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## Theorizing business power in the semiperiphery: Mexico 1970-2000

Leslie C. Gates

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**Abstract** This study explains why the power of neoliberal business over the Mexican state increased during the last three decades of the 20<sup>th</sup> century. It identifies three sources of increased neoliberal business power that occurred in conjunction with neoliberal reforms: (1) active mobilization by neoliberal business, (2) increased access to the state by neoliberal business, and (3) increased economic power of neoliberal business. It thereby contributes additional evidence that counters the view of Mexico's state neoliberalizers as acting autonomously from business. It further outlines two conditions that were instrumental in bringing about the increased power of neoliberal business: the onset of economic crisis in the 1970s, and a shift in foreign capital preferences in Mexico. The analysis demonstrates how Mexico's sources and conditions of business power differed from those in advanced industrial societies, and outlines why the Mexican case may be a good starting point for devising a historically-contingent theory of business power in the semiperiphery.

The degree to which business has influenced the Mexican state has varied historically. In the mid- to late-1930s, the Mexican state acted autonomously from business (Hamilton 1982; Knight 2001: 181). During this period, political leaders sought to stabilize Mexico after two decades of violent social upheaval by institutionalizing “a state ‘above classes’” (Hamilton 1982: 25). They initiated policies which countered the interests of the private sector, such as the nationalization of oil and redistribution of land, and restricted the access business had to policymakers to informal ties (Camp 1989; Vernon 1963). Between 1940 and 1970, the state increasingly incorporated the “vested, propertied, interests” (Knight 2001: 192), particularly those of bankers (Maxfield 1990:9) and a new generation of small industrialists.<sup>1</sup> However, Mexico's highly centralized post-revolutionary state, with its massive bureaucracy and party that excluded business from policymaking, retained considerable ability to act autonomously from business (Knight 2001:192). Furthermore, the state's control over vast resources put it in a stronger structural position vis-a-vis business (Thacker 2000). But, after 1976, the Mexican state inaugurated a “more openly pro-business stance” (Hamilton 1982:30) in which policy-makers became increasingly less autonomous, not just from business generally, but from those businesses best positioned to benefit from neoliberal economic reforms (Fairbrother 2007; Luna 1992; Luna 2004; Puga 1993; Sandoval 2005; Thacker 2000; Tirado 1987; Valdés Ugalde 1997). By the late 1990s, the Mexican state had “relinquished autonomy and assumed a role more closely corresponding to that of an agent” (Knight 2001:201) of a particular segment of Mexico's elite. Why did business power increase so dramatically after 1976? This study identifies the sources of neoliberal business power and the conditions that facilitated the increased influence of neoliberal business over the Mexican state. The analysis sheds light on the causal relationship between

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<sup>1</sup> Some date this more conciliatory orientation towards Mexico's major industries to the 1940s (Hamilton 1982), while others date it to the 1960s (Camp 1989:112).

increased business power and Mexico's neoliberal transition, and extends historically-contingent theories of state-business relations beyond advanced industrial societies.<sup>2</sup>

Scholars have recently moved away from debating the state's absolute autonomy from business and have increasingly accepted that the degree and sources of business influence over the state varies over time (Gotham and Staples 1996; Paige 1999; Prechel 1990; Prechel 2003; Tomaskovic-Devey and Roscigno 1996). Doing so has produced theories that identify the historical conditions under which business power changes, as well as theories that synthesize perspectives previously viewed as mutually exclusive (Glasberg and Skidmore 1997; Hooks 1993; Leicht and Jenkins 1998; Liu 1997; McCammon 1994; Mintz and Palmer 2000).<sup>3</sup> Yet, these advances towards a historically-contingent theory of state-business relations have, for the most part, been confined to studies conducted in advanced industrial societies. This study considers if and how historically-contingent theories of business power, drawn principally from advanced industrial societies, can apply to economies, like Mexico's, which are not among the elite group of the world's wealthy nations.

The Mexican case suggests that some conditions for business power are consistent both inside and outside advanced industrial societies. However, it also shows that the proximate sources of business power (the observable indicators of increased business power) whereby these conditions increase the influence of business over the state may differ. In Mexico, as in advanced industrial societies, the condition of economic crisis helped increase business power by similarly mobilizing business opposition to the state and provoking state actors to restructure in ways that were advantageous to business. Nevertheless, as my review of leading business publications (1970-1995) underscores, the condition of economic crisis in Mexico led to a proximate source of business power not previously identified in studies of advanced industrial societies: that of divided rather than unified business mobilization.

Furthermore, the Mexican case points to a condition and a proximate source of business power not highlighted in advanced industrial societies. Changes in foreign capital preferences have not been identified as a condition of business power in advanced industrial societies. In contrast, Mexican business power increased under the condition of a substantial shift in foreign capital investment strategies, from long- to short-term commitments, and from the public to the private sector. Moreover, this condition increased business power in Mexico via a proximate source of business power which has not been highlighted in advanced industrial societies: that of economic power. The change in foreign capital preferences increased the economic power of business in Mexico by making the threat of capital flight from dominant segments of Mexico's private sector more credible (Garrido Noguera and Lopez 1989; Maxfield 1990; Thacker 2000).

After elaborating the proximate sources and conditions of increased business power in Mexico, I consider to what extent the case may be generalizable beyond advanced industrial societies. I outline why the Mexican case may illustrate the sources and conditions of business

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<sup>2</sup> I use the term "advanced industrial societies" as a convenience to refer to the elite group of wealthy societies that were among the first nations to industrialize, despite the fact that many have recently experienced significant de-industrialization. I use the term "business" to refer to the private sector rather than "capital," because some business may not have very much capital, and because "capital" is often used to refer to the influence the private sector may have via its structural or economic power as opposed to lobbying or networking (Maxfield and Schneider 1997).

<sup>3</sup> In addition to developing historically-contingent theories of state-business relations, political sociologists have developed historically-contingent theories of how the political process frames business interests (Neuman 1998); the effect of political opinion on policy (Manza and Cook 2002); the progressiveness of income tax (Jacobs and Helms 2001); and voter turn-out (Winders 1999).

power for those economies which share Mexico's position in the world economy: that of a middle-income or semiperipheral economy. Not only is Mexico a classic example of a semiperipheral economy, but the differences between the proximate sources and conditions of business power in Mexico and those in advanced industrial societies are consistent with the structural distinctions of semiperipheral economies from the world's economic core. Thus, I use the Mexican case to propose a historically-contingent theory of state-business relations in the semiperiphery. In doing so, I offer an analytical tool better calibrated to the contexts roughly two thirds of the world's population call home (Arrighi and Drangel 1986), and which may increasingly characterize advanced industrial societies. The final section elaborates the potential of such an approach to helping us better understand the often perplexing panorama of politics across semiperipheral economies.

### **Historically-contingent theories of business power (based on advanced industrial societies)**

Historically-contingent theories of business power based on advanced industrial societies elaborate the historically varying "dimensions of [the state's] relative autonomy" from business (Prechel 2003:313) and the underlying conditions of these dimensions. The first step in these historically-contingent theories is to establish whether policies serve business interests, and if so, which business interests they best serve. But, this is not enough. Historically-contingent theories interpret policies as the result of a political process shaped by the particular balance of class forces and concomitant intra- as well as inter-class struggles at a particular historical juncture.<sup>4</sup> Thus, for them, analyzing the interests served by policies is a necessary but insufficient step in evaluating historical variations in business power. To fully assess business power, they combine an assessment of the interests that policies serve with an analysis of the political process before and during policy implementation. In other words, historically-contingent theories focus on elaborating the proximate sources of business power and the conditions under which these sources are more likely to occur. Figure 1 outlines the structure of a historically-contingent theory of business power. It includes: (1) assessing the degree to which policies serve business interests, (2) assessing whether policies that serve business interests correlate with proximate sources of business power, and (3) identifying the underlying conditions that produce the proximate sources of business power.

[Figure 1 about here]

Thus far, scholars who share the view that business power in advanced industrial societies varies over time have focused on two historically varying proximate sources of business power: 1) *unified business mobilization* and 2) *state structures that advantage business*. However, as

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<sup>4</sup> Poulantzas pioneers the logic of a historically-contingent approach to the state in his explanation of the different forms which capitalist states take (Poulantzas 1976:9). He argues that "the present phase of capitalism" must be taken into account in order to explain the "forms of regime," but that the phase of capitalism "does not simply determine all these forms and changes by itself,...it is only relevant in so far as it determines the conjunctures of class struggle, the transformations of classes and the internal balances of socio-political forces which alone can explain these regimes and their evolution" (Poulantzas 1976). In making this argument, Poulantzas differentiates himself from instrumentalists (Miliband 1969), who have argued that business interests dominated the state via their direct representation within the state.

Prechel (1990:650) maintains: “the key issue to understand when considering capital-state relations is not whether class segments are united or divided, but rather the conditions under which the capitalist class is more or less divided.” Thus, they have gone a level deeper and have identified *economic crisis* as a condition under which these proximate sources of business power have most often occurred. Figure 2 summarizes each of these three tiers in historically-contingent theories of business power derived from advanced industrial societies.

[Figure 2 about here]

As stated above, historically-contingent approaches to the state indicate that *unified business mobilization* (arrow 1a in Figure 2) constitutes the first proximate source of business power. This hypothesis stems from the premise that disparate economic interests of business tend to make business unity difficult (Poulantzas 1976; Poulantzas 1978a; Zeitlin et al. 1976).<sup>5</sup> Some have shown that business unity does occur, but that it varies cross-nationally (Wilson 1985) and over time (Prechel 1990; Vogel 1989; Winders 1999). Furthermore, they find that when business unifies, it attains greater power. This is reflected in the fact that paradigmatic economic policy shifts tend to occur when elites reach consensus and are therefore able to form a new power block based on new economic conditions and balance of class power (Poulantzas 1978a; Prechel 2003:313). The empirical manifestation of this unity and heightened awareness of shared interests is unified business mobilization. This point is illustrated by studies that show how unified business mobilization in the U.S. during the 1970s helped defeat the Labor Law Reform and Consumer Protection Agency bills, and helped ensure the passage of the Economic Recovery Tax Act, a bill which created more favorable conditions for business (Akard 1992).

Historically-contingent theorists identify *economic crisis* as a condition likely to provoke unified business mobilization for two reasons. First, economic crises increase capital dependence because they threaten the ability of businesses to generate capital internally (Prechel 2003). Both the drive to maximize productivity, (as elaborated by Marx (1977)) and the drive to define a corporation’s ability to act autonomously (as elaborated by Weber (1978)) illustrate corporate interests in generating capital internally. Business mobilizes to resolve the problem of increased capital dependence. Thus, under conditions that increase capital dependence, such as recessions or depressions (Prechel 1990:651), we would expect unified business mobilization to occur. Indeed, the falling profit rates of the 1970s unified and mobilized business in both the U.S. (Akard 1992: 601) and Australia (Tsokhas 1998). Arrow 2a in Figure 2 represents how the condition of economic crises produce unified business mobilization in advanced industrial societies via the mechanism of increased capital dependence.

Although scholars have debated the degree of business power during the Great Depression in the U.S., historically-contingent accounts of the New Deal show that businesses mobilized politically to help them resolve their problem of increased capital dependence during this economic crisis (Levine 1988; Quadagno 1988).<sup>6</sup> These accounts demonstrate that both

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<sup>5</sup> This argument contrasts with those who have argued that business generally tends to act as a united class (Miliband 1969), possibly via an inner-circle of business elite (Useem 1984).

<sup>6</sup> They show that both monopoly and non-monopoly segments of business conceded that self-regulation of the economy had not worked (Domhoff 1996; Quadagno 1988) and that business mobilized through business associations and networks with policymakers (Domhoff 1990; Levine 1988: 73) to advocate “schemes for economic rationalization that called for some sort of governmental institutionalized assistance to the capitalist class” (Levine 1988:61).

monopoly and non-monopoly industrialists unified in 1933 to support one of the first major initiatives of the New Deal, the National Industrial Recovery Act (NIRA) (Levine 1988:87).<sup>7</sup> They demonstrate that business even unified in 1935 to support the largest social program of the New Deal, the Social Security Act. In this case, business unified in part because state actors were “sensitive to the business agenda” of removing the burden of providing insurance from private employers (Quadagno 1988). These historically-contingent accounts undermine earlier interpretations of the New Deal as policies reflecting the state’s autonomy from business.<sup>8</sup> They do so, in part, by: (1) assessing New Deal policies as largely serving business interests, in line with earlier historians (Bernstein 1968; Radosh 1972), and (2) demonstrating the presence of a proximate source of business power in the New Deal policymaking process.<sup>9</sup>

The second reason that the condition of economic crises are likely to provoke unified business mobilization is that they are often associated with state interventions commonly perceived as threats to business (Akard 1992:602; Prechel 1990:651; Vogel 1983:34-37; Vogel 1989). The global economic contraction in the late 1960s and 1970s, for example, prompted state managers in the U.S. to adopt a slate of more than two dozen state interventions between 1965 and 1975 that regulated the workplace. Convinced that these state interventions posed a common threat to their profitability, businesses mobilized in the 1970s to rollback this increased regulation (Akard 1992:601). Arrow 2b in Figure 2 represents how the condition of economic crisis produces unified business mobilization by first provoking states to introduce interventionist policies. Arrow 2c in Figure 2 represents how state interventionist policies tend to provoke unified business mobilization via the mechanism of posing a common threat to business profitability. Thus, we can say that interventionist policies represent an observable element of the causal mechanism whereby economic crises unify business mobilization.

Again, historically-contingent accounts of the Great Depression illustrate how the condition of economic crisis tends to provoke unified business mobilization by leading states to intervene in ways business perceives as a common threat. Business increasingly viewed the state’s interventions during the 1930s, particularly its interventions in labor relations, as a common threat (Domhoff 1996: Ch. 6; Domhoff 1990: Ch. 7). Business mobilized unified

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<sup>7</sup> Levine explains that state managers engineered NIRA such that it incorporated both the demands of monopoly as well as non-monopoly capital (Levine 1988:87), and as a result: “Capitalists generally thought they had received much-desired price and production controls. Monopoly capital received a lifting of the antitrust laws. Smaller and more competitive capitalists thought they had received protection from monopolies and that they could now save themselves from the more disastrous consequences of monopoly growth” (Levine 1988:78). The subsequent collapse of this unity (Levine 1988:80, 81, 93) suggests the economic crisis and attendant increase in capital dependence played an important role in securing unified business mobilization, if only fleetingly. Furthermore, the correlation of NIRA’s failure with the loss of unity among industrialists points to the importance of *unified* business mobilization as a proximate source of business power in the U.S. The government did not try to revive the pro-business aspects of NIRA after the Supreme Court deemed it unconstitutional in 1935, yet it reintroduced the pro-labor provisions of NIRA as a separate act. In contrast, most of the provisions in the Agricultural Adjustment Act of 1933—the program instigated to help farmers resolve their increasing capital dependence—remained in place as farmers remained unified (Domhoff 1996:109-113).

<sup>8</sup> Scholars have variously attributed the state’s autonomy during the Great Depression to the state’s greater responsiveness to newly mobilized societal groups (Leuchtenburg 1963), its reduced economic dependence on business (Block 1977), or its structural insulation from societal interests (Skocpol 1980; Skocpol and Amenta 1986).

<sup>9</sup> Historically-contingent accounts of the New Deal also avoid several problematic assumptions made by others who are similarly skeptical of the state’s autonomy during the Great Depression (Bernstein 1968; Domhoff 1972; Miliband 1969; Radosh 1972), such as that the capitalist class tends to act in a unified fashion, or that it can accurately predict what policies will best resolve increased capital dependency.

opposition to the labor provisions of NIRA (Levine 1988:86) and the subsequent enactment of these pro-labor provisions through the National Labor Relations Act (NLRA) in 1935 (Domhoff 1990:88-89).<sup>10</sup> Furthermore, the condition of the 1937/8 recession intensified unified business mobilization in opposition to the NLRA (Levine 1988:158). The power of unified business mobilization became evident in subsequent anti-labor policies.<sup>11</sup>

As stated above, in addition to unified business mobilization, historically-contingent theorists indicate that *state structures that advantage business* (arrow 1b in Figure 2) constitute a second important, historically-varying, proximate source of business power in advanced industrial societies (Prechel 1990; Prechel 2000; Prechel 2003: 315).<sup>12</sup> Prechel illustrates, in his analysis of the American steel industry, how state structures may unintentionally become a source of business power. The American steel industry was able to insist that the state litigate their complaints against foreign steel producers, even during President Reagan's free-trade oriented administration, because the state had recently extended its authority over trade disputes (Prechel 1990:663). In this case, expanded jurisdiction of the state over new economic arenas paradoxically generated new opportunities for business to penetrate the discretionary decision-making process of America's federal bureaucracy (Prechel 1990:664; Prechel 2000:278, 275). Similarly, the decentralization of the power structure in the U.S. Congress during the 1970s "opened the legislative process even more to 'interest group' influence," in which business has powerful advantages over non-business sectors (Akard 1992:609-10). Realignment at this time further weakened pro-interventionist elements within the Democratic Party (Akard 1992:609-10). These changes to the state's structure created new opportunities for pro-business politicians and lobbyists.

Historically-contingent theorists identify *economic crisis* as a condition likely to provoke changes in the state's structures that advantage business. Economic crises are often associated with political turmoil which state actors attempt to manage through state restructuring.<sup>13</sup> Indeed, during the 1970s, the realignments within the U.S. Democratic Party, and the decentralization of the power structure described above, took place in the midst of the economic recession and the ensuing political turmoil exemplified by the Watergate scandals. Arrow 2d in Figure 2 represents how the condition of economic crisis is likely to affect the degree of business power via state restructuring.

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<sup>10</sup> NIRA not only: (1) "justified the partial suspension of anti-trust laws for 2 years" and (2) promoted cooperation of industry through trade associations to eliminate unfair competitive practices (Levine 1988:77-78), it also (3) established the right to collective bargaining in order to mitigate rising class conflict on the shop floor. The NLRA incorporated many of the original labor provisions of NIRA.

<sup>11</sup> Unified business mobilization successfully weakened the Full Employment initiative in 1946 and helped ensure the passage of the Taft-Hartley Act in 1947, which curtailed many rights won by unions in the NLRA (Domhoff 1990: Ch. 7).

<sup>12</sup> The importance of the state's structure was elucidated by Poulantzas when he argued that "the establishment of the state's policy must be seen as the result of the class contradictions inscribed in the very structure of the state" (Poulantzas 1978b:132). His argument has been extended by some to mean we should "bring the state back in" (Evans et al. 1985) and that the state's relative capacity to carry out a coherent, non-personalistic agenda (Rueschemeyer and Evans 1985; Skocpol 1980) determines the extent to which business has power. But, historically-contingent theorists point out this extension overlooks how state structures originated in a particular set of inter- and intra-class conflicts (Levine 1988:9) and how, therefore, the contradictions which capital accumulation generates become embedded within the state's structure (Levine 1988:11; Prechel 2003:313).

<sup>13</sup> The political processes which provoke state actors to reorganize the state are wide-ranging across advanced industrial societies (Akard 1992:610; Thelen 1999).

Historically-contingent accounts of state-business relations during the Great Depression further illustrate this principle. They demonstrate that monopoly business gained power during the Great Depression, in part because changes in the state's organizational structure unintentionally advantaged them (Levine 1988:108). In response to non-monopoly capital's frustration with the inadequacies and failure of the NIRA, the state then introduced the Temporary National Economic Committee (TNEC) (Levine 1988:17). Nevertheless, the TNEC ultimately convinced state leaders to further reorganize the state's structure so it would "coincide" with, rather than counteract, the current mode of accumulation via monopoly capital (Levine 1988:107). Similarly, the state introduced the National Labor Relations Board in 1935 to respond to an increasingly militant labor movement. But this new mechanism for mediating labor conflict created an unanticipated opportunity for monopoly capital to assert its political dominance.<sup>14</sup> As the following two sections illustrate, however, the conditions and proximate sources of business power in Mexico differed from those in advanced industrial societies.

### **Mexico 1970-2000: A case of increasing business power**

To understand the historical variation in Mexico's business power, I follow the logic of a historically-contingent theory of business power. I first consider what the proximate sources of Mexico's increased business power were (arrow 1 in Figure 1) and then analyze the conditions that prompted changes in these proximate sources of power (arrow 2 in Figure 1). In this section I conduct the first step of the analysis.

In keeping with the central premise of historically-contingent approaches to business power, I first consider whether during this period, (1) the government implemented a host of new economic policies that clearly served the interests of a particular group of business, and (2) they did so in the presence of observable indicators of likely business influence over the state (proximate sources of business power). The analysis illustrates that during this period the government introduced policies benefiting neoliberal business in the presence of three proximate sources of neoliberal business power: (1) active mobilization by neoliberal business, (2) increased access to the state by neoliberal business, and (3) increased economic power of neoliberal business. This correlation provides evidence that business power in Mexico increased after 1976 and reveals that some of Mexico's proximate sources of business power were different from those found in advanced industrial societies. I conclude with a discussion of what this correlation means for how we should interpret the causes of Mexico's neoliberal transition.

From 1976 to 2000, Mexico joined the global trend towards neoliberalization. It reoriented its economic policies to favor "a new business elite" (Thacker 2000:99): that of "industrial-financial conglomerates, oriented towards international markets" (Sandoval 2005: 596).<sup>15</sup> This new business elite, subsequently referred to as neoliberal, included those with both liquid and fixed assets in internationally competitive sectors that were less tolerant of financial

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<sup>14</sup> Because monopoly capital was the fraction best able to accommodate the increased demands of labor, it became the fraction that participated in the new state institutions established to incorporate labor (Levine 1988:17).

<sup>15</sup> These reforms represented a shift away from Mexico's economic policy from the 1940s through the early 1970s. During this earlier period, Mexico used high import tariffs to protect domestic manufacturers, large and small, from international competition. It also subsidized domestic manufacturers with funding for transportation (roads, railroads) and industrial inputs (oil, electricity and steel). Cárdenas (1996) offers a useful evaluation of these policies in Mexico, known as "import substitution industrialization."



sector regulation, subsidies for state-owned enterprises, and trade barriers.<sup>16</sup> Table 1 lists the principal policies that favored Mexico's neoliberal business segment. In 1976, Mexico legalized holding companies, permitted bank consolidation in multi-purpose banks, and established Mexican financial markets. As the next section demonstrates, these policies made it possible for those with large capital reserves to consolidate the banking and industrial sectors under their control. In 1982, the government generously compensated bankers for expropriating their property and further rewarded them by creating a new and highly flexible parallel financial sector (Kessler 1999). This policy ironically advantaged private bankers who used their government buy out to start up non-banking financial enterprises that were less constrained than the banking sector had ever been (Sandoval 2005). In 1982, Mexico committed to a neoliberal economic agenda in earnest.<sup>17</sup> At this time Mexico introduced a series of structural adjustment policies that sought to control inflation by cutting state spending, tightening the supply of money, reducing trade barriers, and suppressing wages. At this time, it also began to introduce market-oriented economic reforms, including privatizing hundreds of state-owned enterprises and liberalizing trade. As Table 1 outlines, the government intensified privatization after 1986 with the privatization of more and larger enterprises (MacLeod 2004; Teichman 1995). The government progressively accelerated trade liberalization by joining the General Agreement on Trade and Tariffs in 1986, tying anti-inflationary measures to trade liberalization in 1987, and by signing the North American Free Trade Agreement in 1991. It also made it easier for capital to enter and leave the country when it liberalized regulation on capital flows in 1989.

[Table 1 about here]

Table 1 illustrates that the above neoliberal economic policies occurred in the presence of at least one and often several proximate sources of business power. For example, the economic reforms introduced in 1976, 1982, and 1986 all occurred in the presence of the first proximate source of business power: business mobilization. Prior to the 1970s, Mexico's private sector largely refrained from mobilizing any public opposition to Mexico's one-party post-revolutionary state. Although they were obligated to participate in the officially sanctioned business organizations, these organizations did not lobby government as we would expect (Cockcroft 1983:210; Schneider 2004). In essence, then, business was a silent partner to Mexico's post-revolutionary state. This changed in the 1970s. Between 1970 and the early 1990s, business mobilized two major public assaults on government through business associations (in 1975 and 1982) and became active in competing for direct political power through Mexico's conservative opposition political party (beginning in 1982) (Hernández Rodríguez 1986; Luna 1992; Puga 1993; Valdés

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<sup>16</sup> Liquid asset holders, like bankers, can more easily weather the market volatility which has accompanied international financial integration (Frieden 1991). In contrast, those with fixed assets (that is, investments in factories and heavy machinery) have a harder time doing so and are therefore more selective in their support of market-oriented reforms, depending on their past market orientation (Silva 1996). Large industrialists, for example, are more likely than small industrialists to be able to take advantage of the new possibilities offered by trade liberalization, in part because they can more easily internalize the costs of re-orienting towards export markets (Thacker 2000:31-32; Winters 1996).

<sup>17</sup> Mexico's economic policies during the 1980s and 1990s have been amply detailed elsewhere (Aspe 1993; Lustig 1992; Middlebrook and Zepeda 2003; Otero 1996; Pastor and Wise 1997). Teichman (1995) provides a comprehensive analysis of the extent and process of privatization.

Ugalde 1997).<sup>18</sup> Moreover, as I show below, those who spearheaded these public attacks on the state were the neoliberal segment of business. Thus, these neoliberal reforms occurred in the presence of a likely source of business power: mobilization by the very segment of business whose interests the policies would serve.

Nearly all of the reforms listed in Table 1 also took place in the presence of a second proximate source of business power: a dramatically transformed state structure which advantaged precisely those businesses served by neoliberal policies. During the 1970s and 1980s, a drastic state reorganization undid thirty years of business exclusion from policymaking. Mexico's dominant political party, the Institutional Revolutionary Party (Partido Revolucionario Institucional-PRI), historically excluded business from the ranks of its policymakers (bureaucrats and party leaders) (Camp 1989; Smith 1979) and from the "revolutionary family" – the select group of societal actors incorporated in the formal policymaking process (Camp 1989: 111, 114). Two major reorganizations of the Mexican state changed this: (1) a reorganization of the federal bureaucracy (1976-1997), and (2) a restructuring of the relationship between business associations and the state (1987-1991). The first reorganization helped a new generation of bureaucrats, a group of politically savvy economists or technocrats with more experience in and closer ties to business, gain control over the bureaucracy in the 1970s (Camp 1985; Centeno and Maxfield 1992; Lindau 1996), dominate the cabinet in the 1980s (Centeno 1995:139-40), and consolidate their political power through the mid-1990s (Centeno 1995; Cornelius 1996:34; Domínguez and McCann 1996:15; Teichman 1996).<sup>19</sup> The second reorganization incorporated business associations into the formal policymaking process for the first time in the 1980s, thereby cementing its access to decision-making thereafter (Luna 2004:342; Schneider 2004; Thacker 1999: 62-68). As the analysis below illustrates, both reorganizations advantaged precisely those large industrialists and financiers who stood to gain from the policies introduced thereafter. Thus, most of the economic reforms occurred in the presence of an additional proximate source of business power: increased access to the state by precisely those segments of the private sector whose interests the policies would serve.

Most of these reforms also took place in the presence of a third proximate source of business power not previously noted by the historically-contingent theories of business power in advanced industrial societies: that of the increased economic power of neoliberal business. The private sector's economic power can be thought of as the degree to which state actors are oriented toward anticipating policy preferences of business (Thacker 2000:26-30; Winters 1996). The private sector exerts economic power over the state by the threat, realized or not, of capital flight. We can assume that the threat of capital flight is most credible immediately after capital flight has just occurred. Thus, the fact that the government made a series of reforms shortly after

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<sup>18</sup> Journalists made clear the degree to which their assaults created a political crisis. In 1975, for example, they declared that "Resolving the 'breach of trust' [between government and the private sector] may be the key issue for the new [presidential] administration" in a leading business magazine. See Editores, "Crisis Evidente," *Expansión*, 11/10/1976.

<sup>19</sup> The proportion of leaders in the cabinet that were traditional party leaders from the party's constituency-based organizations declined from about 50 percent during the 1970s, to less than 25 percent during the 1980s (Centeno 1995:139-40). Thus, by 1983, technocrats constituted 59 percent of the cabinet. Most of the technocrats who gained political power after the 1980s built their careers in the Finance Ministry during the 1970s (Centeno and Maxfield 1992; Maxfield 1990), a part of the state bureaucracy which had historically close associations with bankers (Maxfield 1990; Story 1982), established through dense social network ties (Centeno and Maxfield 1992; Maxfield 1990). Finance Ministry technocrats in the 1970s also had more private sector experience than prior generations of top-level bureaucrats (Centeno 1995:128-30; Centeno and Maxfield 1992; Hernández Rodríguez 1988; Luna 1992).

major bouts of capital flight in 1976, 1982, 1986, and 1988 suggests that the private sector's economic power should not be overlooked as an important and growing source of business power in Mexico. The 1976 reforms occurred the first year of major capital flight (Kessler 1999; Thacker 2000:58). The generous bank bail-out in 1982 occurred shortly after capital flight peaked in 1981, in the wake of Mexico's impending debt crisis (Kessler 1999). The government began to pursue two key components of neoliberal reforms, trade liberalization and privatization, more assertively after capital flight spiked in 1986, in the wake of another oil price drop. The government liberalized the international flow of capital in 1989, following another spike in capital flight. The intensification of the government's neoliberal reform agenda also concurred with the increased dependence of the state on private sector investments and concurrent increased liquidity of large capitalists in the 1980s, which made the threat of capital flight more credible.

The correlation between neoliberal reforms and proximate sources of business power implies that Mexico's neoliberal transition did not occur merely because bureaucrats acted autonomously from societal interests. Prior research on Mexico's neoliberal transition has focused on a different correlation: the correlation between neoliberal economic policies and the rise to power of technocrats (Babb 2002; Centeno 1995; Pastor and Wise 1994; Teichman 1997).<sup>20</sup> This research often interprets the latter correlation as further evidence that successful neoliberal transitions depend on technocratic leadership (Camou 1997; Centeno and Silva 1998; Conaghan and Malloy 1994; Domínguez 1997; Edwards 1995; Haggard 1995; Haggard and Kaufman 1992:23; Stallings 1992; Stallings and Peres 2000; Waterbury 1993; Williamson 1994). Yet, the rise of technocrats may have been important because through them neoliberal businesses gained access to higher levels of decision-making within the government. Furthermore, while much prior research tends to disregard business mobilization, below I show that the state reorganization that advanced technocratic power might not have taken place if state actors were not trying to manage a mobilized business community. Finally, even though some of the above research acknowledges that business increased its economic power during this period, it has tended to interpret this increase as a consequence rather than a motivator of neoliberal reforms. While market-oriented reforms undoubtedly contributed to the increasing economic dominance of neoliberal business, just as developmental states have contributed to strengthening independent bourgeoisies elsewhere (Evans 1995; Martínez Bengoa and Díaz Pérez 1996), interpreting Mexico's neoliberal reformers as acting autonomously from business' economic power glosses over the likely pressure which capital flight exerted in the early 1980s, and even in the mid-1970s. Thus, while the correlation of Mexico's neoliberal transition with increased business power should not be read as evidence that business power was the sole or even primary cause for Mexico's neoliberal transition, I join others (Gibson 1997; Kessler 1998; Kleinberg 1999; MacLeod 2004; Sandoval 2005; Schneider 1998; Snyder 1999; Thacker 2000; Valdés Ugalde 1997) in arguing that it should serve as a caution against interpreting Mexico's neoliberal transition as the definitive case demonstrating that the global trend towards neoliberal reforms has depended on state autonomy from business. Perhaps more importantly, as I argue in the conclusion, the presence of several proximate sources of business power may provide a better explanation for the unexpected, continued political viability of neoliberal reforms in Mexico.

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<sup>20</sup> Because Mexican technocrats were career government employees, rather than elected politicians, scholars argued that technocrats were less encumbered by the typical concerns for how policies might affect their political support, and were therefore more autonomous than most bureaucrats (Centeno and Silva 1998; Fischer 1990; Galjart and Silva 1995).

But, as historically-contingent theorists have argued, to explain why business gained power over the last quarter of the 20<sup>th</sup> century, we need to go a level deeper. We need to discover the conditions under which the three proximate sources of neoliberal business power emerged.

### **The conditions of Mexico's increased business power**

There were two conditions which appear to have been important in facilitating the three proximate sources of neoliberal business power in Mexico: 1) the onset of economic distress, and 2) a shift in foreign capital investment preferences, from long-term investments to the public sector, to short-term credit to the private sector. These conditions are represented in the black boxes to the far left of Figure 3. Below I outline how these two conditions gave rise to each of the three proximate sources of power: 1) business mobilization, 2) a state reorganization that advantaged business, and 3) greater economic power of the private sector. The analysis shows that even though the condition of economic crisis led to increased business power in Mexico, as in advanced industrial societies, it did so for very different reasons. It also demonstrates the importance of a condition of business power that has not been identified in advanced industrial societies: that of changes in foreign capital investment preferences.

[Figure 3 about here]

#### Economic crises instigated divided mobilization: 1975 and 1982

The first proximate source of business power – business mobilization – occurred under the condition of economic crisis, just as in advanced industrial societies. Indeed, business mobilized two major assaults on the Mexican state in the wake of economic crises, in 1975, and again in 1982. However, unlike in advanced industrial societies, *the mobilizations that economic crises provoked were divided*, not unified. Economic crises divided business largely because government response to economic crises divided (rather than unified) business opinion of the state (arrows 2a and 2b in Figure 3). Thus, neoliberal businesses were unable to unify business opposition in the 1970s and early 1980s. As I show later, this shaped state restructuring.

The first business mobilization occurred in the early 1970s, as Mexico's economy experienced its first signs of economic downturn after two decades of steady economic growth.<sup>21</sup> Just as in advanced industrial societies, business mobilized in Mexico to oppose state interventions which sought to remedy the economic downturn. While external economic pressures were a critical factor in causing this economic downturn, in the eyes of many business leaders, the government's policy choices made the situation worse.<sup>22</sup> The government policies

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<sup>21</sup> After a 9% average growth rate in manufacturing during the 1960s, Mexico's manufacturing sector's growth rate dropped to an average of 6.7 percent between 1970 and 1976 (Ayala Espino 1988:287, 382 & 449). The consumer price index doubled (from 31.1 to 61.2) between 1971 and 1976, after having only increased from 26 to 30 between 1965 and 1970 (INEGI 1985:808-809). Finally, the exchange rate slid from 12.5 pesos to the dollar, the rate for more than twenty years, to 22.6 pesos to the dollar by early 1977 (INEGI 1985).

<sup>22</sup> The external pressures which contributed to the crisis included the decision by the Organization of Petroleum Exporting Countries (OPEC) to quadruple the price of oil in late 1973, the related decline in investments from

that angered some business leaders included the government's expanded role in the economy as it sought to offset Mexico's sluggish economy; the government's expanded social spending, as it sought to reduce the negative social impact of the economic downturn; and the government's extensive foreign borrowing, which had made these expansions possible.<sup>23</sup> The platform of a new multi-sector business association formed in 1975 made their opposition to these government policies clear. It criticized the government's centralized economic planning (Valdés Ugalde 1997:189), advocated a greater voice in policymaking for business (Luna 1992:40,49), and called for reduced state intervention in the economy (Luna 1992:109).<sup>24</sup> It was these policies, they argued, that produced the worsened negative trade balance, rampant inflation, and a devastating devaluation.

Nevertheless, unlike in advanced industrial societies, the state's interventionist policies divided, rather than unified business mobilization. Large industrialists from Mexico's northern city of Monterrey had led the effort to galvanize all business to oppose government policy in 1975, by forming the new multi-sector business organization.<sup>25</sup> These large industrialists stood to gain from deregulating the financial sector and liberalizing trade. But this new multi-sector business organization encountered resistance from the business organizations representing smaller industrialists who favored trade barriers and state subsidies (Tirado 1987:489), and who tended to be concentrated in the country's interior (Gaspar and Valdés 1987:504; Puga 1992; Tirado 1987:485).<sup>26</sup> Thus, Mexico's leading business periodical cited a "red hot deeply sectoral

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Transnational Corporations (TNCs) which followed the saturation of Mexico's internal market, and the decline in global demand for exports from Mexico (Escobar et al. 1978).

<sup>23</sup> The percent of the federal government's budget directed towards the economy peaked during the Echeverría administration at 62 percent (INEGI 1985:657), exceeding the budget directed towards the economy of most prior Mexican administrations by twenty percent. This spending helped Echeverría's administration obtain a financial interest in 845 enterprises, increasing more than eight-fold the typical number of enterprises established by previous administrations (Teichman 1995:29). In theory, public enterprises helped subsidize industrialization by maintaining low prices for industrial inputs. Six years of deficit spending and massive foreign borrowing made this expansion possible. The budget deficit grew from five percent of the GDP in 1973 to nine percent in 1975 (Maxfield 1990) as Mexico's public debt grew from eleven percent of the GDP in 1970 to 27 percent in 1976. Mexico's foreign portion of the public debt grew from an average of eight percent between 1965 and 1970 to 24 percent in 1976.

<sup>24</sup> This new multi-sector organization, called the Business Coordinating Council (Consejo Coordinador Empresarial, CCE) (Luna 1992:46) (Valdés Ugalde 1997:189), stated in their doctrine published in May 1975 that "The systematic tendency for the state to intervene as an employer constitutes a grave impediment to exercising the rights of individuals. As a guarantee that state intervention is subordinated to the demands of economic development and the common good, we need a free and effective political regime" (CCE 1975:10). Threatening to withdraw support from the current administration they contended: "Centralized state planning of the economy is not compatible with a democratic regime..." (CCE 1975:11).

<sup>25</sup> Monterrey's industrial sector dated back to the pre-revolutionary period and had historically viewed the post-revolutionary regime with suspicion (de los Angeles Pozas 1993). They were, therefore, historically more politically independent than the industrialists concentrated in the interior cities.

<sup>26</sup> This organization was the National Chamber of Manufacturers (Cámara Nacional de la Industria de Transformación - CANACINTRA). It represented the industrial sector that had emerged in the big interior cities, such as Mexico City and Guadalajara, as a result of the protectionist industrial policies adopted by the post-revolutionary Mexican government. Thus, CANACINTRA had long championed the state's protectionist industrialization project (Puga 1993:107-8) and centralized economic planning, which it again defended in the early 1970s stating: "There are various sectors that have declared themselves, with very little courtesy, against the positions which this Chamber has upheld regarding the necessity of planning in our economy... verbal terrorism is something that must be exiled from this country." See Editorial, "Diálogo Sin Epítetos," *Transformación*, 6/1974, p. 44. They argued that Mexico's economic growth in 1974 justified their confidence in national economic policy in

and politically charged debate,” when it explained why the formation of this new multi-sector business organization “unleashed a wave of criticism overnight...”<sup>27</sup>

Much like the first business mobilization, the second business mobilization in 1982 occurred in the midst of an economic crisis. Similar to advanced industrial societies, while external economic pressures were critical in causing this crisis, many business leaders blamed the government’s policy choices for making the situation worse.<sup>28</sup> In 1982, the Mexican government faced an accelerated deterioration of its balance of payments, mounting foreign debt, and rampant capital flight. The government’s steps to deal with this problem, however, angered business. These steps included three successively more dramatic devaluations in 1982, and the nationalization of private banks—soon after it declared to the world that it would be unable to repay foreign creditors.<sup>29</sup> Mexico’s multi-sector business organization, the CCE, vociferously criticized bank nationalization (Hernández Rodríguez 1986) and threatened the political establishment by calling for democratization (Mena 1987; Puga 1993:170). One of those involved with mobilizing business at the time recalled that: “...in 1982 the honeymoon ended. Bank nationalization created a major tension...everything was in the state’s hands, companies were in the hands of the state and now banks too, everything was about state policy”.<sup>30</sup>

Similar to the first mobilization, and again unlike advanced industrial societies, state intervention divided business in 1982. Again, northern-based businesses could not unify the wider business community in opposition to state policy.<sup>31</sup> Large industrial conglomerates concentrated in the north blamed the state’s devaluations for crippling their ability to repay foreign debt (Alba Vega 1998), and the northern region’s banks tended to be smaller local institutions whose owners were less able to protect themselves than those that had already been subsumed by the new multi-purpose nationwide banks (Alba Vega 1998:203-5). These businesses sought to unify business through the new multi-sector business organization, the CCE.<sup>32</sup> They also refashioned Mexico’s longest standing opposition party, the Partido de Acción

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Editorial, "Confianza En El Porvenir," *Transformación*, 10/1974, p. 44. Their position regarding the CCE is made clear in Olavarrieta, Joaquin Pria, "Mirar De Frente Al Futuro," *Transformación*, 10/1976, p. 2.

<sup>27</sup> "El CCE: 'Juntos Pero No Revueltos'," *Expansión*, 5/28/1975. Larger industrialists, however, temporarily subverted resistance within CANACINTRA when northern CANACINTRA delegates from the powerful chemical industry, an industry dominated by large companies who criticized Echeverría, replaced leadership sympathetic to Echeverría in 1976 (Puga 1992:31; Tirado 1987:489). This change in leadership facilitated CANACINTRA’s entry into the CCE by late 1976 and temporarily dampened the enthusiasm with which CANACINTRA defended protectionist industrial policy.

<sup>28</sup> External changes included rising interest rates on debt owed to foreign creditors in 1981, which in turn increased the payments Mexico owed on its exorbitant foreign debt; and the declining price of oil, which reduced Mexico’s access to foreign currency.

<sup>29</sup> By this time, Mexico had the world’s second largest foreign debt at \$80 billion (Quijano and Berhens 1985:77), representing 29.5 percent of the 1982 GDP (Frieden 1991:76, 78). The Mexican government declared that it could not repay its numerous foreign creditors on August 13, 1982.

<sup>30</sup> Don Lorenzo Servitje, a long time leader of COPARMEX, as reported in Servitje Sendra, Lorenzo. *70 Años Al Servicio De México*. Mexico City:COPARMEX, 2000.

<sup>31</sup> Northern industrialists, particularly Monterrey-based conglomerates sought to unify business opposition (Luna 1992:83). Northern business associations such as the local Monterrey Manufacturer’s Chamber, CAINTRA, and local branches of COPARMEX took the lead in organizing the national leaders in COPARMEX and CONCANACO to align private sector support behind a broad anti-state agenda (Luna 1992:83, 97; Valdés Ugalde 1987:441).

<sup>32</sup> Both CCE presidents during this period—Manuel J. Clouthier del Rincón (1981-1983) and Jorge Chapa Salazar (1983-1985)—were northern-based businessmen and PAN sympathizers (Luna and Tirado 1992:48).

Nacional (PAN), into a powerful political force (Chand 2001:98; Luna 2004).<sup>33</sup> However, CANACINTRA, and regions typified by small and medium sized producers (Alba Vega 1998:204), did not join them in their zealous attacks on bank nationalization (Puga 1993:170).<sup>34</sup> Even the financial sector backed away from supporting the radical positions of the CCE when President De la Madrid appeased them with the legalization of a parallel financial sector (Kessler 1999).<sup>35</sup>

Thus, while unpopular measures taken by the government in Mexico to deal with deteriorating economic conditions mobilized business, it did not unify business opposition. Instead, it divided business opinion of government policy. As the next section shows, these divisions appear to have been decisive in shaping how the state reorganized.

### Economic crises instigated state restructuring

The second proximate source of business power—state restructuring that advantaged business—occurred under the condition of economic distress in Mexico, just as it has in advanced industrial societies. However, because business divided rather than unified, the mechanism whereby state reorganization occurred in Mexico differed from that in advanced industrial societies. In Mexico, the character of state restructuring reveals *concerted efforts to manage divided business mobilization* by state reorganizers (arrow 2c in Figure 3). The preoccupation with divided mobilization is consistent with what Davis (1993) refers to as the “dialectic of state autonomy” in Mexico, or the Mexican state’s historically-contingent struggle to act autonomously from any one business sector. As the analysis here illustrates, this preoccupation influenced both the efforts to 1) reorganize the federal bureaucracy in ways that advantaged some members of the private sector and 2) incorporate business associations into the formal policymaking.

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<sup>33</sup> Although northern-based business had played an important role in founding the PAN in 1939, by 1970 business had largely drifted away from the PAN in favor of the PRI. The resignation of the PAN’s orthodox Catholic leadership in 1978, however, made it possible for business leaders to regain influence in the PAN (Chand 2001:83-84; Puga 1993:100). Particularly in the northern state of Chihuahua, major business executives briefly joined the smaller and medium-sized businesses, who were less likely to benefit from state contracts or credits, in supporting the PAN (Chand 2001:112-3). By 1988, a newly aggressive vanguard of northern-based industrial conglomerates had taken over the PAN’s leadership (Chand 2001:148). Indeed, the PAN candidate for governor of the northern state of Sinaloa in 1986, and president in 1987, was Clouthier, a successful Sinaloan agroindustrialist and former CCE president with close ties to the more radical northern-based business association, COPARMEX (Chand 2001:133). Vicente Fox Quesada (president 2000-2006) continued this tradition as a businessman from the northern state of Guanajuato and former head of Coca-Cola’s Latin American operations.

<sup>34</sup> Smaller industrialists blamed private banks for the growing difficulty they had accessing credit in the late 1970s (Gaspar and Valdés 1987:520). The executive committee of CANACINTRA defended bank nationalization as necessary “[i]n order to prevent the disappearance of small and medium industry,” saying, “The objective of the gradual reorganization of Mexico’s banking and finance system is to orient internal savings towards national political priorities...” See Editorial, “Canacintra Y Los 12 Puntos,” *Transformación*, 6-7/1982, p. 25 and Editorial, *Transformación*, 9-1983.

<sup>35</sup> Note that the business associations representing the financial sector, such as AMCB and AMIS, along with those representing large industrial and commercial interests, integrated with financial enterprises (such as CAMCO and CMHN), were initially ambivalent about joining public opposition to the state (Luna 1992:109; Luna 1994:207; Puga 1993:170). The ascension of northern PAN sympathizers in CCE leadership revealed the latter eventually convinced the pragmatic financial sector to at least tacitly support their attacks on the regime (Valdés Ugalde 1997:201,206).

The reorganization of the federal bureaucracy in the 1970s reveals a concerted effort by presidents to manage divided pressures from business. They did so by marginalizing fiscally conservative bureaucrats. Fiscally conservative bureaucrats shared the fears of the mobilized business opposition in the early 1970s that President Echeverría's (1970-1976) spending habits would eventually lead to inflation, currency devaluation, and economic decline. By marginalizing fiscal conservatives, the president sought to minimize the influence of this vocal segment of business. In the early 1970s, President Echeverría attempted to marginalize the fiscally conservative Finance Ministry by moving economic planning out of the Finance Ministry to the presidential palace (Centeno 1995:81), replacing the Finance Minister with a loyal friend, and purging veteran bureaucrats (Centeno and Maxfield 1992:80). In the late 1970s, López Portillo's again attempted to marginalize fiscal conservatives. He did so by placing the Finance Ministry under the authority of a new "superministry," the Ministry of Planning and Budgeting (SPP) (Bailey 1980:44) and appointing an individual whose "overall thrust implied a more active, statist orientation, with a greater role for public and mixed enterprise" (Bailey 1980:48) as head of this new "superministry". Within a year, however, the minister of the "superministry" and the Finance Minister came to blows, and López Portillo had to ask them both to resign.<sup>36</sup> Figure 4 illustrates the destabilizing effect of these efforts to manage divided business mobilization on ministerial longevity in the ministries where fiscal conservatives had been concentrated, the budgeting and planning ministries.<sup>37</sup> It shows that the ministerial turnover rate of budgeting and planning ministries increased during the 1970s from their below-average turnover rate during the 1950s and 60s.

[Figure 4 about here]

Ironically, these efforts to manage rising tensions over economic policy in the federal bureaucracy, by trying to marginalize fiscal conservatives, inadvertently helped neoliberal business gain greater access to policy-making. It enabled those bureaucrats with whom neoliberal business had its closest network ties, the technocrats, to consolidate their control within the federal bureaucracy. President Echeverría's purge of older bureaucrats created opportunities for young technocrats with neoliberal business ties to attain a critical mass in the Finance Ministry (Centeno and Maxfield 1992). Similarly, President Lopez Portillo's creation of the superministry paradoxically made it possible for a core group of Finance Ministry bureaucrats to expand their power base. Because the technocrats "were transferred virtually intact" from the Finance Ministry (Bailey 1980:44), they formed a coherent and effective nucleus (Bailey 1980; Centeno and Maxfield 1992) within the new superministry. This nucleus enabled them to assert dominance over the new superministry and thereby over the entire federal bureaucracy (Bailey 1980).

The reorganization of the federal bureaucracy in the 1980s also reveals a concerted effort to manage divided pressures from business. This time, however, the bureaucratic allies of a different business segment were targeted. This time, government sought to manage divided business mobilization by minimizing the influence of national project advocates (those who advocated the expansionary state model of the early 1970s). The new technocratic

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<sup>36</sup> The finance minister was Moctezuma Cid, a monetarist with no prior Finance Ministry experience who was widely respected as the leader of the conservatives in the federal bureaucracy (Centeno 1995:155).

<sup>37</sup> Indeed, López Portillo appointed new ministers, only to encounter fresh conflicts among economic ministers.



administrations of the 1980s marginalized national project advocates by diminishing the responsibilities of the ministries they had dominated and enhancing the power of ministries dominated by those favorable to market-oriented policies. Table 2 displays this redistribution of ministerial responsibility during the first administration of the 1980s (Lajous 1988a).<sup>38</sup> The second technocratic administration (1988-1994) continued to minimize national project advocates. It marginalized the anti-privatization bureaucrats directly responsible for state enterprises (Williams 2001) by re-concentrating decision-making power and information in the Finance Ministry. The higher turnover in national project ministries depicted in Figure 4 illustrates how these efforts destabilized the national project ministries, as evidenced by their higher rates of ministerial turnover.

[Table 2 about here]

In the 1980s, government leaders sought to manage divided business further by selectively incorporating business associations into the formal policy-making process. Again, their efforts revealed a concerted effort to marginalize national project advocates. The government first incorporated business associations when President Salinas invited the CCE (the new umbrella organization for business begun in the mid-1970s) to participate with labor in tripartite anti-inflationary negotiations in 1987.<sup>39</sup> By incorporating the CCE, they elevated neoliberal businesses in the policymaking process and marginalized national project advocates (Luna and Tirado 1992; Thacker 1999:61). Not surprisingly, the anti-inflationary agreement linked controlling inflation to trade liberalization (Pastor and Wise 1994; Thacker 1999:60-61).

In the early 1990s, the government continued to manage divided business mobilization by selectively incorporating business associations which favored trade liberalization into the formal policy-making process (Thacker 1999).<sup>40</sup> The government asked the CCE to create a new business association which could advise them in negotiating the terms of the North American Free Trade Agreement (NAFTA) (Thacker 1999:63).<sup>41</sup> This new organization favored trade

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<sup>38</sup> For example, President De la Madrid moved the responsibility for industrial development from SEPANAL—the ministry considered “a power basis for the statist bureaucrats” (SEPANAL) (Teichman 1995:74) which favored gradual trade liberalization (Bailey 1986:135) and privatization (Teichman 1995:140)—to the new Ministry of Commerce and Industrial Development (SECOFI) (Lajous 1988b). As professionals in the ministry that had been responsible for commerce, SECOFI bureaucrats were sympathetic towards reducing trade barriers and less defined in their position regarding industrial development and productivity. SECOFI became the locus for negotiating NAFTA in the early 1990s (Thacker 1999:62). Meanwhile, SEPANAL was constricted to overseeing a diminishing roster of parastatal enterprises and renamed the Ministry of Energy, Mines, and Parastate Industry (SEMIP).

<sup>39</sup> The initial negotiations, which took place in December of 1987, produced the Economic Solidarity Pact (PSE). The agreement was renewed in monthly tripartite meetings for much of the 1990s. Participating in these anti-inflationary pact meetings granted the CCE unprecedented access to the formal policy-making process (Schneider 2004).

<sup>40</sup> This incorporation of business into formal policymaking was part of a broader effort to reorient the state’s consultation mechanisms with society away from the old corporatist sectors tainted by corruption and towards territorially-based organizations directly linked to the presidency (Bruhn 1996; Cornelius 1996; Dresser 1991; Otero 1996) after the PRI nearly lost the presidency for the first time in 1988.

<sup>41</sup> While some underscore private sector agencies (Thacker 1999) more than others (Cameron and Tomlin 2000; Mayer 1998), the minister of commerce (Secretaría de Comercio y Fomento Industrial - SECOFI) clearly instigated this increase in business access to policymaking.

liberalization.<sup>42</sup> Meanwhile, the government minimized the voices of those resistant to trade liberalization (Mayer 1998:60) by excluding the business association which represented smaller and medium-sized industrialists, CANACINTRA, for the first time from state consultation during NAFTA negotiations (Shadlen 2004)<sup>43</sup>, and by employing coercive strategies to debilitate the leadership of other business organizations opposed to trade liberalization.<sup>44</sup> The idiosyncratic protections buried within NAFTA, such as shielding the newly privatized giant telecommunications company from foreign competition (Thacker 2000) and protecting banks (Kessler 1999), revealed NAFTA's bias against smaller industrialists (Luna 2004:343).

Thus, Mexico's economic crisis instigated both business mobilization and a state restructuring which, in the end, advantaged neoliberal business. However, economic crisis did so by dividing rather than unifying business opposition. And, as the above illustrates it was the efforts by government leaders to manage this divided business mobilization that best explains the subsequent efforts to reorganize the state. Next, I outline how an additional condition increased business power in Mexico.

### A shift in foreign capital preferences increased business' economic power

The third proximate source of business power – its greater economic power – emerged under the condition of a shift in foreign capital preferences. There were two ways that foreign capital preference shifted. First, it shifted away from the public sector towards the private sector. Second, it shifted away from long-term towards short-term credit and investments. Below I outline how both of these new preferences enhanced the structural position, or economic power, of business vis-a-vis the state. More specifically, I outline how it increased the economic power of neoliberal business over the state. In doing so, I illustrate the process which Sandoval (2005:603) describes as the “reorientation of the state apparatus towards fulfilling the needs of financial capital”; a process she aptly links to the global shift away from productive capacity as the basis for capital accumulation.

First, foreign capital preferences shifted away from the public sector towards the private sector during the 1970s. Prior to the 1970s, foreign lenders primarily financed public sector economic projects. But this changed during the 1970s (1973-1982) when foreign creditors became more willing to lend to the private sector. Moreover, to the extent that foreign lenders had financed the private sector before the late 1970s, they had primarily financed foreign firms

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<sup>42</sup> The new organization, the Coordinating Council of Foreign Trade Business Organizations (COECE), drew its leadership from that of a voluntary business association historically dedicated to galvanizing free trade businesses (Thacker 1999:65): the Mexican Business Council for International Affairs (CEMAI), founded in 1988.

<sup>43</sup> Although CANACINTRA did not control Mexico's economic agenda, it had always been consulted by policymakers (Shadlen 2004).

<sup>44</sup> Angered by CANACINTRA's more conciliatory stance and energized by the hope of democratization, many of CANACINTRA's core constituents left to form a new organization which they believed would more effectively represent their interests and oppose trade liberalization (Shadlen 2004). The structure of the business organization representing business in the NAFTA negotiations (COECE)—one of thematic groups requiring extensive participation from business leaders—also disadvantaged smaller businesspeople less likely to have the time and expertise to participate (Thacker 1999:67).

operating in Mexico. By 1978, however, they had become primarily interested in lending to Mexican rather than foreign firms (Quijano 1981:270).<sup>45</sup>

Second, foreign capital preferences shifted away from long-term commitments towards short-term commitments. This shift was true both for foreign lenders and investors. Foreign lenders increasingly shied away from making loans with long-term repayment options during the 1970s.<sup>46</sup> Instead, foreign lenders became increasingly interested in loans due to be paid in less than 90 days.<sup>47</sup> Foreign investors also increasingly shied away from making long-term commitments in the 1980s. They became more interested in portfolio investments (investments in stocks and money markets), after the introduction of the parallel financial sector in 1982, and even more so after the government liberalized international flows of capital in the late 1980s. The latter generated a surge of foreign investor interest in portfolio investments (1989-1992). Portfolio investments are short-term even though they can be made in companies engaged in long-term investing, because portfolio investors can withdraw investments at any time. As I outline below, changes in foreign capital preferences enhanced business' economic power, in particular neoliberal business.

These two changes in foreign capital preferences together increased the economic power of neoliberal business because they 1) increased the liquidity of private sector assets (arrow 3a in Figure 3) and 2) increased the relative importance of private vs. public sector investments in the economy (arrow 3c in Figure 3). Recent studies (Thacker 2000:26-30; Winters 1996) have demonstrated that the economic power of business – or the degree to which the state is oriented towards anticipating the policy preferences of the private sector – increases as both these changes occur. They reason that, as the private sectors assets become more liquid, the risk of capital flight tends to be greater, making any threats of capital flight more credible (arrow 3b in Figure 3). This is because liquid asset holders can more easily transfer their capital out of the country than those whose assets are predominantly fixed (such as investments in large production facilities). Similarly, they reason that, as the private sector's investments become a larger share of total investments, the state becomes more dependent on the private sector and therefore more attentive to their policy preferences (arrow 3d in Figure 3). Both occurred in Mexico and both can be traced to the shift in foreign capital preferences.

The first way the shift in foreign capital preferences may have increased business' economic power was by making the threats of withdrawing capital more credible. They did so by primarily going to large industrialists or fixed asset holders (Cardero and Quijano 1983:269; Maxfield 1990:104), who then used the new foreign capital to diversify their asset base (arrow 3a in Figure 3). Table 3 illustrates that very large companies were the primary beneficiaries of the new foreign sources of credit during the 1970s (Aguila and Rivera Rios 1994; Maxfield

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<sup>45</sup> The proportion of Mexico's private sector foreign debt accounted for by Mexican companies rose from an average 23 percent between 1971-1976 to an average 87 percent between 1978-1981 (Cardero and Quijano 1983:255).

<sup>46</sup> Short-term loans are typically characterized as those due in less than 90 days.

<sup>47</sup> This shift represented a general shift in lending practices to developing countries during the 1970s (Quijano and Bendesky 1983:148). Moreover, Mexico was one of the largest single recipients of these loans. Mexico's share of short-term foreign bond debt held by a sample of 93 developing countries rose from an average 23.6 percent between 1976-1978 to 40.4 percent between 1979-1982 (Quijano and Bendesky 1983:149). Both changes in foreign capital preferences can be attributed to the growing number of private lenders interested in lending inside Mexico after wealthy OPEC countries made large deposits in the 1970s. The percent of Mexico's foreign debt contributed by private lending institutions increased from 58 percent in 1970 to 81 percent in 1982 (Quijano and Berhens 1985:111) and the percent of foreign lending to Mexico by foreign banks alone rose from 15.5 percent in 1971 to 47.9 percent in 1980 (Quijano and Bendesky 1983:148).

1990:160; Valdés Ugalde 1988:58). Similarly, large industrial conglomerates were the primary beneficiaries of the portfolio investments in the 1980s. They were the only ones large enough to list their company on the stock market.

Acquiring foreign credit in the 1970s and foreign portfolio investments in the 1980s, helped make the threats of large industrialists more potentially damaging because it helped them consolidate their economic dominance. As Table 3 indicates, a small number of large industrialists—only 1.2 percent of all industrialists in 1980—increased their share of production, from 53% in 1970 to nearly 64% in 1980, and their share of employees, from 39% to 49% during this same period. This trend continued in the 1980s as the percentage of the gross domestic product (GDP) accounted for by sales in the top ten private businesses increased from 4.2 percent in 1982 to 8.3 percent in 1992 (Thacker 2000:92).<sup>48</sup> The trend accelerated in the late 1980s as the proportion of the country's GDP accounted for by the largest 499 firms (excluding PEMEX) again increased from 20% in 1987 to 31% in 1992 (Garrido Noguera 1993).

[Table 3 about here]

Acquiring foreign credit in the 1970s and foreign portfolio investments in the 1980s increased the credibility of threats these large industrialists made to withdraw their capital, because it gave them incentives to diversify their asset base (arrow 3a in Figure 3). The need to make loan payments or dividend payments in the short term made the long-term investments that permit the expansion of productive capacity less attractive to large industrialists. Long-term investments might not yield enough short-term profits for them to pay loans or dividends to their foreign investors. Thus, large industrialists used the new foreign credit in the 1970s to diversify their asset base (Hoshino 1989:365; Maxfield 1989). The explosion in the number of conglomerates—from 39 in 1979 to 120 in 1981<sup>49</sup>—and in their number of companies reflects this trend towards diversification.<sup>50</sup> By 1982 the majority of conglomerates included both industrial and financial sector holdings (Maxfield 1990:105). Portfolio investments in the 1980s further diversified the asset base of industrial conglomerates. This more diversified asset base made it easier for them to transfer assets out of the country and therefore made their threats to withdraw capital more credible (arrow 3b in Figure 3). Thus, by the 1980s, the economically dominant northern-based conglomerates (Garrido Noguera and Lopez 1989:119) posed the largest threat of capital flight as they blended large industrial and financial enterprises.

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<sup>48</sup> Additional indicators of increased concentration within industry include the share of fixed investments of larger industrialists (those with production values over 5 billion pesos), which increased from 39.1 percent in 1982 to a whopping 87 percent in 1992 (Hernández Rodríguez 1991; Thacker 2000:90), and the fact that northern regions, dominated by large export oriented industrialists who often worked closely with TNCs accounted for a growing proportion of the nation's industrial plants in the 1980s (Tamayo Flores 1997:35; Thacker 2000:97), while regions dominated by smaller industrialists, like Mexico City, de-industrialized (Tamayo Flores 1997). Industrial employment increased 100 percent from 1981 to 1991 in northern states, compared to only 13.9 percent in central states (Velasco Arregui 1993).

<sup>49</sup> These are the number of conglomerates among the top 500 companies as listed in "Las 500 Empresas Mas Importantes De México," *Expansión*, 8/19/1981, p. 129.

<sup>50</sup> Mexico's four largest conglomerates acquired 32 companies between 1978 and 1981, up from nine between 1975 and 1977 (Maxfield 1990:105). In 1981, some holding companies included up to 150 companies: "Las 500 Empresas Mas Importantes De México," *Expansión*, 8/19/1981, p. 129.

Figure 5 confirms that the greater liquidity of Mexico's private sector during the 1980s could have increased the credibility of threats to withdraw capital (arrow 3b).<sup>51</sup> It charts the level of capital flight from 1970-1990. It reveals that capital flight was generally higher during the 1980s than in the 1970s.<sup>52</sup> It also demonstrates that there were several bouts of capital flight during the 1980s, which would have made any *threats* of capital flight more credible and therefore, the policy preferences of those making such threats more influential.

[Figure 5 about here]

The second way that the shift in foreign capital preferences may have increased business' economic power was by making the government more attentive to the threats of capital flight (arrows 3c and 3d). As foreign capital preferences shifted away from the public sector, the public sector's economic importance relative to the private sector declined (arrow 3c in Figure 3). As Figure 4 illustrates, the state became increasingly dependent on private sector investments during the 1980s and thereby more attentive to capital flight (arrow 3d in Figure 3). The public's investment as a percentage of GDP dropped dramatically from 12.7 percent in 1981, to 6.58 percent in 1983, and again in 1987, to 4.4 percent. In contrast, private sector investments grew from 11.5 percent of GDP in 1986 to 18.2 percent just two years later.<sup>53</sup> Thus, the state would have been even more attentive to the persistently higher levels of capital flight during the 1980s, illustrated in Figure 4, than they might have been in the 1970s (arrow 3d in Figure 3).

Mexico points to a condition of business power not present in advanced industrial societies: that of foreign investor preferences for short-term private sector investments. This preference increased the private sector's economic power because it made the threat of capital flight more credible and the state more vulnerable to the effects of capital flight. It increased the liquidity of Mexico's most important businesses, industrial conglomerates, even as the state became more dependent on these same businesses. Moreover, such large industrialists with the potential to export, and those conglomerates sufficiently diversified to be able to share in the rewards of liberalizing the international flow of capital, shared a preference for neoliberal economic reforms. This meant that the neoliberal business segment also achieved increased power via enhanced economic power.

### **Extending the Mexican case to the semiperiphery**

The Mexican case may help us identify the sources and conditions of business power in other nations outside advanced industrial societies, particularly those that share Mexico's semiperipheral position within the world economy. Wallerstein first differentiated between states where "high-profit, high-technology, high-wage diversified production" are concentrated (core states) from those states where "low profit, low-technology, low-wage, less diversified production" (Wallerstein 1976:462) are concentrated (peripheral states). But some, he acknowledged, fell between these two extreme positions in the world economy because they

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<sup>51</sup> The growth of Mexico's financial sector also helped shift the balance of the private sector's assets towards liquid assets. Mexico's new private financial sector quickly eclipsed a languishing state-owned bank industry after 1982.

<sup>52</sup> See Eggerstedt and Brideau (1995) for a summary of various estimates of capital flight from Mexico.

<sup>53</sup> The growing gap between private and public investments can be partly attributed to the state's lost revenue after oil prices fell in 1986 (Thacker 2000:Chapter 3).

include economic activities typical of both the core and the periphery (Wallerstein 1974a; Wallerstein 1985:34).<sup>54</sup> To denote the distinctive mixed character of “middle-income” economies, he dubbed them “semiperipheral” (Wallerstein 1974b).<sup>55</sup> Here I argue that we might expect the distinctions of semiperipheral economies—mixed character and vulnerability to international market forces - to produce sources and conditions of business power that are different from those in advanced industrial societies (or *core* economies). Below I outline two reasons why the Mexican case is the ideal case from which to begin theorizing the sources and conditions we might expect to produce business power across the semiperiphery.

First, Mexico has long been viewed as a paradigmatic case of the semiperiphery. Mexico, along with Brazil (Evans 1979), was singled out as exhibiting the structural characteristics of an economy distinctive from both those of wealthy advanced industrial societies and those of less-wealthy nations where little industrialization had taken place (Gereffi and Evans 1981). It exhibited core-like features such as manufacturing final products for export to neighboring peripheral states (Central America), as well as periphery-like features, such as exporting raw materials, or (since the 1960s) components manufactured in free trade zones, to the core. Its geographical location between the U.S. and Central America also facilitated its role as an intermediary between core and peripheral economies (Chase-Dunn 1989: ch. 5, 78), re-exporting materials or goods purchased from the core to the periphery, or vice a versa (Frank 1977). Finally, efforts to categorize Mexico consistently placed it in an intermediate or semiperipheral position within a world economic hierarchy (Arrighi and Drangel 1986; Firebaugh and Bullock 1986; Korzeniewicz and Moran 1997; Snyder and Kick 1979) dating back to the 1930s (Evans 1979: 290-308; Tardanico 1984: 670).

The second reason the Mexican case may be a useful starting point for generalizing about the sources and conditions of business power in the semiperiphery is because Mexico’s conditions and sources of business power are different from core societies in ways that are consistent with the particular nature of a semiperipheral economy. For example, the proximate sources whereby the condition of economic crisis in Mexico increased business power were different than they were in core societies. In Mexico, economic crisis also set off a very different chain reaction than in the core. Unlike the core, it provoked divided rather than unified business mobilization, prompting state officials to manage this divided mobilization through state restructuring. Below I outline how these differences are consistent with the distinctions of semiperipheral economies – the mixed character of the domestic economy and the greater vulnerability to international market forces.

The fact that business mobilization in Mexico was divided rather than unified is consistent with the greater internal contradictions of the mixed semiperipheral economy

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<sup>54</sup> Note, however, that “no particular activity (whether defined in terms of its output or of the technique used) is inherently core-like or periphery-like” (Arrighi and Drangel 1986:18).

<sup>55</sup> See Introduction in Arrighi (1985) and Martin (1990), as well as the Appendix in Schwartzman (1989) for further discussion of semiperiphery definition. While some argue that semiperipheral state status depends on a state’s political centrality in the world geopolitical order, as well as a state’s economic status (Snyder and Kick 1979; Wallerstein 1976), others contend that it depends more directly on where a country falls in global trade networks (Nemeth and Smith 1985) or on a state’s gross national product (GNP) per capita (Arrighi and Drangel 1986). I agree with the latter scholars who restrict their characterization of a semiperipheral nation to its economic features, both because the nature of the semiperipheral state has evaded generalization, and because incorporating features of the state into the definition of the semiperiphery presumes precisely that which I am arguing we need to empirically examine and theorize: the relationship between the economic structure and the character of the state’s relationship to business.

compared to that of the core. In the core, the potential shared interest in increased access to international markets for all businesses often helps the business community override distinct interests demarcated by sector or class segment (Mizuchi and Koenig 1986). In the semiperiphery, as Schwartzman's analysis of Portugal illustrates (1989), the internalization of competing modes of integration in the global economy makes elite consensus much more difficult to achieve. There, the more domestically-oriented segments of capital have a structural predisposition for the state to protect them from world markets, while more internationally-oriented segments have a structural predisposition to oppose such protections. This structural tendency of the semiperiphery towards contradictory business interests makes divided- rather than unified-mobilization a more likely proximate source for business power.

The fact that divided mobilization occurred under the condition of economic crisis in Mexico is consistent with both the greater incentives semiperipheral states have to intervene in the economy, and the greater likelihood that such intervention will divide rather than unify business opinion. The greater likelihood of a semiperipheral state's intervention during an economic crisis can be tied to the semiperiphery's international vulnerability and therefore the greater struggle of the semiperipheral state to retain and/or increase their share of the world's market (Martin 1990). Thus, when advanced industrial societies experience decreased productivity, as they did in the 1970s, semiperipheral states may see this as an opportunity and attempt to take advantage of declining productivity in the core by trying to capture larger shares of their own domestic markets along with those in nearby peripheral states (Wallerstein 1976). To do so, they intervene in the economy (Mingst 1988).<sup>56</sup> Yet, unlike in the core, where state interventionism tends to pose a common threat to business, semiperipheral state interventionism does not pose a threat to all of business. As Arrighi argued, state interventionism within the semiperiphery may include a wider range of policies than that within the core, some of which seek to avoid exclusion from core markets, while others seek to avoid exploitation by core producers (Arrighi 1990).<sup>57</sup> Indeed, some have argued that the implementation of neoliberal economic policies, policies ostensibly oriented towards reducing state intervention, involved a "re-regulation" of the market and therefore a new mode of state intervention in Mexico (Sandoval 2005; Snyder 1999 ). Because the various semiperipheral state interventions in the economy are likely to benefit various segments of business (domestic vs. internationally oriented), they are more likely to polarize than to unite business (Davis 1993:64). Thus, economic crisis is a condition likely to produce increased business power precisely because it

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<sup>56</sup> Wallerstein reasoned that semiperipheral states are generally more likely to intervene in the economy because, unlike core states, semiperipheral states cannot hope to maintain, let alone improve, their economic position in the world economy through market mechanisms (Wallerstein 1979: 72; Wallerstein 1985:35). Furthermore, because semiperipheral states have more to lose than peripheral states, they may attempt to shift the mix of activities in a core-like direction by establishing "new links that are 'core-like' in nature" with their peripheral neighbors (Wallerstein 1985:35).

<sup>57</sup> Policies designed to avoid exclusion encourage "(1) greater specialization in activities in which the semiperipheral state has or can acquire some kind of competitive advantage, (2) an active involvement in relations of unequal exchange in which the semiperipheral state supplies commodities embodying low-wage labor to core states in exchange for commodities embodying high-wage labor, and (3) a more thorough exclusion of peripheral states from the activities in which the semiperipheral state seeks greater specialization" (Arrighi 1990:17). Policies designed to avoid exploitation encourage "(1) the undertaking...of a wide range of activities regardless of comparative advantage, (2) the self-exclusion of the semiperipheral state from relationships of unequal exchange with the core states, and (3) an active involvement in relations of unequal exchange in which the semiperipheral state supplies commodities embodying high-wage labor to peripheral states in exchange for commodities embodying low-wage labor" (Arrighi 1990:17).

tends to aggravate structurally derived divisions within business, antagonizing some while reassuring others.

The fact that this divided mobilization was followed by state reorganization in which state actors were preoccupied with managing divided mobilization is consistent with recent trends in regime change (the most comprehensive form of state reorganization). The concentration of the third historical wave of democratization (Huntington 1991) in “middle-income” (Huntington 1991) or semiperipheral economies (Korzeniewicz and Awbrey 1992), and the timing of these democratizations after both the global economic contraction in the 1970s and the third world’s subsequent debt crisis in the early 1980s (Kaufman 1988; Stallings and Kaufman 1989), underscores the acute vulnerability of semiperipheral states to reorganization when faced with economic crisis. Moreover, historical analyses of the political processes which led to these regime changes reveals that state actors, like Mexico, did so as part of their effort to contain divided business mobilization (Castells and Laserna 1994; Schwartzman 1998). Such arguments echo Poulantzas’ findings regarding the democratization of—then semiperipheral—Southern Europe (Poulantzas 1976:45).<sup>58</sup>

Finally, the interpretation that access to formal policymaking is likely to increase neoliberal business power in Mexico is consistent with the greater vulnerability of semiperipheral business to international market forces, and therefore a weaker capacity to profit without state help. While business in the core would certainly be advantaged by increased access to formal policymaking, they would also be able to enhance profitability by making changes within the firm, such as restructuring production processes. In contrast, semiperipheral businesses are more likely to conclude that changes to state policies are their most expedient means of enhancing profitability (Wallerstein 1985:34-35).<sup>59</sup> Indeed, studies find that businesses in the semiperiphery rely on the state more than those in the core in terms of gaining a competitive foothold in domestic and world markets (Bellin 2000), which in turn lead firms in middle-income economies to orient their political strategies towards direct appeals to government (Schneider 1997-98). And, consistent with what I found in Mexico, this can often lead “to a capture of different parts of the state apparatus by different interests and result in a ‘balkanization’ of the state” (Rueschemeyer and Evans 1985:64).

In the Mexican case, a shift in foreign capital priorities was a condition of increased business power not found in the core. But like the above differences between Mexico and the core, this difference is consistent with the distinctions of the semiperipheral economy, in

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<sup>58</sup> Some have similarly traced the tragic transformation of the German state in the 1930s to divided business mobilization (Abraham 1981). Just as in Mexico, business (Abraham 1981; Brustein 1996), as well as organized labor (Gates 1970), was starkly divided over economic policy. Although the extent to which big business sympathized and directly aided the Nazi’s has been the subject of considerable debate (Abraham 1984a; Abraham 1984b; Feldman 1984), there seems little doubt that a fiercely divided yet mobilized private sector hastened the demise of Germany’s Weimar Republic by forcing democratic leaders to manage competing business pressures and creating political opportunities that the Nazi party exploited (Flint 2001). Given Germany’s current status as one of the world’s leading advanced industrial societies, and its categorization as a member of the world’s economic core after 1938 (Arrighi and Drangel 1986), we might not have expected its trajectory to have mirrored Mexico’s. But, during the inter-war period, Germany’s economy was more like a semiperipheral than a core economy (Flint 2001). This can help explain why unlike in the U.S., the Great Depression in Germany provoked divided rather than unified business mobilization.

<sup>59</sup> Domestic property owners, the “indigenous” or “national” bourgeoisie, “look upon the state as their negotiating instrument with the rest of the capitalist world-economy” (Wallerstein 1976:469), while foreign businesses such as multi-national corporations (the “external bourgeoisie”) may also have a keen interest in securing special treatment from local governments (Wallerstein 1976:468).



particular, greater vulnerability to international market forces affecting levels and types of foreign capital. Furthermore, the proximate source whereby this shift in foreign capital priorities affected business power was not identified in the core, but was again consistent with the semiperipheral economy and with the greater difficulty semiperipheral states have had in retaining, let alone increasing, their share of world markets (Martin 1990). This difficulty of retaining or increasing market share may make semiperipheral states particularly eager to reassure the private sector in order to foster economic growth (Bellin 2000). The fact that they face greater risks of capital flight or reduced foreign investments intensifies their eagerness to reassure business. Similar to core countries, semiperipheral economies typically include a host of large investors. But in core countries, robust internal markets make capital flight unattractive for these large investors. In contrast, as the numerous economic crises of the 1990s illustrated, the greater uncertainty of long-term profitability in semiperipheral economies leaves them vulnerable to the decisions of large foreign as well as domestic investors to withdraw their investments (Canak 1989; Haggard and Maxfield 1996:35; Rueschemeyer and Evans 1985; Schneider 1998).

Thus, the Mexican case provides a useful starting point for developing a historically-contingent theory of business power in the semiperiphery. Not only is Mexico an exemplar of the semiperiphery, but the differences between the sources and conditions of business power in Mexico and those in advanced industrial societies can be traced to the structural distinctions of semiperipheral economies. Future research could test the extent to which the sources and conditions identified in the Mexican case are consistent and exhaustive across the semiperiphery. Below I outline how the model derived from this case may be valuable to scholars.

### **The importance of theorizing business power in the semiperiphery**

Developing a historically-contingent theory of business power for the semiperiphery is important for a number of reasons. First, the persistence of inter-country inequality accounting for as much as 86% of world inequality (Korzeniewicz and Moran 1997) points to the persistent relevance of a global hierarchy between national economies (Arrighi 2005). Moreover, the presence of a semiperiphery within this hierarchy has been demonstrated for much of the 20<sup>th</sup> century (Arrighi and Drangel 1986). Second, even if the world has been shifting away from a core-periphery structure as some have argued (Robinson and Harris 2000), the structure it has been shifting towards is likely to include more nations which share the distinctions of semiperipheral economies, such as greater internal contradictions and vulnerability to international market forces. Thus, a theory that identifies the sources and conditions of historical variation in business power in the semiperiphery could offer not just a theory of business power in the semiperiphery, but also a theory for state-business relations that may increasingly apply to the core.

Third, a historically-contingent theory of business power in the semiperiphery could help explain why previous attempts to generalize the character of the semiperipheral state have fallen short. Scholars have previously argued that the distinct structure of semiperipheral economies made them more prone to authoritarianism.<sup>60</sup> Yet, the authoritarian regimes which proliferated in

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<sup>60</sup> Some argued that semiperipheral states are prone to authoritarianism because labor is more militant (Korzeniewicz 1990; Silver 2003) and social protests are more widespread (Chase-Dunn 1989; Chase-Dunn 1990;

semiperipheral regions throughout much of the twentieth century varied substantially in character, from the communist Soviet Union, to South Africa's racial apartheid regime, to Latin America's populist military regimes. Moreover, semiperipheral states are now more likely to be democratic (Korzeniewicz and Awbrey 1992; Schwartzman 1998). The wide-ranging nature of authoritarian regimes and the recent historical shift in the regime types of semiperipheral states may be hard to understand, however, without a theory which allows variation in the levels and sources of business power and concomitant state autonomy. Similarly, scholars at one point argued that the distinct structure of semiperipheral economies made semiperipheral states more likely to adopt interventionist economic policies in line with the interventionist policies of the liberal core states at the height of their state autonomy.<sup>61</sup> Yet, their economic policies seem increasingly less like the interventionist policies of the liberal core states and therefore less indicative of autonomy from business power, as shown by the convergence of the semiperipheral former Soviet Union and populist Latin America towards the new neoliberal economic paradigm. Scholars have also argued that semiperipheral states were more likely to act equally autonomous from various segments of the private sector than would states of advanced industrial societies.<sup>62</sup> Yet the alignment of neoliberal economic policies with the interests of the transnational fraction of the elite within so many semiperipheral countries at the end of the twentieth century raises doubts about the degree to which states espousing neoliberal reforms are acting autonomously from one segment of business, the transnationally oriented business segment (Robinson 2000). These contradictory characterizations of state intervention and autonomy are hard to interpret without a historically-contingent theory of state-business relations in the semiperiphery.

Fourth, a historically-contingent theory of business power in the semiperiphery would be even more valuable if it could help explain the often perplexing political trends therein. For example, it would be particularly valuable if it could help explain the remarkable success Mexico's reformers had in sustaining their ambitious set of neoliberal reforms despite anti-neoliberal social movements and electoral threats. In other parts of Latin America, citizens ousted neoliberal presidents (as in Argentina and Bolivia) and elected staunchly anti-neoliberal candidates (as in Venezuela's 1998, Brazil's 2003 and Bolivia's 2006 presidential elections). Similar to their counterparts in other countries, Mexico's political leaders faced serious anti-neoliberal electoral threats in 1988 and potent anti-neoliberal social movements, including a guerrilla-based revolt in 1994. And yet, in 1994 Mexicans re-elected the presidential candidate from the country's long-dominant political party, the PRI, which had introduced and deepened neoliberal reforms for more than a decade. In 2000, they elected a former businessman as president who publicly disavowed the PRI's failed neoliberal policies but largely embraced these policies in practice. Although Mexicans were more divided by the 2006 presidential elections between anti-neoliberal voters and voters fearful of economic policy change, they re-elected with a slim and contested margin the candidate from the incumbent party who was similarly willing to sustain neoliberal reforms.

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Martin 1990) in the semiperiphery. Yet, with fewer resources than core states, semiperipheral states have greater difficulty satisfying potent social pressures from below (Arrighi 1990:32).

<sup>61</sup> Wallerstein advances this argument by associating interventionist economic policies with controlling the flow of goods and capital, the size of the internal labor force, taxation rates and redistributive state expenditures (Wallerstein 1979: 72; Wallerstein 1985:35)

<sup>62</sup> Indeed, some contend that without actively brokering elite consensus around a particular economic strategy, semiperipheral states might not be able to secure social order or political legitimacy (Chase-Dunn 1990:5).

A historically-contingent theory of business power in the semiperiphery could help explain why neoliberal reforms remained politically viable in Mexico, primarily because it would direct scholars to investigate the historical trends and potential sources of business power in any given time frame. Establishing the historical trends and sources of business power enables us to establish first whether cross-national variation in the latter correlates with cross-national variation of the degree to which neoliberal reforms remain politically viable. Cases like Mexico, where a historical trend towards increasing business power correlates with sustained political support for neoliberal reforms, raise questions about how the former may have facilitated the latter.

In Mexico, we might hypothesize that the historical shift away from a low level of business power may have helped advocates of neoliberal reforms garner public support in a number of ways. The historical exclusion of business from formal policymaking may have helped business distance itself from Mexico's dominant political party that suffered an irreversible loss of legitimacy after the massacre of student protesters in 1968. Moreover, when business mobilized in the mid-1970s, it had to create new civil society organizations (CCE) and reinvigorate old opposition political organizations (like the PAN). These actions may have further cemented the association of business with Mexico's burgeoning political liberalization movement and helped the electorate interpret business' criticism of state intervention as a demand for a more inclusive political system. Indeed, it is the party that business reinvigorated, the PAN, which captured the first non-PRI presidency in more than sixty years in 2000.

Secondarily, the theory may help explain political divergences across the semiperiphery because it would identify a chain reaction which economic crises tend to unleash in the semiperiphery, but which may not have predictable effects on business power. While economic crisis may similarly aggravate divisions within business and thereby provoke state actors to try to manage these divisions through state restructuring, the resolution of these conflicts is unpredictable. This unpredictability may have to do with how the historical trend and specific vehicles of business mobilization mediate state responses to these divisions. In Mexico, the state could signal its willingness to respond to societal demands more broadly by responding to the newly public demands of business. Similarly, by selectively incorporating neoliberal business associations and building political alliances with the leading opposition party, Mexican reformers could signal a commitment to a new more inclusive political system while at the same time consolidating political support from neoliberal business. In this way, the historical trend—that of a historically less powerful business sector increasing its power—and the fact that business exerted its power via sources such as the mobilization of new civil organizations, may have helped state actors successfully manage divided business mobilization without having to undermine neoliberal reforms.

Future research might fruitfully explore whether a historically-contingent theory of business power in the semiperiphery could help us explain the perplexing political divergences across the semiperiphery such as divergences in the political viability of neoliberalism. It could, for example, examine the above proposed links between Mexico's sustained support for neoliberal reforms and the historical trends and sources of business power. It could also examine whether there is an association between the political viability of neoliberal reforms and the historical trends and sources of business power through cross-national comparisons. We might anticipate that an inverse historical trend in business power—that of a historically high level of business power on the decline—would complicate state efforts to manage divided business mobilization in the semiperiphery. Similarly, we might anticipate that sources of business

power inverse to those we find in Mexico—such as state structures that historically advantaged business or a historically vocal and highly mobilized business sector—would complicate state efforts to manage divided business mobilization and therefore to sustain neoliberal reforms. If the rejection of neoliberalism in countries like Venezuela can be better explained once we take into account how the historical trends and sources of business power mediated the state's management of divided business mobilization, it would further demonstrate the value of a historically-contingent theory of business power in the semiperiphery.

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## Tables

Table 1: Major Business Reforms by Source of Business Power: 1976-1994

YEAR	POLICIES SERVING BUSINESS INTERESTS	SOURCE OF BUSINESS POWER			
		MOBILIZATION	ACCESS (STATE RESTRUCTURING)	ECONOMIC	
	MAJOR BUSINESS REFORM			<i>Capital flight</i>	<i>Credibility of Capital Flight Threat</i>
1976	Allow multi-purpose banks and holding companies	Via CCE	Via technocrats in bureaucracy	X	
1982	Establish parallel financial sector	Via CCE & PAN	Via technocrats in cabinet	X	X
1986	Intensify privatization and join GATT	Via PAN	Via PAN	X	X
1987	Tie anti-inflationary measures to trade liberalization		Via CCE		X
1989	Liberalize international capital flows			X	X
1991	Sign NAFTA		Via COECE		X

Coded based on references used in the text.

X presence of the source of business power, *CCE* Business Coordinating Council, *PAN* The National Action Party, *COECE* Coordinating Council of Foreign Trade Business Organizations

Table 2: Ministries by the Addition or Subtraction of Responsibilities Before and After 1982

	Before 1982	After 1982
<b>NATIONAL PROJECT MINISTRIES</b>		
National Project Economic Ministries		
Ministry of Property and Industrial Development (1977-1982) Ministry of Energy, Mines and Government Industries (1982-1992) - SEPAFIN/SEMIP/SE	+	-
Ministry of Communication and Transportation –SCT	+	
National Project Social Ministries		
Ministry of Labor and Social Welfare – STPS		
Ministry of Public Works and Housing (1976-1982) Ministry of Urban Development and the Environment (1982-) – SOP/SAHOP/SEDUE/SDS	+	-
Ministry of - SARH/SAG	+	-
Ministry of Health -SSA/SS		-
Ministry of Education – SEP	+	
<b>OTHER MINISTRIES</b>		
Planning and Budgeting Ministries		
Finance Ministry –SHCP	+	+
Planning and Budget Ministry –SPP		+
Ministry of General Accounting –SECEGEF		
Other Economic Ministries		
Ministry of Commerce (1976-1982) Ministry of Commerce and Industrial Development-SECOFI (1982-)	+	+
Ministry of Tourism – ST		
Ministry of Fishing - SEPESCA/SEMARNAP		+
Social Control Ministries and Other Ministries		
Ministry of Government –SG		-
Attorney General’s Office –PGR		
Ministry of Defense – SDN		
Navel – SM		
Ministry of Agrarian Reform – SRA		
Foreign Service – SRE		

Coded based on Mexico, Miguel de la Madrid Hurtado, and Alejandra Lajous. *Las razones y las obras: gobierno de Miguel de la Madrid : crónica del sexenio 1982-1988, primer año*. [Mexico]: Presidencia de la República, Unidad de la Crónica Presidencial, 1984, p. 29-35.

*Plus sign* Responsibilities added, *Minus sign* responsibilities subtracted, *blank* no change

Table 3: Foreign Proportion of Private Sector Debt and Industrial Growth by Company Size

	1960	1965	1970 <sup>a</sup>	1975	1980 <sup>b</sup>	1985	1988
<b>FOREIGN PROPORTION OF PRIVATE SECTOR DEBT</b>							
Very Large Company as percent of total			37.7		52.3		
Small Company as percent of total			11.3		3.1		
<b>PRODUCT</b>							
Large Company as percent of total	49.9	49.9	53.1	57.1	63.8	63.2	64.4
Small Company as percent of total	30.6	30.6	27.1	23.6	21.0	19.3	19.7
<b>NUMBER OF EMPLOYEES</b>							
Large Company as percent of total	35.7	35.7	39.1	44.9	49.3	50.5	49.0
Small Company as percent of total	47.8	47.8	43.0	38.1	34.7	33.4	34.9
<b>NUMBER OF ESTABLISHMENTS</b>							
Large Company as percent of total	0.6	0.6	0.8	1.0	1.2	1.4	1.4
Small Company as percent of total	98.3	98.3	97.7	97.5	97.1	96.6	96.7

Calculated based on Jose Manuel Quijano, *Estado y Banca Privada*, Mexico City: CIDE, 1981, p. 278 for debt indicators in 1969-73; Quijano, 1983 *La Banca*, Mexico City: CIDE, p. 269 for debt indicators in 1981; and Mexico, and Carlos Salinas de Gortari, *Sexto informe de gobierno, 1994: anexo*, México, D.F.: Poder Ejecutivo Federal, 1994, p. 229 for industrial growth indicators.

*Small* sales up to 10 million pesos a year for foreign proportion of private sector debt and entities with 100 workers or less for industrial growth indicators; *very large* sales above 100 million pesos a year for foreign proportion of private sector debt; *large* those entities with over 250 workers.

a. For Foreign Proportion of Private Sector Debt, figures represent average for 1969-1973.

b. For Foreign Proportion of Private Sector Debt, figures represent 1981.

## Figures

Figure 1: The Generalized Model for a Historically-contingent Theory of Business Power

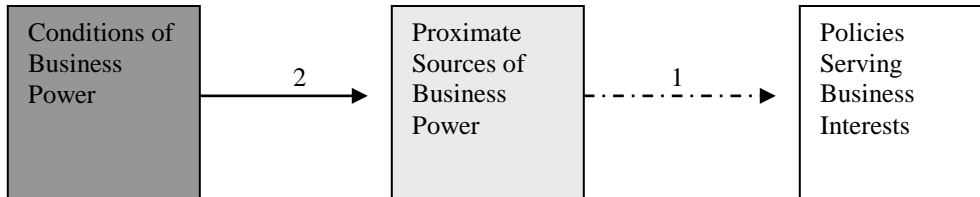


Figure 2: Sources and Conditions of Business Power in Advanced Industrial Societies

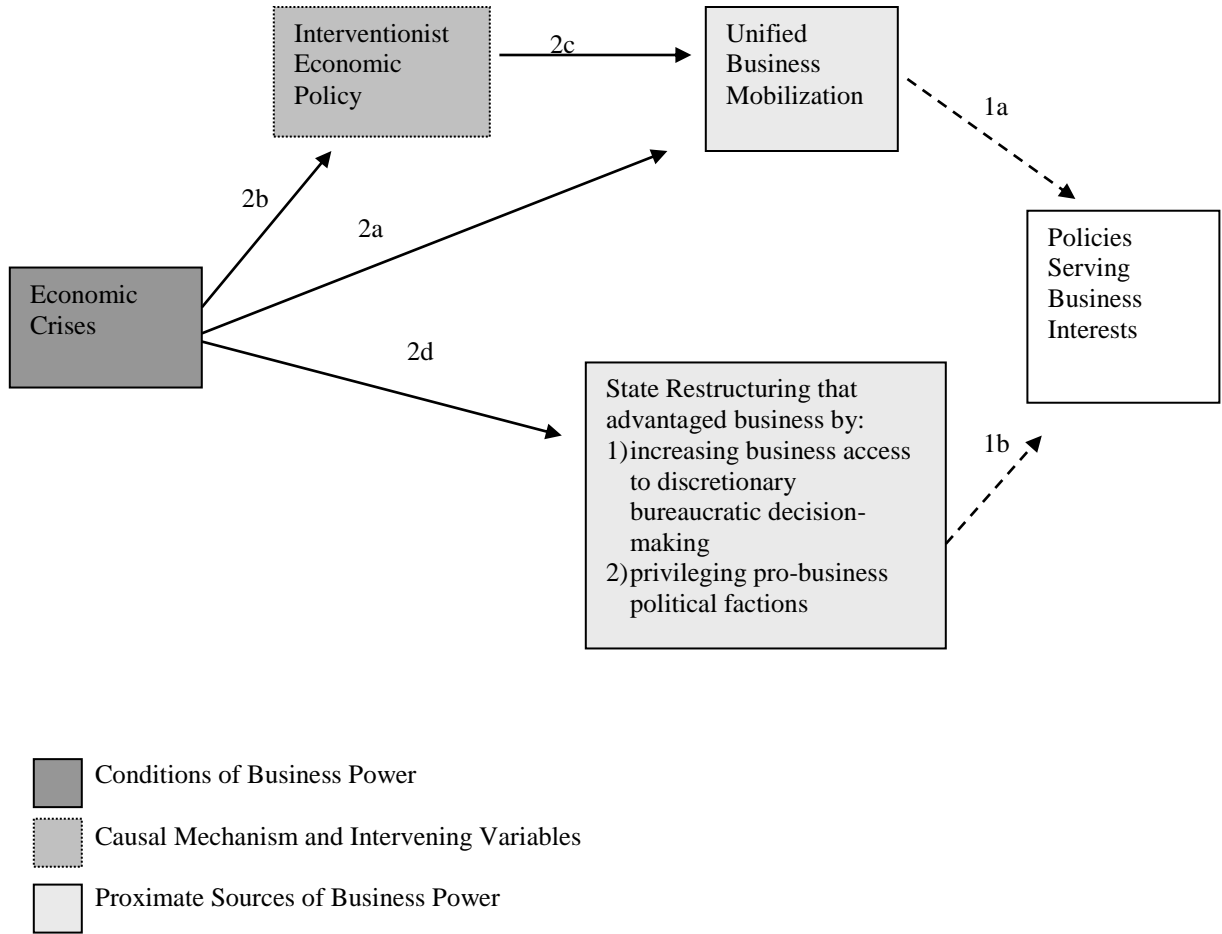
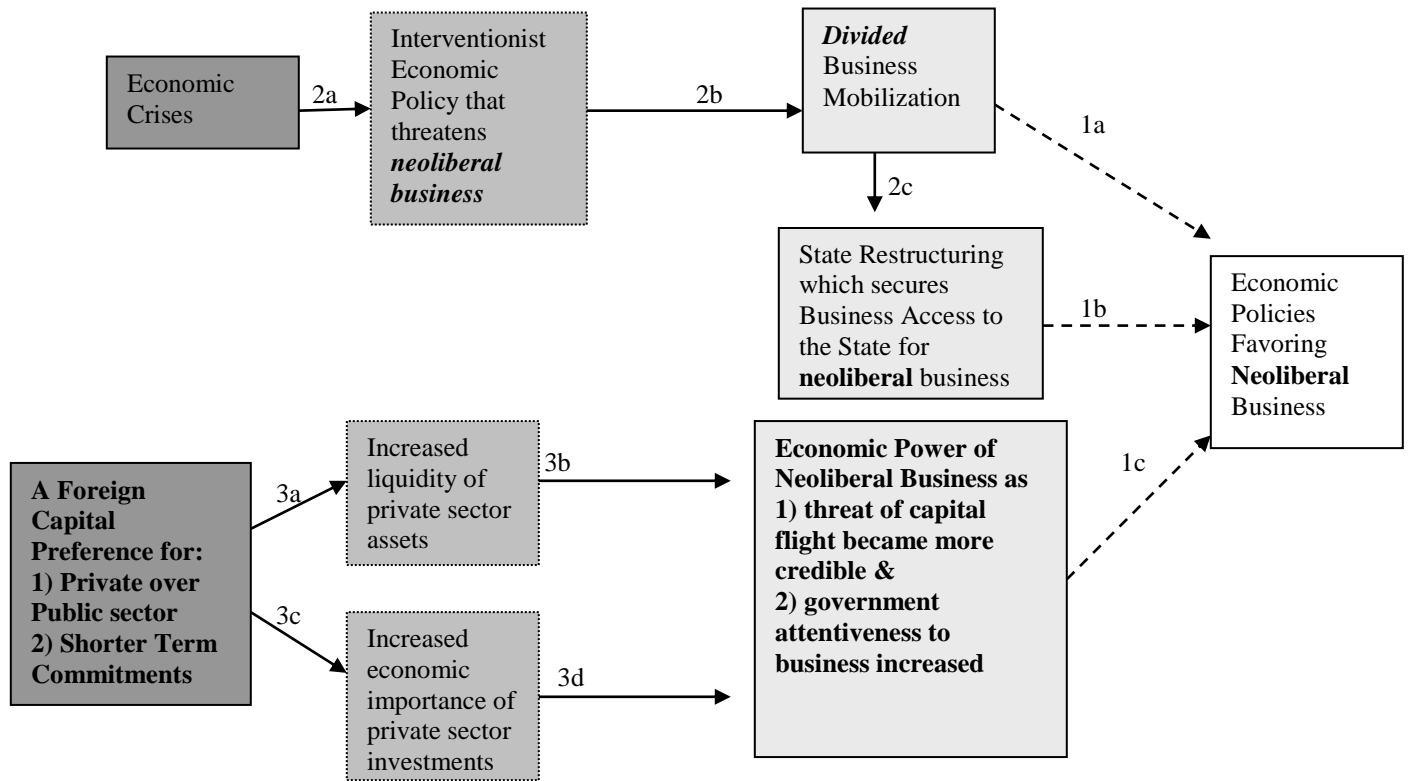




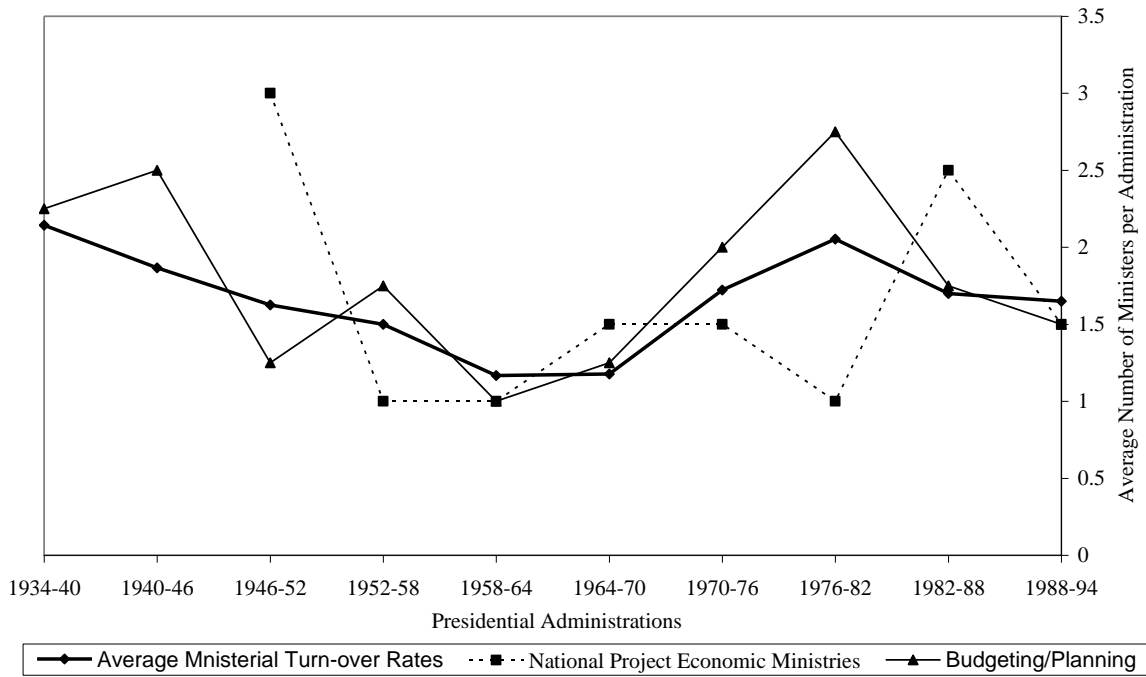
Figure 3: Sources and Conditions of Business Power in Mexico



- Conditions of Business Power
- Causal Mechanism and Intervening Variables
- Proximate Sources of Business Power

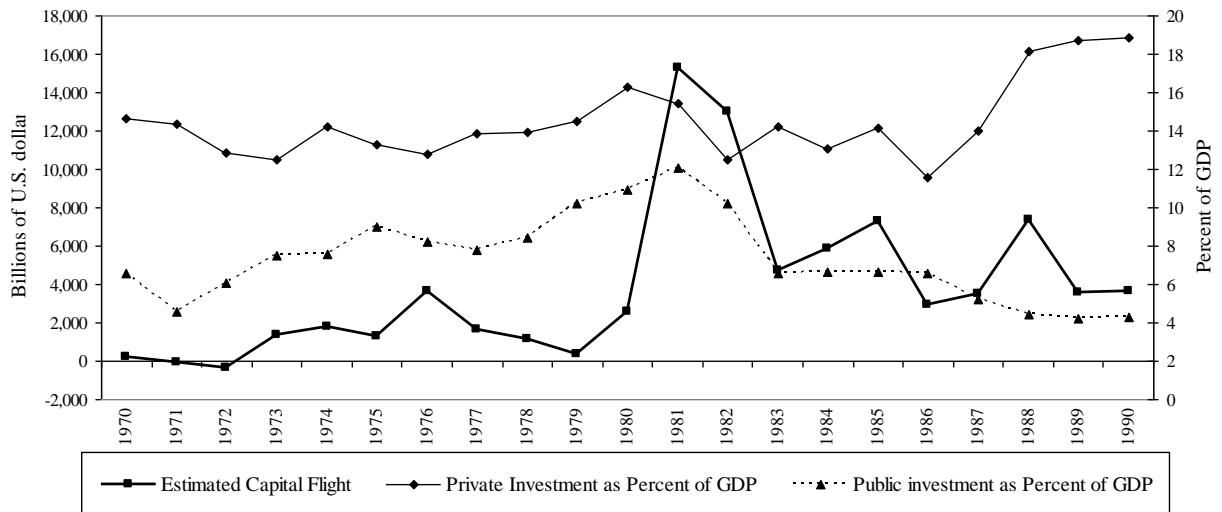
**Bold** letters represent differences from model based on advanced industrial society

Figure 4: Ministerial Turnover Rates: 1934-1994



Source: Calculated based on Camp, Roderic, 1993, *Mexican Political Biographies*, Tucson: University of Arizona Press.

Figure 5: Capital Flight, and Public and Private Investment in Mexico: 1963-1990



Source: Capital Flight: Eggerstedt, Harald and Rebecca Brideau. 1995. "Measuring Capital Flight: A Case Study of Mexico" World Development, vol. 23, No. 2, pp. 228, Table C3; Private and Public Investment as Percent of GDP: Global Development Finance & World Development Indicators (for gross domestic investment); Guy P. Pfeffermann, Gregory V. Kisunko, and Mariusz A. Sumlinski, "Trends in Private Investment in Developing Countries: Statistics for 1970-97" as compiled in Easterly, William R. "The Lost decades: Developing Countries Stagnation in Spite of Policy Reform 1980-1998 Data Set", <http://econ.worldbank.org>.