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**MEXICO'S ECONOMIC CRISIS:  
CHALLENGES AND OPPORTUNITIES**

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Donald L. Wyman**

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**Center for U.S.-Mexican Studies  
University of California, San Diego Q-060  
La Jolla, California 92093**

## MEXICO: THE POLITICAL PROBLEMS OF ECONOMIC STABILIZATION

by Lorenzo Meyer  
El Colegio de México

The processes of economic industrialization and modernization in Latin America have produced significant contradictions. They created the need, on the one hand, for savings and capitalization, and, on the other, for redistribution. These two contradictory tendencies did not clash during earlier cases of industrialization, when pressures for redistribution built up only after accumulation was already well underway. In Latin America, the conflicting pressures have led in some cases to liberal democracy; in others, to populism; in others, to revolution; and, lastly, in the past two decades, to spectacular military coups from which emerged repressive authoritarian regimes in Brazil, Argentina, Chile, and Uruguay.<sup>1</sup> The military's first priority after forming these authoritarian regimes has been to "stabilize" the national economy. Among other measures used to achieve this end was a systematic and thorough repression of the demands and organizations of the "popular sectors," that is, the wage-earning population.

Mexican society at the end of the nineteenth century entered a process of rapid economic modernization that included the beginnings of industrialization. The economic and political contradictions of this process led in the first decade of the twentieth century to the Mexican Revolution. The regime which appeared in Mexico after 1917 fit within a formal framework of a republican and federal system of representative democracy, dedicated to protecting the well-being of the majority. In reality, however, an authoritarian system emerged out of several developments: the early ascendancy of the presidency over the other powers, the formation of a major official party in 1929 which left virtually no space for other electoral alternatives, and the creation in the 1930s of "sectors" within the official party that incorporated the population en masse. Within the

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1. Guillermo O'Donnell has referred to these regimes as "bureaucratic authoritarianism." See his *Modernización y autoritarismo* (Buenos Aires, 1972).

authoritarian system, the party, and especially its popular organizations, constituted the principal means of communication between civil society and government. The agrarian reform, the nationalization of large foreign-owned oil companies, and official support of labor organizations and of some of their demands allowed the official party to proclaim that it governed Mexico in the name of the people — workers, peasants, the middle class — without alienating the bourgeoisie, who were viewed as legitimate social actors to the degree in which they contributed to developing and strengthening Mexico's economic independence.

Other Latin American countries suffered the divisive effects of the difficult transition from an agricultural society to an urban and semi-industrialized one. Mexico, however, was able to prevent the disintegration of its political system, despite the social restructuring and polarization which accompanied its rapid post-World War II industrialization. The popular character of the revolution, reaffirmed and institutionalized during the administration of President Lázaro Cárdenas (1934-1940), weakened significantly but did not disappear during the heavy industrialization of the 1940s. This same institutionalization of populism allowed the state to maintain its legitimacy, even though its policies favored rapid accumulation rather than redistribution. Thus, with relatively little use of force, and without irreparably fracturing the political consensus created by the revolution, the state could limit many of the demands of the popular sectors and promote, between 1955 and 1970, the rapid economic growth known as "stabilized development." This process implied, among other things, controlling inflation to a much greater extent than elsewhere in Latin America; an average annual Gross National Product growth rate of 6 percent; and a slight increase in real salaries, even though these fell relative to GNP (34 percent in 1950, 28 percent in 1967).<sup>2</sup> Popular authoritarianism also hid from view a highly inequitable distribution of available income.<sup>3</sup>

The decade of the 1970s witnessed the end of Mexico's "economic miracle," but no substantive change in the form and content of political control. Between 1971 and 1976 some of the populist and redistributive features of the system were accentuated; but inflation appeared, and the decade closed with annual price increases of 18 percent and a balance-of-payments deficit 6 times larger than that of 10 years earlier (less than 1 billion dollars in 1971, and 6.6 billion in 1980). By this time the

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2. Manuel Gollás, *La economía desigual. Empleo y distribución en México* (México, D.F., 1982), p. 201.

3. *Ibid.*, pp. 190-229.

peso had devalued 40 percent relative to the dollar, and confidence in the economic viability of Mexico's development model was shaken: in 1976, for the first time in decades, a negative increase in per capita GNP was recorded (-1.2 percent). Faced with these economic imbalances, the system reaffirmed its populist character, both in political rhetoric and in more substantial ways such as public spending, which grew from 26 percent of GNP in 1970 to 36 percent five years later, a level the government maintained until 1981.

Petroleum exports,<sup>4</sup> reinitiated in 1979 after more than 20 years of production for domestic consumption only, reversed these negative economic trends. Mexico thus was able to acquire and absorb the large quantities of foreign resources (the trade deficit between 1977 and 1982 totaled 16 billion dollars) which were the means by which the country hoped to extricate itself from the 1976 crisis. This strategy came at the cost of an enormous trade deficit and the petrolization of the economy.<sup>5</sup> In 1980 the GNP's annual growth reached 8 percent, with federal expenditures forming the linchpin of the economy. Thus, between 1978 and 1981, public investment grew at an average yearly rate of 20 percent, 6 percent above private investment. During this same period, employment increased at the unprecedented rate of 5.4 percent yearly.<sup>6</sup>

The catastrophic fall in international oil prices in mid-1981 and the López Portillo administration's inability to react quickly to adjust the amount and nature of public spending, as well as the exchange rate, led to accelerating inflation (reaching nearly 100 percent in 1982) and a capital flight of billions of dollars. Mexico's growth dramatically ended and economic crisis set in. The only precedent for the current crisis is found in the first half of the 1930s, with one significant difference: in the earlier crisis Mexico experienced recession without inflation and had a large subsistence-agriculture sector that could absorb some of the unemployed from other sectors — unfortunately not true of the present case.

The administration that took office on December 1st of 1982 finds itself with few economic options. Its primary and almost exclusive concern has been to control the social contradictions accentuated by the crisis and to implement the required

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4. A daily average of over a half-million barrels.

5. René Villarreal, "De la industrialización sustitutiva a la petrodependencia externa y desustitución de importaciones," in Héctor E. González, ed., *El sistema económico mexicano*, (México, D.F., 1982), p. 40.

6. Banco de México, *Informe Anual, 1982* (México, D.F., 1983), pp. 81-82.

austerity program, while attempting always to keep the political system intact. President Miguel de la Madrid outlined in his inaugural address a program of seven basic principles: nationalism, democratization, social equality, moral renewal, decentralization, resumed development, and planning. The program contains nothing new, with the exception of the emphasis on moral renewal as a means of retaining a legitimacy that the economic crisis threatened to eliminate. It is in the presentation of this immediate economic program that the dilemma is more apparent: the need for a substantial reduction in public spending is assumed on the one hand, but on the other we find promises to protect jobs, support basic food production, and reaffirm the state's economic leadership.<sup>7</sup> How can the government protect jobs, combat social inequality, and support basic food programs, while it simultaneously cuts public spending, decreases the trade deficit, and slows its rate of indebtedness abroad? These conflicting priorities are the essence of the political problem facing the new government.

President de la Madrid and several members of his cabinet have indicated from the first their opposition to the irresponsible "populism" of the immediate past. They also have affirmed the need to adopt spending policies which are in close accord with orthodox economics, as loudly demanded by private businessmen, and quietly but perhaps more effectively demanded by the International Monetary Fund and major foreign banks.

As indicated previously, the Mexican political model — authoritarian, populist, and non-exclusive — had not led to a redistribution of wealth compatible with any idea of substantive justice: in 1977, 20 percent of Mexico's families received 54 percent of available income;<sup>8</sup> but it had allowed for political stability, now over 60 years in duration (unique in Latin America). And although Mexicans experience only limited political participation, they have enjoyed a climate of relative political and intellectual freedom. In other words, political pluralism in Mexico is undeniably limited, but at least the country has not experienced the extreme authoritarianism of other Latin American countries.

The relatively early establishment in Mexico of an authoritarian system emerging from a popular revolution was responsible to a substantial degree for preventing the political polarization that economic growth has provoked in other Latin American societies. To retain its legitimacy and viability, this system was

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7. *Excélsior*, Dec. 2, 1982.

8. Gabriel Vera, Carlos Bazdresch, and Graciela Ruíz, "Algunos hechos sobre la distribución del ingreso en México," *Diálogos* 110 (Mar.-Apr. 1983), p. 35.

compelled to remain relatively open. The state had to pledge to the popular organizations and the middle class that it would sustain a high level of public spending and would adopt social policies that together would honor the demands of those sectors of society. Some of the policies appear irrational if judged from a strictly economic point of view — subsidies to food, transportation, health care, education, inefficient or redundant industries, etc. — but they have a clear, important political logic: to maintain the consensus and to provide legitimacy to a system of political domination which in daily practice differs in many areas from the legal-constitutional structure to which it theoretically adheres.

The crisis within Mexico's economic system has forced the government to reduce drastically the public debt, which measured 16 percent of the GNP last year and must continue to decline to 5 percent. This is the nerve center of Miguel de la Madrid's proposed stabilization program. To this end, he began reducing subsidies and increasing taxes. The government has identified a reduced rate of inflation as a primary goal, to be realized through a combination of a government austerity program and control over wage increases, which must be held at levels substantially below the inflation rate. Mexico's labor unions are presently negotiating emergency pay raises of perhaps less than 20 percent, against an annual inflation rate of at least 80 percent, and perhaps as much as 100 percent. With lowered subsidies and a tangible decrease in real wages, the standard of living in Mexico has also fallen substantially in an economy where historically — after 1940 — the per capita GNP had grown at an average yearly rate of 3 percent. It follows that the political costs of this economic disaster must be very high.

In the short run, we may well expect the government to downplay, if not uproot, traditional populism and to fill this vacuum, acquired at the price of lower- and middle-class interests, with orthodox economic practices. In the short run, this approach will not lead to a confrontation with organized labor. Such a confrontation would mark the beginning of the end of the long-standing alliance between the state and labor. Should such a situation appear, it would mean the end of the system as we know it today. Central to this analysis is the fact that opposition to the regime — especially from the left, the only alternative program — is weak, fragmented, and largely coopted by the political reforms of the López Portillo administration.<sup>9</sup> Nevertheless, over the medium range, a "technical" solution to the economic crisis, that is, the systematic containment of

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9. Luis Medina Peña, *Evolución electoral en el México contemporáneo* (México, D.F., 1978).

consumption in the middle and lower classes, cannot continue without destroying this unjust but stable and relatively tolerant system.

If those elements of populism which still remain in Mexico's political system, that is, its minimum redistributive elements, were effectively eliminated, the political elite would then have to seek other bases for their legitimacy or be prepared to rely more openly on force.

What new legitimacy would sustain the people's patience in the face of a lowered standard of living for the majority? Legitimacy might result from a transformation of the authoritarian nature of the system. This reform could imply casting aside the limitations to our pluralism, heeding in practice the principles contained in our formal constitutional structures, and pushing the so-called "political reform" to its final consequences. Until now, this reform has implied only allowing opposition party entry into the lower house of Congress and into some local governments. In a true reform, the various social interests would be allowed to organize politically and independently until both populism and authoritarianism disappear. The new legitimacy would not be based on public-sector subsidies, especially to the organized lower and middle classes, but on a real interaction of social forces through a true party system. The strength lost in the paternalistic relationship between the state and popular groups would be transferred to a civil society.<sup>10</sup>

Unfortunately, this is probably not a viable solution. True, in Franco's Spain authoritarianism collapsed with surprising speed upon the old dictator's death, and a vigorous political democracy grew in its place, despite an economic situation of austerity rather than of bonanza. But closer to home lie the examples of the southern Latin American countries, such as Chile, Uruguay, and even Argentina. These countries with relatively strong civil societies were ultimately unable to resolve their economic development crises through party systems. They fell under fiercely repressive authoritarian regimes, which excluded not only the large proletarian groups, but also the middle class and some sectors of the national bourgeoisie.

Moreover, Mexico has no tradition or historical base for a liberal democracy. Its formal democracy has, from the nineteenth century to the present, functioned only sporadically. The ruling political party has never permitted the election of another political party with an alternative platform. Like it or not, the prevailing tradition in Mexico is authoritarian.

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10. Carlos Bazdresch, among others, has made this suggestion. See "Distribución y crecimiento," *Diálogos* 110 (Jan.-Mar. 1983), pp. 52-53.



The current administration may be aware of this dilemma and may be seeking the most expeditious means of renewing the legitimacy lost due to the economic crisis and the austerity program. It is attempting to maintain the minimum consensus needed for the system of political domination to continue functioning more or less as it has traditionally and to achieve this through "moral renewal," a central feature reiterated by Miguel de la Madrid during his campaign and in his inaugural address. In brief, this "moral renewal" proposes that in exchange for consumer sacrifices, the president pledges personally to spearhead a campaign against an evil of Mexico's public life — corruption — that became even more visible and disturbing to the public after the oil boom of 1978-1981.

So far, this moralizing activity has not been as extensive as the present crisis merits. While an entire bureaucratic machine now exists to carry out this project, initial proceedings have affected only a few relatively unimportant functionaries from the previous administration, and have not touched the core. Until now — mid-1983 — the "moral renewal" does not seem capable of fulfilling its political-symbolic function: to persuade the citizenry to abandon its cynicism and pledge its support to the government. Indications are rather that for the great majority of the public, the expectations raised by the initial proposal of a campaign against corruption have not been satisfied.

If the economic crisis compels Mexico's government to renounce its past populism and to impose austerity measures, the brokers that historically have mediated between the government and the Mexican society, no longer useful in their traditional role, will lose the little vitality they have left. Others may not be available to fill this vacuum and to maintain the consensus needed for preserving political stability. In spite of the injustices this system has created, if its stability is undermined, nothing better is available to replace it.

Now, in mid-1983, it is clearer than ever before that the post-revolutionary system owes its survival to the continuing endorsement and support that official labor leaders have given, for better or worse, to the solutions developed by government economists — solutions which in other Latin American countries have been endorsed and supported by the military. It is clearer now than ever that in spite of a decrease in populist rhetoric and attacks upon populism, some from the presidency itself, the government's single social base is neither the bourgeoisie nor international capital, but popular organizations affiliated with the official party. But the government's ability to contain the demands of this base must necessarily have limits, and we are perhaps now approaching them.

This must be understood not only by Mexico's political class, but also by those outside Mexico who demand its

economic discipline and orthodoxy as a guarantee for recent large-scale investments. For the international financial community in general, and for the United States in particular, the preservation of economic discipline and political stability in Mexico should be of equal or greater importance. If this stability is lost, surely the national interests of the western industrial powers, especially the United States, will be negatively affected for a long time to come.