant vote tampering in 1988 could not prevent the op-

13. Manuel Pastor & Carol Wise, *State Policy, Distribution and Neoliberal Reform in Mexico*, 29 J. LATIN AM. STUD. 419 (1997).

14. Carol Wise, *Latin American Trade Strategy at Century's End*, 1 BUS. & POL. 117 (1999).

15. Jorge Buendía, *Economic Reform, Public Opinion and Presidential Approval in Mexico, 1988–1993*, 29 COMP. POL. STUD. 566, 574 (1996).

position's gains in the chamber of deputies, where the PRI lost the two-thirds majority vote that it had always relied on to single-handedly amend the constitution. The hemorrhaging of the ruling party's left-wing constituency, and also the losses to the PAN on the right-leaning side, reflected a new dilemma for the PRI: reconciling with those within the PRI's left-wing who argued that market reforms had gone too far and the more conservative-minded within the PRI who insisted that economic liberalization had not gone far enough. The efforts to resolve this dilemma would become the defining feature of the Salinas *sexenio*.

As for the De la Madrid *sexenio*, hindsight shows that, if given a second chance, the policy choices probably could not have been much different. Given the structural distortions inherent in the ISI model, the magnitude of the debt overhang, and the long capital drought of the 1980s, it is difficult to imagine how the PRI could have avoided the wrath of the electorate. The outright policy failures and the country's new flirtation with three-digit inflation did prompt a slight departure from orthodoxy with the launching of an anti-inflationary "Economic Solidarity Pact" in December 1987. This Pact set a tight monetary and fiscal policy and, following a one-shot devaluation, pegged the peso closely to the U.S. dollar. At the same time, tariffs on trade were reduced to an all-time low.¹⁶ The unorthodox elements of the Pact were the wage and price guidelines, based on periodic tripartite consultations between government, business, and labor. As the next section will show, the Pact provided a badly needed breathing space, a middle ground of sorts, to enable the ruling party to begin addressing its critics from both the left and the right. The fumbling of this opportunity would finally work to quicken the pace of the country's political opening, much to the PRI's own surprise and chagrin.

III. THE SALINAS REVIVAL: THE ELECTORATE'S RETURN TO THE PRI FOLD, 1988-1994

While clearly not the electorate's, or even the national-level PRI's, favored son in 1988 Salinas skillfully revamped the party and began remaking it in yet another new image immediately upon taking office. As the PRI's support base dwindled to the least educated and least skilled voters in the less industrialized areas, Salinas relied on a combination of statecraft, symbolism, and myth to re-attract a much broader constituency. At the level of statecraft, Salinas restored internal party discipline and reined in the intransigent old guard by doling out not-so-subtle incentives. At the same time, Salinas cemented his relationship with key representatives of business and labor by prolonging the Economic Solidarity Pact negotiations through his entire term. Simultaneously, he launched PRONASOL, a demand-based social safety net program that allocated

16. Manuel Pastor & Carol Wise, *The Origins and Sustainability of Mexico's Free Trade Policy*, 48 INT'L ORG. 459, 460-62 (1994).

some \$14 billion for infrastructure and assorted support programs from 1988-1994 for those communities that were particularly hard hit by the post-1982 stabilization measures.¹⁷ Salinas's success in negotiating Mexico's entry into NAFTA and the OECD also displayed a new kind of leadership and vision, especially in comparison with his more recent PRI predecessors.

The analysis thus far has shown that options for political spending diminished by the mid-1980s, and that a main oversight by the PRI was to assume that its core base would remain loyal even in the absence of the usual material incentives. Having been sufficiently punished by voters in 1988, the task now was to somehow soften the blows of structural adjustment even though the demands for a strict fiscal and monetary policy were still present under the threat of renewed inflation. While the budgetary ax had fallen the hardest under De la Madrid, public spending and investment were still constricted as the overall fiscal balance turned to a surplus in 1993-1994. Yet, although political spending remained tight, Salinas succeeded beyond anyone's expectations in staging a PRI comeback in the 1991 mid-term elections (see Table 1, Appendix A) by relying on non-material incentives—in fact, this is the point at which symbol and myth came brilliantly into play.

In terms of symbolism, Salinas was masterful at linking market reforms with the ideals of the Mexican revolution. As the economic policy tasks post-1988 focused more intently on the completion of deep structural reforms, liberalization was cast as another phase in the country's modernization process—entailing Mexico's painful but necessary insertion into global markets. For example, the financial sector was more fully liberalized and deregulated and the eighteen domestic banks that had been nationalized by the outgoing López Portillo administration (1976-1982) were sold off to the private sector, as were the state airline, steel, and telephone companies. The agricultural sector was similarly liberalized, and the state's longstanding *ejido* system of rural landholdings was dismantled. The public sector itself was further streamlined and even the sacrosanct petroleum industry saw some privatization around the fringes in processing and related services.

Apart from the Salinas team's ideological zeal for the market, these structural reforms obviously had a practical side: to entice foreign investment back into Mexico after the severe capital shortage of the 1980s. Mexico's 1986 accession to the General Agreement on Tariffs and Trade (GATT) simultaneously signaled the country's intentions to seek stronger multilateral economic ties and to diversify from its strong historical dependence on the U.S. market. Yet, with new competition from a liberalizing bloc of capital-starved countries in Eastern Europe, Mexico quickly found itself back in the arms of U.S. investors. The rest of this story is

17. Denise Dresser, *Bringing the Poor Back In: National Solidarity as a Strategy of Regime Legitimation*, in *TRANSFORMING STATE-SOCIETY RELATIONS: THE NATIONAL SOLIDARITY STRATEGY* 143 (Wayne Cornelius et al. eds., 1994).

already history: in 1990 Mexico successfully petitioned the U.S. and Canadian governments for its negotiated entry into the 1989 Canada-U.S. Free Trade Agreement; these negotiations were completed in 1992, and the NAFTA was launched on January 1, 1994. The Salinas team's aggressive pursuit of NAFTA, although still politically anathema to the PRI's traditional "dinosaur" wing, was then framed as a main venue for completing this next phase of revolutionary development.

By offering new kinds of compensation to those private interests who were essential for market reforms to succeed, including lucrative opportunities in the privatization bidding process and unprecedented political access to the omnipotent office of the executive, Salinas readily convinced the winners in the liberalization game that their gains would be unlimited. For the mass of losers, reflected in the distributional data in Table 4 (see Appendix D), PRONASOL became the PRI's main objective, a program whose insignia bore a blend of the Mexican flag and the PRI logo. Although PRONASOL expenditures never surpassed 1 percent of GDP from 1989–1994, Salinas similarly was able to convince liberalization's losers that their losses would be temporary and, even then, the PRI had every intention of taking care of its own.

A remaining challenge was to bring a politically disillusioned and economically besieged middle class back into the PRI's fold, especially those more educated urban voters that had sided with the PRD in 1988. Again, statecraft and symbolism saved the day. Salinas initiated another round of electoral reforms meant to rectify and prevent a repeat of the shameful infractions of 1988. As Table 2 (see Appendix B) shows, Salinas actually phased in political reforms over the course of his administration in such a way as to save the most penetrating measures for last. Nevertheless, the federal election code (COFIPE) was amended, an independent Federal Electoral Institute (IFE) was established, and a myriad of measures were passed to promote transparency and authentic electoral competition.¹⁸

However, in order to credibly project an image of a transformed PRI that now championed democracy, the party would obviously have to take its first step toward conceding losses at the gubernatorial level and in races for the federal senate. Such gestures mainly applied to the less-threatening loyal opposition, for example, the PRI's acceptance of a PAN governorship in the northern state of Baja, California in 1989. Given its far more conservative and business-oriented constituency it was doubtful, at least from the PRI's standpoint, that the PAN could actually out-distance the PRI any time soon. The same could not be said for the consistently more disloyal PRD, which sprung directly from the disgruntled left-wing ranks of the PRI. The PRD thus was subjected to continued harassment and fraud in numerous state-level contests. This superficial manipulation of the opposition and the contrived electoral competition that

18. Lawson, *supra* note 8, at 14-15.

resulted from it was sufficient to win Salinas the political capital necessary to stage a PRI comeback.

Again, the diminished opportunities for traditional political spending meant that the economic challenge of courting the middle class was also dealt with in symbolic terms. The distributional trends in Table 4 (Appendix D) confirmed that it would require more than the PRI's time-worn promises of future prosperity to win back some of this vote. This occurred when the anchored exchange rate set under the Economic Solidarity Pact in December 1987 and maintained according to a tight crawling peg until the peso literally imploded in December 1994. This, combined with the government's encouragement of an unprecedented expansion of consumer credit (e.g., personal credit cards), helped induce this very feeling of renewed prosperity. As the peso gradually appreciated, and import liberalization allowed for a flood of luxury goods, the average consumer's dollar purchasing power soared.¹⁹ After the previous decade of pent-up demand, a consumer-spending spree was well underway by the time of the 1991 mid-term elections.

The appearance of a buoyant reactivation helped shift the 1991 vote away from the pocketbook concerns of 1988 and back toward the attitudes that had underpinned earlier PRI victories. Regardless of their current situation, including the continued stress within domestic wage and labor markets, the average citizen had been convinced that the Mexican economy was back on track. Moreover, Salinas had persuaded a solid majority of voters that their station in life would indeed improve in the near future, but only if they continued to cast their fate with the PRI. As the PRD had splintered into warring factions by this time, it failed to pick up a single seat in the house of deputies in 1991. Whereas the PAN enjoyed the second highest gains, the PRI took 320 seats in the house and all but one contested seat in the federal senate. Even more importantly, Salinas' popularity and high approval rating of 65 percent in 1990-1991 meant "people who were positively inclined toward the president and the PRI tended to support reform regardless of their views of the economy."²⁰ The PRI rode this victory all the way through to the passage of NAFTA by the U.S. Congress in late 1993 and to a reasonably legitimate win over the opposition in the 1994 presidential election.

Yet, in the build-up to the 1994 race, Salinas's ingenuous use of statecraft and symbolism began to wear thin. This is so in at least three respects. First, despite the repeated insistence of PRI technocrats concerning the viability of the macroeconomic strategy and the sustainability of a fixed exchange rate, some well-respected independent analysts now were arguing that the mediocre growth rates and rising un-

19. Manuel Pastor, *Pesos, Policies, and Predictions*, in *THE POST-NAFTA POLITICAL ECONOMY: MEXICO AND THE WESTERN HEMISPHERE* 119 (Carol Wise ed., 1998).

20. Robert R. Kaufman & Leo Zuckermann, *Attitudes toward Economic Reform in Mexico: The Role of Political Orientations*, 92 *AM. POL. SCI. REV.* 359, 369 (1998).

employment stemmed from the lack of a competitive currency regime.²¹ Beneath the veneer of economic boom, real growth rates hovered at a mediocre 3.7 percent average under Salinas, and worrisome pressures were already building in the external accounts. The combination of unilateral trade liberalization and a fixed exchange rate, although effective for holding inflation down to single-digit levels by 1994, had pushed the trade deficit from \$7.5 billion in 1990 to more than \$24 billion in 1992. Moreover, while some foreign direct investment had returned under the thrust of Mexico's financial market opening, the 1989 Brady debt restructuring, and the privatization program, more footloose portfolio flows (bonds, stocks, equities) still outpaced FDI by at least six-fold. As the currency continued to appreciate under the pressure of high interest rates and heavy portfolio inflows, these growing imbalances reflected the extent to which the earlier stabilization measures and structural reforms were now conflicting.

As the economy moved into a recession in mid-1993, economy minister Pedro Aspe remained adamant that any distortions in relative prices due to the peso's appreciation could be corrected through rapid productivity gains. However, it takes time to realize such improvements, something the Salinas administration was running out of when there was a clear need to shift tracks during 1993-1994. By postponing the devaluation, and borrowing heavily to defend the exchange rate, the Salinas team did win the double victories of NAFTA accession and the presidency. But the PRI technocrats also gambled with the country's welfare, and both sides lost in the long run: during the three *sexenios* that spanned the country's market restructuring, real per capita income gains would register a paltry 4 percent increase. Relative income trends were equally dismal, as Carol Graham and Stefano Pettinato note in their chapter: "Mexico was the only country where mobility did not increase in the 1980s and 1990s."²²

A second crack in the Salinas facade lay in the realm of the PRI's commitment to democratization. Although the 1991 mid-term race was flawed by further allegations of vote tampering, the 1994 presidential election was clean by comparison—except for the PRI's continued manipulation of media access and campaign financing laws.²³ While the party did concede politely to some PAN victories at the gubernatorial and congressional levels during the Salinas term (even when there were some legitimate reasons to question an authentic PAN "victory"), rarely did an

21. For an excellent review of both sides of this debate, see Francisco Gil Díaz & Agustín Carstens, *Pride and Prejudice: The Economics Profession and Mexico's Financial Crisis*, in *MEXICO 1994: ANATOMY OF AN EMERGING-MARKET CRASH* 165 (Sebastian Edwards & Moisés Naím eds., 1997).

22. Carol Graham & Stefano Pettinato, *Assessing Hardship and Happiness: Trends in Mobility and Expectations in the New Market Economies*, CSED Working Paper No. 7, Oct. 1988 (The Brookings Institution).

23. CHAND, *supra* note 4, at 239. Chand notes that a first campaign finance law was passed in 1993 that set individual contributions to a given political party at the peso equivalent of \$666,667 per contributor!

electoral face off between the PRI and the PRD end without fierce procedural disputes that sometimes required direct presidential intervention. Even within the ruling party, factional rifts over political liberalization were turning violent, as witnessed in the still unresolved assassination of PRI presidential candidate Luis Donaldo Colosio in March 1994. The mounting corruption involving those affiliated with the party at the highest levels and the complete lack of accountability with regard to economic policymaking and budgetary discretion confirmed that the PRI had no intention of democratizing Mexico beyond the more formalistic electoral measures that had been implemented. Salinas, in retrospect, did at least lay the groundwork for further political competition as part of his exit strategy. By delaying political reforms until the end of his term and avoiding the political risks of democratization gone wild akin to the pattern in the former Soviet bloc, the outgoing president sought to carve out his future role as an international statesman without getting any further bogged down in his own state's political turmoil.

Finally, the repeated promises of future prosperity under the PRI, while successful in rallying the party's remarkable comeback in 1991 and 1994, could not have been further off. The Salinas team had oversold NAFTA as the cornerstone of a new economic model that, when joined with policies like privatization and deregulation would boost real incomes and expand opportunities for job creation. Yet the structural transformation of the Mexican political economy over the past two decades has been a far cry from the trickle down success story proffered by the Salinas technocrats. Mexico's widespread liberalization has indeed triggered a dynamic pattern of investment and export-led growth; however, Table 4 (Appendix D) also shows how uneven these gains have been: the richest 10 percent of households increased their share of monetary income by 6 percent between 1984 and 2000, while every other docile saw a decrease in household income over the same time period. As a shorthand explanation, I would attribute these highly regressive returns, first, to the reckless macroeconomic policy errors of the outgoing Salinas team; and second, to the PRI's rather disingenuous reliance on the market to foster microeconomic change. In light of the high levels of pre-existing income inequality, the education and skill deficit of the Mexican workforce, and the lack of a competitive productive structure, it was doubtful from the start that significant widespread income gains could occur without a more concerted set of public policies to support such change.

IV. MORE FALSE PROMISES: THE DERAILING OF SECOND-PHASE REFORMS, 1994-2000

By the 1994 election, many of the myths just discussed still had not been debunked. The PRI was thus able to stage a respectable comeback in the mid-1994 presidential race, obtaining 60 percent of the congressional seats and Ernesto Zedillo took the executive office with just under

49 percent of the vote.²⁴ The PAN placed second in the presidential race and increased its share of congressional seats from roughly 18 percent in 1991 to about 24 percent in 1994. The PRI had effectively poached some of the PAN's private sector constituents in the country's northern states by running its own business candidates, forging an alliance with the big export-oriented financial-industrial groups, and securing Mexico's entry into NAFTA.²⁵

But another important aspect of the PRI's 1994 presidential victory was the decline of the PRD candidate's vote to 16.5 percent. Here, too, Salinas had stolen Cárdenas's thunder. The PRI's selective channeling of PRONASOL expenditures to those poorer states that had favored the PRD in 1988 helped restore its original image as the main benefactor of the poor. Electoral analysts remain divided as to whether the PRI's PRONASOL spending actually regained support for the ruling party or merely stopped the bleeding of votes to the PRD. At any rate, by painting the PRD as socialist radicals and harassing its candidates at every possible electoral turn, the PRI readily capitalized on the internal upheaval already underway within the PRD coalition.

In the short term, the 1994 elections also helped to legitimate the PRI's democratization strategy: enough transparency and competition to appear fair, but not so much that the PRI would be unseated from the executive office. Nevertheless, and regardless of the ruling party's slow pace in the transition to democracy, the cumulative electoral reforms that had been passed since 1978 were beginning to have a positive effect on political liberalization. In particular, more recent reforms such as a new fraud-proof voter registration card, accurate voter registration lists, and the unprecedented decision to allow international election observers into the country helped spur the highest voter turnout (nearly 78 percent) ever.²⁶ Close oversight by Mexican pro-democratization organizations like the highly esteemed Civic Alliance and by the domestic and foreign press further enhanced the image of the 1994 election as a clean race. Presumably, the enthusiasm with which Mexicans responded reflected not only the possibility of one's vote truly counting, but also the more authentic chances of electing candidates outside of the ruling party.

Electoral politics aside, 1994 turned out to be Mexico's *annus horribilis*. All at once, it seemed, the political ramifications of deep market reforms suddenly were felt. From the January uprising of the Zapatista guerrillas in Chiapas, to two high-level PRI assassinations in March and September (the aforementioned Colosio hit, plus the killing of PRI secretary-general José Francisco Ruiz Massieu just six months later) to the badly managed December 1994 peso devaluation, the Salinas image of

24. *Too Good to be True?*, Latin American Mexico and NAFTA Report, Sept. 29, 1994, at 2.

25. CHAND, *supra* note 4, at 52. The author notes that in states governed by the PAN (Baja, California, Chihuahua, and Guanajuato) Zedillo won twice as many votes as the PAN presidential candidate.

26. *Id.* at 51.

political stability and liberalization-driven prosperity was shattered by year's end. The Zedillo campaign, launched haphazardly in the wake of Colosio's murder, addressed the electorate's growing concerns over recession, unemployment, and social hardship. Through a subtle election-year expansion of credit channeled into the economy via the state development banks and an easing of interest rates the outgoing Salinas team had engineered a 4.4 percent growth rate in 1994.²⁷ Ostensibly, the incoming Zedillo team would harness this renewed growth to launch "second-phase" market reforms as discussed in the introduction to this volume – i.e., the following up of earlier market measures with policies meant to strengthen institutions, assure competition and oversight, and more aggressively target a wide range of human capital needs.²⁸

Thus, in a rather inadvertent and de facto manner, Mexico's economic restructuring unfolded in three phases. First, the tasks of economic stabilization fell to the De la Madrid team. Then, the structural adjustment was relegated to the Salinas team. Finally, in principle, Colosio was to take up the challenges of completing and fine-tuning the market reforms that had been implemented by his predecessors. Certainly there was no shortage of items to tackle on the second-phase reform agenda. On the institutional front, the status quo was simply no longer viable in such crucial areas as judicial procedures, public "security," low tax collections, and the country's antiquated labor market rules. Moreover, despite the aggressive implementation of all three prongs of the Washington Consensus—liberalization, privatization, and deregulation—the political economy still lacked the competitiveness and transparency that such reforms are meant to instill. Although private ownership was widespread, the telecommunications and media sectors were run as virtual monopolies and credit markets suffered from the same segmentation and large-firm bias that had marked the ISI era. Finally, as reflected in Table 4 (Appendix D), even less progress had been made with the remaining set of second-phase tasks, which lay in the realm of distributional improvements, wage gains, and human capital development.

Prior to the assassination of presidential candidate Luis Colosio, who represented the modernizing wing of the PRI, it appeared that a viable coalition could be crafted to move this reform effort forward. With Colosio's assassination and the awkward emergence of the little-known and significantly less politically skilled Zedillo as the PRI's handpicked heir to the presidency, the prospects for forging a cohesive broad-based reform coalition faded rapidly. This, of course, became a moot point when the peso crashed and Mexico was thrown back into a painful austerity program reminiscent of the De la Madrid period. Rather than a proactive reform coalition emerging from the modernizing ranks of the PRI,

27. JONATHAN HEATH, *MEXICO AND THE SEXENIO CURSE: PRESIDENTIAL SUCCESSIONS AND ECONOMIC CRISES IN MODERN MEXICO* 39-41 (1999).

28. Manual Pastor Jr. & Carol Wise, *The Politics of Second-Generation Reform*, 10 *J. DEMOCRACY* 34 (1999).

the Zedillo team reverted to a reactive stance with multilateral lenders and demands from the domestic opposition driving economic policy. For example, pressures from the PAN and its business constituents resulted in the articulation of a new industrial policy and some modest support for small firms. Similarly, the kinds of poverty-related concerns that the PRD championed eventually led to the revamping of social policy along less partisan lines.

The financial crisis played into the electorate's worst fears, as 1995 saw an inflation rate of 52 percent, a loss of 6.2 percent of GDP (9 percent in per capita terms), a burst of unemployment, and a 25 percent spike in non-performing loans. The PRI's myth of future prosperity finally had been laid to rest, as consumer debt exploded to unseen proportions in 1995 and the working population's purchasing power collapsed under a 30 percent real adjustment of the peso. The irony was that, in the aftermath of the devaluation, the Mexican economy hit its stride. While a mammoth \$50 billion multilateral bailout package certainly provided a cushion for economic reactivation, a more competitive exchange rate and Mexico's guaranteed access to the U.S. market under NAFTA also contributed to a surprisingly rapid turnaround.

The shift to a floating exchange rate in 1995 and the passage of new legislation granting the central bank independence in setting monetary policy also enabled Mexico to successfully weather the various external shocks that began with the Thai devaluation of mid-1997.²⁹ By 1996 manufacturing exports (not including the *maquila* or in-bond industries) had increased their share of that sector's GDP to 58 percent and continued to grow by 30 percent annually.³⁰ This dynamic export expansion, in turn, pushed GDP growth rates from 1996–2000 to their highest point since the oil price boom of 1980. By 1998, foreign direct investment and portfolio flows to Mexico had shifted places, as there was now \$8 of foreign direct investment for every \$1 in portfolio flows. Overall, average annual GDP growth rates from 1996–2000 were a healthy 5.5 percent.

But this dynamic economic recovery also threw into stark relief the new winners and losers in Mexico's liberalization game. While some improvements had been made with poverty reduction under Salinas, the distributional data confirmed that the gap between the top 20 percent of income earners and everyone else had widened considerably since the implementation of market reforms (see Table 4, Appendix D).³¹ The 1994 crisis stopped the trend toward poverty reduction in its tracks as the

29. DELIA M. BOYLAN, *DEFUSING DEMOCRACY: CENTRAL BANK AUTONOMY AND THE TRANSITION FROM AUTHORITARIAN RULE* 215-19 (2001).

30. Originally launched in 1965, Mexico's *maquila* program allows duty-free imports of capital equipment for use in manufacturing and assembly with the stipulation that investors pay duty only on the value-added within Mexico and that 80 percent of a plant's output must be exported.

31. Julio Boltvinik, *Welfare and Poverty in Mexico*, in *CONFRONTING DEVELOPMENT: ASSESSING MEXICO'S ECONOMIC AND SOCIAL POLICY* (Kevin J. Middlebrook & Eduardo Zepeda eds., 2002).

resurgence of inflation prompted a new round of orthodox stabilization measures. By maintaining high interest rates and a tight fiscal and monetary policy, Mexican policymakers again reduced inflation to single-digits by 2000. The implosion of a haphazardly privatized and corrupt banking system in 1995 and continued stress related to a costly and prolonged period of financial sector restructuring, hampered investment, productivity, and higher growth.

Thus, the other side of Mexico's recovery was further polarization of the economy, as larger exporting firms with ready access to affordable credit and strong ties to the U.S. market now towered over their smaller and less competitive counterparts who produce for the domestic market. This growing market segmentation, in terms of credit access and foreign-versus-domestic orientation, had simultaneously fostered a continuous cycle of capital accumulation at the top and a vicious circle of stagnation in other parts of the economy. Micro, small, and medium-sized enterprises (SMEs) currently represent approximately 99 percent of the Mexican private sector and account for 80 percent of employment and 50 percent of GDP.³² Not coincidentally, the scenario just described—with investment and real wages rising in the export sector but plummeting in the domestic non-tradable market—mirrors the country's increasingly dualistic income structure. Around 35,000 SMEs have survived by becoming exporters and restructuring in ways that allow for better market adaptation, but the more common story is one of small firms that are still struggling with the basics (market research, product upgrading, the application of technology to the workplace, etc.).³³

The plight of the more traditional SME sector is just one of numerous examples where the electorate correctly perceived that the outgoing Salinas administration, many members of which had fled the country amidst corruption charges by this time, could have engineered a much less costly adjustment. A related example was the crash of the banking system in 1995 and the exorbitant interest rates and credit choke-off that ensued thereafter. The uncompetitive bidding that enshrouded the privatization of the Mexican banks under Salinas reinforced the control of powerful national financial-industrial groups over domestic credit markets. The lack of transparency and proper regulatory oversight in the financial sector, and the federal government's willingness to spend some 20 percent of GDP to bail out the big banks, not to mention those industrial and financial firms that owned them, was perhaps the sorest point of all from the

32. Unless otherwise noted, the data on Mexico's SME sector are cited from Jerry Haar, *Globalization and Mexico's Small Business Sector*, North-South Center Update, June 22, 2000, available at <http://www.miami.edu/nsc/publications/newupdates/update37.htm> (last visited June 8, 2003).

33. In the western state of Jalisco, for example, since 1994 local government incentives in the way of low-cost land, subsidies for worker training, and other tax and regulatory benefits have garnered more than \$2 billion from abroad for contract manufacturing in the electronics sector. This, in turn, has had an important multiplier effect for local SMEs operating in the related retail and service sectors.

standpoint of the Mexican public.³⁴

A main sideshow, as Jorge Mattar and others have pointed out, was the tremendous weight of the *maquila* sector in accounting for the country's most dynamic trade and investment trends in the late 1990s.³⁵ Gross fixed investment in the *maquilas* grew by 30 percent a year from 1993-1997, with the result that this sector has been the main source of exports and job creation. Even in the ultra-liberal NAFTA era, these export-processing firms still operate in a more deregulated economic environment, one that continues to draw strength from its close proximity to the U.S. market and from the wide gap between wages in the United States and wages in Mexico. However, it is now possible to speak of a third generation of Mexican *maquilas* that operate in more technologically advanced and higher value-added sectors (e.g., autos, computers, electronics) and which co-exist with first and second generation plants involved in assembly operations and industrial processing, respectively. Although these higher-tech *maquila* firms are becoming more geographically dispersed, not just clustered along the U.S.–Mexican border, they still lack sufficient forward and backward linkages with the rest of the Mexican economy. Given that these companies had become a main impetus for job creation and wage gains, there was clearly a role for public policy to play in forging such links.

It was now up to Zedillo, who lacked Salinas' charisma and consummate political skills, to design the kinds of remedial policies that could reconcile these various economic contradictions and disparities, as well as the highly conflicted social demands that accompanied them. Understandably, solutions offered for the very wealthy, such as the state's exorbitant outlays to rescue the domestic banks, further fueled the anger of those who bore the mainstay of the adjustment burden. For the bottom 40 percent of the income pyramid that encompassed those who had nowhere to go but up, the administration replaced PRONASOL with another demand-based social program (PROGRESA) that more carefully targeted public spending toward health, education, and nutrition in the poorer rural communities.³⁶ But PROGRESA did not gain momentum until mid-1997, and in the interim there were no unemployment programs or effective safety nets in place to help offset the loss of more than a million formal sector jobs and a 12.5 percent drop in real wages in 1995

34. Timothy Kessler, *The Mexican Peso Crash: Causes, Consequences, Comeback*, in *EXCHANGE RATE POLITICS IN LATIN AMERICA* 43 (Carol Wise & Riordan Roett eds., 2000).

35. Jorge Mattar et al., *Foreign Investment in Mexico after Economic Reform*, in *CONFRONTING DEVELOPMENT: ASSESSING MEXICO'S ECONOMIC AND SOCIAL POLICY CHALLENGES* 123-160 (Kevin J. Middlebrook & Eduardo Zepeda eds., 2003).

36. Families eligible for PROGRESA funding receive an income transfer designed to increase the amount of food and visits to health posts of infants and small children. PROGRESA school fellowships also are offered to promote attendance for children between the third grade of primary school and the third year of secondary school. Author's interview with PROGRESA's National Coordinator, Vicente Arredondo, Mar. 22, 2001. See also NORA LUSTIG, *MEXICO: THE REMAKING OF AN ECONOMY* 212 (2d ed., 1998).

alone. As the drive against inflation pushed real interest rates to new heights and social spending dropped by more than 12 percent in real terms under a tight fiscal policy, the Zedillo team basically floundered in offering the necessary relief measures, let alone anything that resembled the second-phase reform package that voters had endorsed in the 1994 elections.³⁷

The Mexican middle class, which was now evolving into the country's swing vote (an increasingly independent bloc of constituents who proved quite capable of shifting allegiances away from the PRI at a moment's notice and voting almost interchangeably for the PAN or the PRD), was caught uncomfortably between the widening poles of dynamism and stagnation. The wrath of this social segment was apparent immediately in the first gubernatorial race that followed the devaluation, in the western state of Jalisco, where the PRI lost a traditional stronghold to the PAN. In terms of the PRI's short-term survival, earlier vote-buying options of the kind witnessed in 1991 (PRONASOL plus a consumer spending spree primed by personal credit card debt and a superficially strong peso), or in 1994 (lower interest rates plus the pumping of credit through the state development banks), were out of the question. The Zedillo team did offer some sweeteners for the middle class in the way of SME support through a new industrial program called PROPICE and other related programs, such as FONAES, which offered small interest-free loans to micro-enterprises for up to two years.³⁸ But as the 1997 mid-term elections approached, clearly, more would have to be done to compensate the numerous losers who appear in Table 4 (Appendix D).

To the discomfort of the PRI's old guard, political spending under Zedillo took the shape of another round of electoral reforms in 1996 (see Table 2, Appendix B). Out of a tedious set of negotiations between the main political actors, the PRI finally agreed to the following initiatives: the selection of Mexico City's mayor through competitive elections; the granting of full autonomy to the Federal Electoral Institute (IFE), which was placed under the direction of nine councilors chosen by consensus amongst the various party representatives in congress; a more fair allocation of government funds earmarked for campaign financing; and independent monitoring to prevent the PRI's manipulation of media access.³⁹ Together, these reforms finally leveled Mexico's political playing field. Ostensibly, they were an extension of the PRI's ongoing democratization strategy in that the reforms allowed for even higher levels of political contestation, but not enough to fully unseat the ruling party. In essence, Zedillo's deepening of political reform came to substitute for the second-phase agenda that had been sideswiped by the severity of the 1994-1995 crisis. In terms of the immediate survival of the PRI, Zedillo no doubt

37. LUSTIG, *supra* note 36, at 210-11.

38. Author's interview in Mexico City with current FONAES director, Eduardo Ibáñez, Mar. 22, 2001.

39. For more detail on these 1996 electoral reforms, see Lawson, *supra* note 8 and CHAND, *supra* note 4.

spent this political capital with an eye toward mitigating the PRI's losses in the 1997 mid-term elections and the 2000 presidential prize once the economy had been fully reactivated.

The outcome of the 1997 elections confirmed that in order to bring this PRI comeback scenario to life, the party would have to be remade into yet another new image. However, at this point, neither Zedillo nor the party's increasingly disgruntled rank-and-file had it in them to project an image of repentant or remorseful economic reformers. Thus, the PRI's ready-made reform coalitions of the past, mobilized from the top at a moment's notice, could no longer be counted on to materialize in any convincing manner. In all, the PRI lost two of the six state gubernatorial races held in 1997 as well as its historic absolute majority in the chamber of deputies. The PRI also was forced to politely concede to PRD candidate Cuauhtémoc Cárdenas who won a landslide vote in the race for mayor of Mexico City. The PAN emerged from the 1997 race with a total of six state governorships but no substantial gains in the chamber of deputies, whereas the PRD increased its share of deputy chamber seats from about 14 percent in 1994 to 25 percent in 1997. Although not as high as the 1994 turnout, this election also drew a large percentage of the voting age population. Most telling for the PRI was the decrease in the number of districts now marked by single party dominance, which had dropped from 242 in 1979 to 25 in 1997.⁴⁰

In the lead-up to the 1997 mid-term vote, PRI candidates in gubernatorial races in the states of Yucatán and Tabasco conducted off-putting campaigns laced with fraud and violence. The PRI's negative campaigning and scare tactics concerning the apocalyptic consequences of electing opposition candidates was offset by the successful use of professional polling and image consultants by the PAN and the PRD. This, plus the seemingly endless revelations of financial corruption—multi-million dollar bank accounts surfacing in Houston, New York, and Zurich under the names of former high-level PRI officials and the government's aforementioned multi-billion dollar bailout of those banks and industrial conglomerates that recklessly ran up bad debt—repelled the public all the more. As the average remuneration in manufacturing fell by almost 40 percent between January 1995 and July 1997, the middle class in particular would continue to punish the PRI at the polls both for its errors of December 1994 and for the growing gap between macroeconomic recovery and microeconomic hardship.⁴¹

In the aftermath of the 1997 election it became clear that the country's political landscape had changed on par with the economic transformation underway. On the domestic front, the 1990s had seen a weakening of the Mexican presidency, partly due to the self-inflicted political shocks discussed here, but also as a result of the gradual decentralization of power

40. Klesner, *supra* note 7, at 37.

41. LUSTIG, *supra* note 36, at 211.

and resources to the regions.⁴² This decentralization of power was partly market-driven, as those export-oriented northern states that prospered most under NAFTA were prompted to side with the more businesslike PAN, while the poorer agricultural producing states in the south were more inclined toward the PRD. Decentralization was also a conscious policy of the Salinas administration, which devolved fiscal responsibility for the provision of key public goods to the country's thirty-one states. Although clearly launched with an eye toward shifting the control of scarce fiscal resources within the PRI, the unexpected success of opposition parties at winning state governorships from 1989 on bolstered the ability of these new PAN and PRD governors to access fiscal revenues heretofore controlled by the PRI.

The PRI's 1997 losses also exacerbated the intra-party split that had been festering since the mid-1980s between hardliners who blamed the reformers and technocrats for their declining control over the nation and modernizers like Zedillo who saw the reconciliation of democratization and market reforms as the only viable path forward. The latter wing of the PRI won out, as the 1997 mid-term setback became the prelude to the historic transfer of executive power from the PRI to the PAN in the 2000 election. By adopting a campaign platform akin to the second-phase reform agenda that had produced victories in 1998-1999 for President Fernando de la Rúa in Argentina and President Ricardo Lagos in Chile, PAN presidential candidate Vicente Fox and his Alliance for Change beat the PRI candidate, Francisco Labastida, by more than 6 percent.

The Fox campaign was doubly effective in that it built on the democratization momentum underway since the 1997 election, and in doing so attracted younger, largely urban, better-educated, and solidly middle class voters. Still debatable is the extent to which the Fox victory reflected an endorsement of market reforms by Mexican voters despite the economic roller coaster ride of the entire post-reform era, or simply a mandate for change. Public opinion was decisive in rejecting authoritarian politics, as the electorate finally saw the transfer of power to a democratic opposition as the more promising venue for realizing their civic aspirations. Certainly a vote for Fox was more a pro-market vote than anything else. Yet, as the following section will show, the closer specification of Fox's winning second-phase platform, as well as a cohesive coalition to implement it, remained elusive.

In the end, Fox took about 43 percent of the presidential vote, Labastida around 36 percent and a tired Cárdenas campaign took just under 17 percent for the PRD. In the 2000 congressional race no single party or coalition of parties took a striking lead. The PAN and its allied Green Party won about 45 percent of the seats in the chamber of deputies, the PRI nearly 42 percent, and the PRD coalition finished with just below 14

42. Denise Dresser, *Falling from the Tightrope: The Political Economy of the Mexican Crisis*, in *ANATOMY OF AN EMERGING-MARKET CRASH* 55 (Sebastian Edwards & Moisés Naím eds., 1997).

percent of the seats in the chamber. The regional distribution of votes in 2000 further deepened the pattern that had emerged so clearly in 1997: Fox won by overwhelming margins in those northern states where the electorate is best characterized as upwardly mobile, while the PRI continued to reap its strongest gains in states where the population was less educated and still closely wed to traditional economic endeavors. There were some signs of a healthy competitive showing by all three parties in southern states that match this description, for example, Oaxaca and Chiapas. Otherwise, the 2000 election vividly showed the extent to which Mexican politics had come to resemble two parallel two-party systems, one which entails fierce competition between the PRI and the PAN in the north and another in which the PRI and the PRD continue to duke it out in other parts of the country (Guerrero, Michoacán).⁴³

As the run-up to the 2000 election saw ever deeper conflicts between Zedillo's technocratic wing and the party's traditional stalwarts and further refusal of "dinosaur" state-level candidates to accept defeat in gubernatorial contests, Zedillo basically had two choices: to close ranks and succumb to the unsavory politics of the old guard or to stake out his position in Mexican history as the president who oversaw the country's formal transition to democracy. Make no mistake—Zedillo made every effort to appease and compensate the political and economic losers within the PRI, including his retraction of earlier promises to dismiss PRI gubernatorial "winners" in Tabasco and Yucatán who had engaged in open electoral fraud.

However, as a winner himself within the PRI, not to mention a likely candidate for any number of high-profile international policy positions abroad, Zedillo's strategic political calculations clearly shifted in favor of posterity. In the end, he halted the PRI's practice of hand-picking the presidential successor, subjected the party to competitive presidential primaries for the first time, and gave the green light to televised debates between the three presidential candidates. He also refrained from resorting to the reckless political spending that prompted dramatic economic crises at the end of each PRI presidential term in 1982, 1988, and 1994.⁴⁴ By handing over a sound, albeit partially reformed, economy to the Fox team and graciously accepting the PRI's presidential defeat in the 2000 race, Zedillo signaled that, while perhaps not up to this particular race, the former ruling party was still not down for the count.

V. THE FOX CHALLENGE: A SECOND-PHASE AGENDA WITH NO CONSISTENT BACKERS

Though spared the usual economic blowup that had long marked the passing of the presidential torch every six years, Fox still inherited a bundle of unresolved issues that quickly became part of his own "second-

43. Klesner, *supra* note 7, at 30-32.

44. HEATH, *supra* note 27, at 101-05.

phase” programmatic agenda. From the past were the pending problems of a peace settlement with the Zapatista guerrillas, the long overdue and much needed tax reform bill (public revenues continued to stagnate at just 11 percent of GDP, or 15-16 percent if oil revenues are factored in), the need to forge ahead with privatization and/or the introduction of competitive measures in the electricity, transportation, and energy sectors, and the dire need to advance more quickly in rectifying the extreme income inequalities shown in Table 4 (Appendix D). Less pressing, although equally problematic, was the need to launch a deeper round of reforms in the banking, judicial, and labor sectors and to move forward with electoral reforms that tightened campaign finance rules and the highly conflicted process still surrounding elections at the state and municipal levels.

As with Zedillo’s 1994 campaign, Fox too had phrased these challenges in terms of second-phase market reforms meant to strengthen institutions, assure competition and oversight, and more aggressively target a wide range of human capital needs. Despite the lack of strong differences between the PRI and PAN 2000 presidential campaign platforms, and the healthy macroeconomic backdrop that prevailed prior to the election, the PRI finally lost all credibility as the champion of political and economic reform. Fox, although an untested political alternative at the national level had the credibility but not the coalitional base or extensive party machine necessary to hit the ground running with his reform promises. Despite the electorate’s high hopes for democratic change and the political good will that Fox retained through his first year, this has yet to translate into a cohesive reform coalition that can maneuver through everyday party politics.⁴⁵

For different reasons, all three of the major parties have been wrought with internal strife since the 2000 transition. The PRI’s fall from executive power further emboldened the party’s traditional wing, whose authoritarian and populist tendencies are still painfully out of touch with a more democratically minded and forward looking electorate. The PRD, having resurged just once in the 1997 mid-term elections, has been mired in ideological squabbles over leadership and disputes concerning political strategy—winning elections versus promoting democracy. For the PAN, which has had no qualms about pursuing a fairly straight electoral route toward political liberalization, the 2000 victory has been bittersweet. Apart from outright jealousy over Fox’s success, the president’s insistence on dealing directly with the public, his appointment of an authentically diverse cabinet, and his independent stance on numerous policy issues has been a source of tension within the PAN since the campaign.

In essence, now that the political playing field truly has been leveled, the Mexican political system is in the process of shifting from two parallel two-party systems (the PRI versus the PAN or the PRI versus the PRD)

45. *Fox’s First Year: Still Popular*, Latin American Mexico and NAFTA Report, July 10, 2001, at 3.

to a competitive system proper. The difficulty that all three parties have had in acting as such has meant that most of the Fox policy agenda has either been stalled (e.g., privatization) or greatly watered down (e.g., indigenous rights bill, tax reform) as it winds its way through a Mexican congress that is no longer a mere rubber stamp. Although a positive sign for Mexico's democratic transition and a bright contrast to the era of PRI hegemony, the Mexican congress has closely scrutinized and modified every presidential bill sent down by Fox, thus compelling the president to negotiate extensively.⁴⁶ Yet, in the interim between the 2000 presidential contest and the high profile gubernatorial and Chamber of Deputy races slated for 2003, the reform trajectory could also be described as a collective action gridlock. With each of the three main political parties—the PRI, the PAN, and the PRD—divided internally and feuding amongst themselves, the very notion of coalition politics in Mexico is still a work in progress.

In other democratizing cases in the region, the former perpetrators of authoritarian rule have been disarmed (Argentina, Brazil, Chile) and/or sent into exile (Bolivia, Paraguay, Peru). Not so in Mexico, where the PRI still holds the largest number of elected seats in both the Senate and the Chamber of Deputies. Moreover, the preservation of congressional term limits in post-transition Mexico has freed elected representatives from the responsibilities of incumbency, while also inviting fairly obstructionist politicking, especially on the part of the PRI. The year 2002 provided a political respite of sorts, in that no major elections were held. But the very possibility of capturing a congressional majority in 2003 was a strong disincentive for once-omnipotent PRI politicians to engage in the kinds of coalition politics for which the current situation clearly calls.

Considering all of this, what has Fox been able to accomplish? Albeit piecemeal, and basically on its own, the current administration has made some moderate inroads along the two main points of its earlier second-phase reform platform: the deepening of political institutions and democratic norms and the articulation of a micro-level economic policy geared toward bolstering the position of individuals and small firms in the Mexican market. On the former, Fox wasted no time in advancing political reforms that upheld earlier campaign promises to combat crime and corruption and instill much greater levels of transparency and accountability into everyday life. Most prominent among these initiatives was the creation of a new Ministry of Security and Justice to replace the corruption-infested attorney general's office and take over the policing duties of the PRI-permeated Interior Ministry. The Ministry of the Comptroller and Administrative Development was also scrapped and replaced with a new Government Audit Office.⁴⁷ Other measures, such as the Law of Peo-

46. Denise Dresser, *Mexico: From PRI Predominance to Divided Democracy*, in *CONSTRUCTING DEMOCRATIC GOVERNANCE IN LATIN AMERICA* (Jorge Domínguez & Michael Shifter eds., 2003).

47. This section draws on various issues of *Country Report: Mexico*, EIU Country Report, July 2000 to July 2001.

ple's Savings and Credit, will regulate financial intermediaries that focus on low-income groups and a new Stock Market Law will similarly protect small investors and seek to limit insider trading.

Those political reforms that dig much deeper with regard to Mexico's democratic transition, including the highly contested indigenous rights bill and the need for yet another generation of electoral reforms, will take much longer to hammer out in congress. The indigenous rights bill was the first piece of legislation that the Fox administration sent to the congress. The president's strategy basically has been to concede to the Zapatista's demands. The problem is that these gestures of collegiality toward the Zapatistas are not shared by the more conservative elements within Fox's own party. For once, the PRD backed the president on this particular issue, but the PRI's position on indigenous rights has wavered erratically. An indigenous rights bill was passed by congress in April 2001, but the content did not meet the desire of indigenous groups to establish autonomy in local political matters, including justice, land, and natural resource rights, and such autonomy was made precarious by congressional insistence that it could be usurped when it conflicts with federal law. As a result, there is continuing discord among the major parties about how to make peace and achieve progressive reform in this area.

On the economic policy front, the basically laissez-faire industrial strategy that Fox inherited from the Zedillo administration has remained in place, but with a greater allocation of resources and a more explicit emphasis on the development of SMEs. In this regard, the Fox team has also staked out a more active role in targeting resources toward firms with strong potential to participate in those higher value-added export activities that now define Mexico's transformation under NAFTA. For example, various SME promotion efforts (e.g., programs such as PROPICE, COMPITE, CRECE) are now consolidated under one main office (CIPI) in the Ministry of Economy (formerly SECOFI), which itself has been assigned an unprecedented mandate to focus on microeconomic restructuring, including a doubling of its share of the federal budget.⁴⁸

The goal now is to reach at least 10 percent of those firms in need of support by the end of the Fox term. Apart from offering assistance in such areas as technology upgrading, skills training, and diagnoses for improving efficiency, the Fox micro-strategy also commits to greater accountability in the allocation of credit to SMEs. In particular, the current reform package demands much higher levels of transparency from those development banks that are the main conduits for credit access by smaller firms. It will be more difficult for these banks to return to old practices of bending the rules or playing favorites, as they will now be subject to external audits and to public disclosure of all aspects of their ongoing loan

48. Fox's Trade Plan to Focus on Smaller Firms, Mexico & NAFTA Report, Dec. 12, 2000, at 1. See also Dussel Peters (2002).

portfolios.⁴⁹

The need to invest more vigorously in education, skills, and human capital, partly to position Mexico higher up on the value-added hierarchy, was also a vocal theme in the 2000 Fox campaign. Once an afterthought during the era of ISI and heavy state patronage, the sweeping liberalization of the Mexican economy over the past two decades has made it impossible to ignore the country's steep education deficit. Most troublesome is the disjuncture between a low-skilled workforce and the rising skill premium, especially in those sectors that have been liberalized. Thus far the most concrete plans to boost human capital include a pledge to raise the average level of schooling from seven to ten years, and to do so by deepening the inroads made by the Zedillo administration in shifting a greater share of the education budget toward basic education. Whereas this crucial category captured about 58 percent of the education budget in 1990, it now accounts for about 66 percent and is slated to go higher under Fox.⁵⁰

Fox is stepping more gingerly with his plans to reform domestic labor markets so as to encourage employment opportunity and mobility. For example, the current administration is in the process of breaking the hold of those unions with long ties to the traditional wing of the PRI, some of which still control entire sectors through a web of corruption and coercion. One strategy to weaken the power of these traditional unions involves moving toward plant-level negotiations, mostly to avoid the sector-wide rules that basically block labor market mobility. Union weakening was also furthered by a recent Supreme Court victory that reversed an age-old rule directing companies to fire workers who leave their unions.⁵¹ The upshot of all this is a potential lowering of wages, albeit for the purpose of creating employment. Given the administration's distributional goals and the lingering power of the country's labor bosses, this presents both a contradiction and a political challenge that will require much greater intermediation than any of the main stakeholders have yet to display.

Despite these measured advances with Fox's second-phase agenda, inequality continues to have a tenacious hold on the country, with current trends confirming that targeted distributional policies must be accelerated. Even in the short time that a more targeted distributional approach has been in effect, there is evidence that selective anti-poverty programs like PROGRESA are having a positive impact on the bottom 40 percent of the income pyramid. The PROGRESA program, which now covers

49. *Country Report: Mexico*, EIU Country Report, Apr. 2001, at 17. The government also intends to offer tax incentives to encourage SME export activities outside of the *maquila* sector and to more vigorously enforce anti-trust policies already on the books, but it remains to be seen whether these goals will be pursued in the event that the congress remains difficult to traverse.

50. Authors' interview with Ignacio Chavez, Office of Health, Education, and Labor, Ministry of Finance ("Hacienda"), Mexico City, Mar. 23, 2001.

51. *Country Report: Mexico*, *supra* note 49, at 15.

some 2.6 million families in poverty-stricken rural areas, has spurred an average annual increase of 20 percent on spending for basic needs. For the first time, spending on poverty alleviation has now surpassed one percent of Mexico's GDP. Although a little bit has gone a long way, the data confirms that further reductions in poverty will require an even greater allocation of scarce public resources and in order to foot this bill the Fox government simply must raise tax receipts as a share of GDP.

Apart from the government's chronic dependence on oil revenues to balance the books, the country's low level of tax incidence stems from a combination of granting too many exemptions to big business and from the fact that at least 40 to 50 percent of the workforce is now operating in the informal economy. By definition, fiscal reform implies the drawing of yet another set of lines between winners and losers, and this has rendered the domestic debate especially contentious. At the same time, given the right mix of tax measures, Mexico's future fiscal policies could infuse greater dynamism into its distributional strategy and move the country further in the Chilean direction: raising public revenues to aggressively target distributional needs and broadening the social safety net in ways that encourage productivity versus the old-style compensation.⁵²

The difficulty of getting down to serious business with a fiscal reform bill in the Mexican congress was reflected in the mid-2001 decision to postpone the vote on the tax package until the end of that year. In the end, as its last major piece of legislation in December 2001, the Mexican congress passed a tax reform bill that fell far short of the revenue projections that had been targeted since the testy debate over tax reform began the year before.⁵³ The congress did succeed in passing a uniform tax rate of 35 percent for individuals and businesses in the top tax brackets, a rate due to fall by one percentage point a year until 2005. But other proposed measures collapsed, such as Fox's efforts to close special tax loopholes and the passage of a uniform 15 percent VAT tax with extended coverage to food, medicine, education, and healthcare.

The result has been a projected revenue increase of just one percent of GDP and, as the budget deficit has already surpassed its current targets, a panicky round of new taxes were levied, for example, on cell phones, high-speed Internet services, tobacco, and alcoholic beverages. The cumulative result of the long tax battle and generally unsatisfactory outcome is that the political opposition succeeded in driving down Fox's approval ratings and his overall standing in the public opinion polls; this, of course, was a prelude to the drubbing that the PAN took in the 2003 mid-term race, where it lost fifty-four seats in the House of Deputies and won only two out of six gubernatorial races. The PRD succeeded in doubling its share of Deputy seats to 95, while the PRI raised its total to

52. Klaus Schmidt-Hebbel, *Chile's Takeoff: Facts, Challenges, Lessons, in CHILE: RECENT POLICY LESSONS AND EMERGING CHALLENGES* 63 (Guillermo Perry & Danny Leipziger eds., 1999).

53. *Country Report: Mexico*, *supra* note 49, at 8-16.

224. This marked the first time since the Mexican Revolution that the president's party failed to win the highest number of votes in a mid-term race.

VI. CONCLUSION

After more than fifteen years of deep market reforms, the relationship between politics and economics in Mexico is virtually the opposite of what ascendant PRI technocrats had originally envisioned in the 1980s. Rather than a dominant ruling party maintaining control through its accommodation to a more competitive economic system, the challenges of the latter have swept politics along with it. As is usually the case in such transitions, the PRI itself was the last to realize the extent to which the interplay between politics and economics had become a reciprocal feedback loop—a dynamic set of interactions that a stagnant old political guard could no longer control. This tendency for voters to move on to other parties and candidates once the economic house has been put in order has been an integral part of the political economy of democratic transition in post-debt crisis Latin America. The PRI, electoral reforms and all, never expected to join step with this regional trend any time soon.

The challenges inherited by the Fox administration are real, as reflected in the political difficulties it has encountered in attempting to push through its second-phase economic, institutional, and legislative reforms. Not surprisingly, Fox has partially stalled at the same juncture where the PRI finally lost its political footing. Now, with the standard bearers of authoritarianism still happily running for office and periodically winning, the uncertainties of reform completion in the post-stabilization era have been compounded by the still protracted nature of the country's democratic transition. Thus far, Fox has compensated for this coalitional vacuum by appealing directly to public opinion, launching massive media campaigns, and rallying hard-won ad hoc support for each and every initiative discussed in this chapter.⁵⁴ However, the PAN's sizeable electoral setbacks in the July 2003 mid-term election confirm that this improvised short-term survival strategy has worn very thin.

The incumbent PAN party was clearly punished in the 2003 contest, both in its losses within the House of Deputies and with the PRI's gubernatorial gains. Mexico's increasingly sophisticated public opinion pollsters point to Fox's failure to deliver sufficiently on earlier reform promises as the main cause. Nevertheless, the current juncture—economic recession, political stalemate, and the slow-walking of the entire reform agenda by the congress—is still considered too fluid and uncertain to point solidly in favor of any single victorious party or bloc of parties for 2006. The extent to which voters will opt for candidates that deliver concrete results regardless of party affiliation is something at which the opinion polls can still only guess. But unlike the past, the institutional

54. Dresser, *supra* note 46.

machinery to support second phase political and economic reform—authentic political parties, autonomous electoral oversight, an independent media, and much higher levels of transparency, accountability, and efficacy in the realm of economic affairs—is firmly in place. The average Mexican voter may continue to reel from the changes wrought by the country's economic overhaul and the unexpected uncertainties that have surrounded democratic politics, but the odds are also stacked more heavily in favor of that same average citizen than ever before.

APPENDIX A

TABLE 1
Electoral Support and Legislative Representation in Mexico, 1979–2000

	Percentage of Congressional Vote ^a				Percentage of Congressional Seats				Percentage of Presidential Vote		
	<i>PRI</i>	<i>PAN</i>	<i>Left^b</i>	<i>Other</i>	<i>PRI</i>	<i>PAN</i>	<i>Left^b</i>	<i>Other</i>	<i>PRI</i>	<i>PAN</i>	<i>PRD</i>
1979	74.0	11.5	5.3	9.1	74.0	10.8	4.5	10.8			
1982	69.3	17.5	5.9	7.3	74.5	12.8	4.3	8.3	77.4	14.5	
1985	68.1	16.3	6.3	9.2	72.3	10.3	6.0	11.5			
1988	51.1	18.0	29.6	1.3	52.0	20.2	27.8	—	50.7	16.8	31.1
1991	61.5	17.7	8.9	12.0	64.0	17.8	8.2	10.0			
1994	50.3	25.8	16.7	7.2	60.0	23.8	14.2	2.0	48.6	25.9	16.5
1997	39.1	26.6	25.7	8.5	47.8	24.2	25.0	3.0			
2000	38.0	39.4	19.2	3.3	41.8	44.6	13.6	0.0	36.1	42.5	16.6

a) Figures reflect percentage of valid vote

b) “Left” refers to the independent left and not PRI satellite parties; beginning in 1988, this includes left parties in alliance with the PRD.

Sources: Haggard and Kaufman (1995: 302); Levy and Bruhn (2001: 101); Mexican Federal Electoral Institute (IFE) website: www.ife.org.mx; presidential figures cited from Gómez Tagle, (2001).

APPENDIX B

TABLE 2

A Chronology of Recent Electoral Reforms in Mexico, 1977–2000

<i>Year</i>	<i>Key Reforms</i>
1977	Party system expanded from 4 officially recognized parties to 7; proportional representation introduced in Chamber of Deputies: total number of deputies increased from 300 to 400, of which the original 300 remained "uninominal" (elected by majority vote within each of Mexico's 300 voting districts) and the new 100 seats were to be "plurinominal" (elected according to the percentage of votes cast for each party in each of five zones into which the country is divided for that purpose, with an equal number of representatives from each zone).
1986–1988	Federal Electoral Code enacted; Chamber of Deputies enlarged to 500, with 300 uninominal representatives and 200 plurinominal; Senate terms changed from concurrent with the presidential sexenio to half concurrent, half starting at midterm (concurrent terms reinstated in 1993 reforms).
1989–1990	Constitutional amendments to electoral process; Federal Code for Electoral Institutions and Procedures (COFIPE) issued, establishing the independent Federal Electoral Institute (IFE); new electoral registry developed; tamperproof photo IDs issued to voters; sanctioning powers of Federal Electoral Tribunal broadened; "governability" clause enacted, guaranteeing majority of seats in Chamber of Deputies to ruling party.
1992–1993	Amendments to Constitution, COFIPE, and electoral law promoting pluralism in Congress (by doubling number of Senate seats from 64 to 128 and guaranteeing 25 percent of Senate seats to the leading minority party in each state, by preventing any party from holding more than two-thirds of Chamber of Deputies seats, and by repealing "governability" clause); establishing campaign-spending ceilings and prohibiting political contributions by government agencies and officials, the private sector, religious institutions, and foreign individuals and organizations; expanding rules promoting equal access to media coverage of political parties; establishing office for prosecuting electoral crimes and expanding sanctions on such crimes; creating double-blind random lottery to select 800,000 citizens to be trained and serve as polling officials.
1994	Multiparty agreements reached on accountability (external audit of voter registry, special prosecutor for electoral crimes, serial numbering of ballot stubs); Citizen Counselors on IFE General Council (proposed by parties not president, elected by two-thirds majority in Chamber of Deputies, and given voting majority on Council, while party representatives to Council lose right to vote on Council decisions); acceptance of international "visitors" during federal elections; new voting booth technologies; electoral registry (to be shared with parties monthly before elections); expanded programs for ensuring reliability of vote counts; expanded free media access to parties, monitoring of coverage by IFE, suspension of party-paid advertising and government promotion of PRONASOL or other public subsidy programs 20 days before federal elections; restrictions on government officials' political activity; replacement of over 400 electoral officials, including IFE Citizen Counselors, having perceived ties to a political party.
1996	The Federal Electoral Tribunal is made an integral part of the Supreme Court, which now becomes the final arbiter of Mexican election results; the Supreme Court now reviews the constitutionality of election laws and decisions at the federal and state levels, effectively shifting the control of such decisions away from the executive branch; liberalization of IFE, by removing all government agents from its management (the Ministry of the Interior had managed the elections since 1946) and the appointment of an independent professional as its director, to be chosen by consensus and approved by a two-thirds vote in the chamber of deputies; IFE's eight Citizen Counselors become "Electoral Counselors," now barred from involvement in party politics or government for three years prior to their designation, also chosen by consensus and approved by a two-thirds vote in the chamber of deputies to serve a six-year term; limits on overrepresentation of the majority party were set at 8

percent of total votes; a more fair allocation of government funds earmarked for financing the campaigns of all parties; independent monitoring to prevent the PRI's manipulation of media access; for the first time, the selection of the mayor ("Regent") of Mexico City through competitive elections.

- 2000 IFE approved the establishment of commissions at local and district levels to receive complaints and petitions concerning the practice of buying and coercing votes; a special 30-member congressional commission was created to monitor all levels of government to avoid the illegal misappropriation of funds in favor of a given political party.

Sources: Jorge Alcocer V., "Recent Electoral Reforms in Mexico: Prospects for a Real Multiparty Democracy," in Riordan Roett, ed., *The Challenge of Institutional Reform in Mexico* (Boulder: Lynne Rienner Publishers, 1995), p. 59; José Antonio Crespo, "Raising the Bar: The Next Generation of Electoral Reforms in Mexico," Policy Papers on the Americas, Center for Strategic and International Studies, Washington, DC, March 7, 2000; Vikram Chand, *Mexico's Political Awakening* (Notre Dame, IN: University of Notre Dame Press, 2001), pp. 237-244.

APPENIDIX C

TABLE 3
Macroeconomic Trends in Recent Mexican Sexenios

	De la Madrid 1982–1987	Salinas 1988–1993	Zedillo 1994–1999		
GDPGRO	-0.9	3.7	3.1		
GNPPCGRO	-2.3	3.9	1.2		
INF	83.7	33.3	21.9		
PRIVGDP	12.3	14.4	15.7		
PUBIGDP	7.0	4.3	3.3		
INVEST	19.3	18.6	18.9		
RER	131.8	93.2	87.4		
TRADEBAL	9,423.7	-5,759.8	-2,916.0		
CURACCT	1,305.0	-13,063.3	-11,793.6		
FDI	1,806.5	3,478.2	10,899.1		
PORT	-124.8	9,667.5	3,989.7		
DEBT	96,841.8	109,260.1	155,933.4		
	1987–1988^a	1990–1991^b	1993–1994^a	1996–1997^b	1999–2000^a
GDPGRO	3.1	4.6	3.2	6.0	3.4
GNPPCGRO	0.4	3.2	1.1	5.0	NA
INF	123.0	22.7	7.5	21.7	10.2
PRIVGDP	13.7	14.1	15.2	15.1	NA
PUBIGDP	5.1	4.2	3.8	3.7	NA
INVEST	18.8	18.3	19.0	18.8	NA
RER	127.2	93.9	74.0	91.7	74.6
TRADEBAL	5,699.0	-4,080.0	-15,972.0	3,577.0	-5,360.0
CURACCT	937.0	-11,170.0	-26,531.0	-4,891.0	-14,016.0
FDI	1,598.0	3,646.0	7,681.0	11,008.0	11,567.0
PORT	638.0	4,077.0	17,885.0	9,145.0	9,955.0
DEBT	104,330				
	.0	109,245.0	135,968.0	153,528.0	161,500.0

a) Data represent average levels in each 2-year period surrounding presidential elections.

b) Data represent average levels in each 2-year period surrounding mid-term elections.

Sources:

GDP, GNP and debt taken from the World Bank's WORLD TABLES, CD-ROM, 2000, except for 1999 and 2000 GDP growth and debt data taken from the March and April, 2001 Economist Intelligence Unit Country Reports, and GDP per capita taken from Inter-American Development Bank website (www.iadb.org).

Data on investment taken from *Trends in Private Investment in Developing Countries: Statistics for 1970-98* Lawrence Bouton and Mariusz A. Sumlinski, available at the World Bank's International Finance Corporation (IFC) website: <http://www.ifc.org/economics/data/dataset.htm>.

Inflation, exchange rates, and payments calculated from INTERNATIONAL FINANCIAL STATISTICS, CD-ROM, June 2001; except:

Trade balance and current account data for Brazil and Chile prior to 1975, Argentina prior to 1976, Peru prior to 1977, and Mexico prior to 1979 was obtained from the *1984 International Financial Statistics Yearbook*; Washington: International Monetary Fund.

FDI and Portfolio investment data for Brazil and Chile prior to 1975, Argentina prior to 1976, Peru prior to 1977, and Mexico prior to 1979 was obtained from the *1994 International Financial Statistics Yearbook*, Washington: International Monetary Fund.

GDPGRO	Growth of real GDP
GNPPCGRO	Growth of real per capita GNP
INF	Dec. – Dec. inflation
INVEST	Total domestic investment as a % of GDP
PRIVGDP	Private investment as a % of GDP

PUBIGDP	Public investment as a % of GDP
RER	Real Exchange Rate (1990=100); calculated using period average exchange rate, US WPI and domestic CPI
TRADEBAL	Trade balance (mil\$)= merchandise exports – merchandise imports
CURACCT	Current account (mil\$)
FDI	Foreign Direct Investment (mil\$)
PORT	Foreign Portfolio Investment (mil\$)
DEBT	Total External Debt (mil\$)
GDPPCGRO	Growth of real per capita GDP

APPENIDIX D

TABLE 4

Distribution of Current Monetary Income in Mexico by Household Deciles, 1984–2000
(Percent of Total Income to Household Decile)

Household Decile*	1984	1989	1992	1994	1996	1998	2000
<i>Total</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>	<i>100.00</i>
I	1.19	1.14	1.00	1.01	1.24	0.92	1.11
II	2.66	2.48	2.27	2.27	2.56	2.22	2.40
III	3.86	3.52	3.36	3.27	3.56	3.24	3.33
IV	5.01	4.56	4.38	4.26	4.60	4.33	4.32
V	6.26	5.76	5.45	5.35	5.67	5.47	5.47
VI	7.66	7.21	6.77	6.67	6.99	6.86	6.92
VII	9.68	9.02	8.62	8.43	8.78	8.76	8.65
VIII	12.42	11.42	11.22	11.19	11.38	11.59	11.29
IX	17.00	15.92	16.09	16.30	16.15	16.42	16.47
X	34.26	38.97	40.84	41.24	39.07	40.19	40.04
Gini Coefficient**	0.46	0.49	0.51	0.51	0.49	0.51	0.50

* Households are ordered in terms of income (the lower deciles include the poorest, the higher deciles the richest).

** The Gini coefficient is an aggregate measure of income inequality which ranges from zero in a completely equal society to one in a completely unequal society.

Source: Instituto Nacional de Estadística, Geografía e Informática (INEGI), "Encuesta Nacional de Ingresos y Gastos de los Hogares," Third Quarter, 1984, 1989, 1992 (CD-ROM); Third Quarter, 1994, 1996, 1998 (1998 CD-ROM); Third Quarter, 2000 (www.inegi.gov.mx).

