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Basis of support and opposition for the return of a developmental state in Mexico

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Introduction

Even before the outbreak of the financial crisis in 2008, there was an increasingly widespread frustration in Latin America with the poor results of economic reforms and, in general, with the Neoliberal approach of economic strategies in the region. Several authors (Peres 2006, Villagómez 2003 and Mejía Reyes 2001) even point to evidence of a return to the developmental state in the region, though at different pace and in a more or less hesitant or rhetorical manner.[2] Others authors (Cordera 2008, Calva 2007, Dussel 2003, Villarreal y Ramos 2002) stress the need to revise the developmental experience of the XX Century, revive or rethink the set of state interventions appropriate to the constraints and opportunities which globalization entails.

The purpose of this paper is to identify the basis of support and opposition for the return of a developmental state in Mexico. It argues that in the past 25 years state capabilities to

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[2] According to Peres (2006, p. 70) official documents showing developmental concerns were often "[…] not so much industrial plans or programmes, strictly speaking, as shared working agendas for government and the private sector, and this led their critics to accuse them of being "programmes without goals", empty texts having no resources.

regulate markets, generate public goods and coordinate collective action have been eroded. The new type of autonomous agencies created to promote markets (competition, monetary stability, financial supervision and rule of law) have not only been incapable of generating a competitive environment, mobilizing resources, overcoming monopolies and rent seeking behavior, corruption and evasion, but have become a financial burden. An increasingly more predatory behavior of both, the Mexican state and political elites can be demonstrated, first, in strategies towards outward and inward foreign direct investment which have become increasingly passive; second, in the loss of autonomy *vis à vis* big business (national and foreign); and last, in the inability to absorb and mobilize ordinary and extraordinary resources by channeling them towards productive infrastructure, education, R&D and knowledge-based activities. Mexico becomes in this way increasingly constrained by the rules of multilateral organizations and commitments within NAFTA deepen even further this process of destruction of state capabilities for development. State interventions are increasingly confined to promoting private investments and managing Free Trade Agreements and support for developmental strategies is driven to the fringes of the state (public universities, civic associations, left wing parties and organizations).

Transition from an interventionist to a regulatory state

In the past two or three decades the great majority of capitalist states have introduced profound reforms in order to operate Neoliberal guidelines, according to which the most important function of the state is to guarantee economic and political stability, keeping away from direct participation in the economy. But to achieve the stability required in the context of the increasingly intense processes of globalization, the expansion of risk and uncertainty, which are particularly acute in the financial markets, it is necessary to develop, on the one hand, complex systems of regulation including the design and implementation of standards in different areas of the economy and, on the other hand, public agencies with greater autonomy. This trend[3] has led to the thesis about the transition from an interventionist to a regulatory state, which corresponds in several ways to what Gershenkron (1962) calls the

[3] Jordana y Levi-Faur (2005) argue that in Latin America there is an explosive growth of these type of regulatory agencies. From 1979 to 2002 the number of regulatory public agencies has increased by three to reach 134, out of which 119 are nominally autonomous (six times as many).

positive and negative functions of the state, that is, active promotion of industrialization *vis à vis* confining state action to setting a satisfactory legal framework.

The interventionist state is part of the Keynesian paradigm which played a fundamental role to surmount the crisis of the 1930's in industrialized countries as well as to facilitate catching up processes in developing countries. In both cases the state intervenes directly in order to promote physical and institutional infrastructure, to cover or supplement those economic activities which are not attractive to private investment because they entail high investments and risks. Even with great variation from one country to another,[4] the state actively participated in banking, telecommunications, electricity, steel, among other areas. With the help of pricing instruments, subsidies, rates of interest and exchange, the state redistributed economic resources from certain sectors of the economy and the population to others.

Towards the 1980's state interventionism was clearly suffering from overloading and institutional capture, while flexible manufacturing systems, globalization processes and the weakening of labor unions were achieving momentum. As a result, support for Keynesian strategies and policies diminished considerably.[5] However, a full paradigm change required additional political, ideational and intellectual efforts in different areas and the transition to a predominantly regulatory state advanced at different pace and with great variants across countries and regions, depending on the leverage of international organizations (IMF, WTO, WB, OECD, BIS, among the most important), as well as the presence and influence of intellectuals, scholars, business associations and think tanks (Fourcade 2006, Salas-Porras 2005; Marchak 1991; Gill 2003 and 1990).

In contrast to the interventionist state, the regulatory state[6] avoids direct interventions in the workings of the market and focuses attention in setting up an institutional framework

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[4] In countries with an Anglo-Saxon model of development, direct intervention tends to be more limited (Crouch 2005)

[5] According to Ruggie (1982), Bretton Woods negotiations following II World War legitimate the Keynesian paradigm at the international level because multilateral organizations (especially the WB and IMF) become more flexible in the management of national monetary and exchange rate policies. However, from the 1970's onward greater difficulties to sustain and defend what he calls an *embedded liberalism*, that is a compromise between the imperatives of international markets and those of national welfare.

[6] French theory of regulation –which has spread widely in many other countries- is interested in understanding how the state contributes to overcome recurrent capitalist crises, and how through continuous and more or less profound adjustments in the mechanisms of regulation the state contributes to restore the process of accumulation. According to this approach, the crisis in the Fordist system of production provoked a restructuring of the mode of regulation in three different ways: first, a retreat of the state which entailed delegating responsibilities outward towards multilateral organizations and inward towards local autonomous or private agencies; second, social security and welfare attention is shifted to qualifications and supply-side

involving public and private agencies which keep apart politics from the economy; subcontracting goods and services demanded by the state; creating regulatory autonomous agencies, such as central banks and supervising financial institutions; and last, a system of regulation relying on procedures and not on discretionary rules (Jayasuriya 2005). Thus, while the regulatory state focuses on procedures and standards, the interventionist state focuses on growth and employment, though the line dividing them is not as sharp and depends on regional and national paths. However, the so-called autonomous agencies tend to be increasingly isolated form national needs in terms of growth, employment and distribution, while they become more responsive to multilateral agencies and their policy standards.

Furthermore, the reforms which this transition calls for have been the object of controversies, no only due to the social costs and benefits they bring about, but the degree to which they weaken or strengthen the state. On the one hand, Haggard and Kaufman (1992) using the concept of the 'orthodox paradox', argue that in Mexico the state recovers autonomy to be able to further the very neoliberal reforms which makes it retreat.[7] Pierie (2005, p. 371) even speaks of a *dirigiste* phase in the Neoliberal project in which the state, by means of an ambitious program of reforms and restructuring, plays a crucial role in creating the foundations of a new regime of accumulation.[8] On the other hand, MacLeod (2005) challenges such arguments because in his view privatization in Mexico reveals new forms of subordination of the state to national and foreign capital. In addition to the doctrinarian and political content (Chang and Shin 2003), these differences bring back into the debate the role that the state, political and economic elites have in promoting development, a role which had been greatly undermined in the past years.

What makes an interventionist or regulatory state developmental? To what extent –as conventional wisdom more or less openly suggest—authoritarianism is the most important variable, in particular the capacity to contain and even repress societal economic and political

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interventions; and last, a reallocation of obligations outside de state structure towards NGOs, Quasi NGOs and private agencies. According to Purcell (2002), the emphasis this approach gives to the process of accumulation makes it economicist, from the methodological point of view.

7 Along the same lines, Brañas I Espiñeira (2000) argues that neoliberal reforms could be implemented in Korea due to the strengthening of the state.

8 Chang and Shin (2003) also argue that state intervention increased after the financial crisis of the 1990's because the state was the only agent which could restore conditions to make the economy work again.

demands?[9] Is a strong state necessarily authoritarian and even repressive or legitimate and if so, what is the origin of legitimacy? Although, it would not be possible to thoroughly address these questions, this paper contributes in some way to this line of reflection. It is my intuition that a strong state must benefit from one or more kinds of legitimacy in order to be able to articulate and push forward a national project. But as several authors contend, the origin of legitimacy can be found not only in elections but in economic performance (Stubbs 2005), the options and strategies of survival opened by the state (Migdal 1988), ideology (Chua 1996), propaganda (Davis 2004), prosperity and a more just distribution of its effects (Stubbs 2005; Chua 1996 and Davis 2004) or a combination of all of these factors, so that coercion or repression becomes a selective instrument of last resort.[10] Furthermore, a strong developmental state is capable of building broad alliances to undertake long term projects which successfully transform the productive structure.

Performance, growth and positioning

If as it is argued in this paper, performance is one of the most important components of legitimacy, the Mexican state undergoes increasingly serious fractures,[11] both in the electoral front –in which it experienced in 2006 one of the most controversial elections in history- and in the area of public policy and strategies, where it has not been capable of articulating a coherent project to improve the position of the country in the international markets, where it looses ground and falls well behind countries which until recently were at a similar or worse level of development.

According to ECLA Economic Statistics (2009), in the past five years Mexico's rates of growth have been among the lowest in Latin America and, as can be seen in the following

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[9] See in particular Kholi (2004) awarded by the Society for Comparative Research and widely acknowledged by outstanding scholars such as Joel Migdal, Peter Evans and Robert Wade, who highly praise this book in the back cover. An exception can be found in Minns (2004), who in the light of the Mexican, Korean and Taiwanese experiences, argues that autonomy and developmental capacity can be explained in terms of the contradictions within the dominant class and its incapacity to rule, even when he acknowledges the presence of authoritarian regimes.

[10] Migdal's (1988, p. 80) concept of social control refers in a way to legitimacy or the best way to achieve it. According to him, "Effective social control depends first on regulation of resources and services. Beyond that it entails an effective use of symbols to give meaning to social relationships. The package of rewards, sanctions, and symbols offers people components to construct strategies of survival relevant to their particular life situation –a way to meet their mundane needs as well as their material and spiritual aspirations." Purcell's (2002) approach to legitimacy in the relationship between the state and citizenry is also more holistic.

[11] The concept of a failed state comes up increasingly more often in reference to the incapacity of the Mexican state to control drug trafficking, crime and violence, and more recently the poor response to the outbreak of swine flue.

table, well below the average growth in the region. With very few exceptions, in the past few years Latin American countries out-performed Mexico's growth, notably Perú, Panamá, Uruguay and Venezuela, though for different reasons (see Table 1). Rates of growth in Asian developing countries are substantially higher making the gap with their levels of development increasingly larger (see in the Table 1, the growth of India, China, Korea and Indonesia).

And it is expected Mexico will be worst hit by the present financial crisis due to its dependence on the US market (Ocampo 2009). In addition, both Banco de México and the Ministry of Finance forecast a contraction below 5% in 2009 (some international organizations and banking analysts forecast as low as 8%). Moreover, José Angel Gurría, Secreatary General of OECD admits the Mexican economy has been falling for the past 18 months and is undergoing a state of disaster. In his view "in 2009 we lost what we had gained in many years ..." Every body, "including the OECD, as well as regulators, supervisors and the private sector failed massively… We were not even half competent …"[12]

Lack of competitiveness is at the root of the poor results in terms of growth and impact of export activity. In a recent study, Banco de Mexico points to a setback in Mexico's competitiveness, especially when compared with the achievements of its most important rivals.[13] Mexico's competitiveness does not improve at all between 1999 and 2005, falls behind that of Hong Kong, Taiwan, Korea, Malaysia, Portugal, Thailand, Hungary, Poland, Indonesia and China, only staying above Turkey and Philippines. According to this study, Mexico's low competitiveness is due to poor infrastructure, high price in inputs, low levels in human capital and low rates of investment, innovation and adoption of efficient technologies. This situation, in turn, responds –according to the document- to an institutional framework which encourages rent-seeking and discourages value creation. At the same time, low levels of investment in human capital affect productivity, income and living standards.

[12] Lecture in the Foro Nueva Economía, Madrid (*La Jornada*, 23-May-2009)
[13] *Crecimiento y competitividad de la economía mexicana*. Banco de México. October 29, 2007.

TABLE 1
RATES OF GROWTH IN LATIN AMERICA AND ASIA (%)
Selected countries and average

	2004	2005	2006	2007	2008*
Latin America	**6.1**	**4.9**	**5.8**	**5.8**	**4.6**
Argentina	9.0	9.2	8.5	8.7	6.8
Bolivia	4.2	4.4	4.8	4.6	5.8
Brazil	5.7	3.2	4.0	5.7	5.9
Chile	6.0	5.6	4.3	5.1	3.8
Colombia	4.7	5.7	6.8	7.7	3.0
Costa Rica	4.3	5.9	8.8	7.3	3.3
Cuba	5.8	11.2	12.1	7.3	4.3
Ecuador	8.0	6.0	3.9	2.5	6.5
El Salvador	1.9	3.1	4.2	4.7	3.0
Guatemala	3.2	3.3	5.3	5.7	3.3
Honduras	6.2	6.1	6.3	6.3	3.8
México	**4.0**	**3.2**	**4.8**	**3.2**	**1.8**
Nicaragua	5.3	4.3	3.9	3.8	3.0
Panama	7.5	7.2	8.5	11.5	9.2
Paraguay	4.1	2.9	4.3	6.8	5.0
Perú	5.1	6.7	7.6	8.9	9.4
Dominican R.	1.3	9.3	10.7	8.5	4.5
Uruguay	11.8	6.6	7.0	7.4	11.5
Venezuela	18.3	10.3	10.3	8.4	4.8
Asia	**7.1**	**7.2**	**7.2**	**7.9**	**5.1**
China	10.1	10.4	11.1	11.4	9.0
India	7.4	8.7	9.8	9.2	7.3
Indonesia		5.7	5.5	6.3	6.1
South Korea		4.2	5.1	5.0	2.2
Singapore		6.6	8.2	7.7	1.1
Taiwan		4.0	4.9	5.7	0.1
Thailand		4.5	5.1	4.8	2.6
Asian-4	5.8				

Source: *Statistical Yearbook for Latin America and the Caribbean*, ECLA. 2009
IMF. *World Economic and Financial Services. Regional Economic Outlook. Asia and Pacific.* May 06, April 07, April 08, May 09
* Preliminary results

Low investment in R&D is, no doubt, one of the main factors accounting for low competitiveness and productivity. According to OECD indicators on Science and Technology, in 2007, Mexico scored last in the number of researchers (for every 1000 people employed) and in 2008 it came last too in gross domestic expenditure on R&D as percentage of GDP as well as in private investment in R&D as percentage of GDP.[14] In the 1990's Mexican productivity diminished 1.25% (-0.6% in Latin America), a setback which according to Villarreal and Ramos (2002, p. 22) meant Mexico missed an opportunity to absorb the developments in the area of computer and information technologies. But other problems have become more enduring and difficult to surmount, notably inequality and concentration of wealth, which Guerrero, López Calva and Walton (2006, p.5) consider the main obstacles to growth because the most powerful economic groups defend a *status quo* which ensures them "[…] high rents at the expense of dynamism and growth".[15] In this situation, the inequality gap has become larger: according to INEGI in 2000 the 10% richest concentrated almost 40% of the national income while the poorest 10% only received 1.5%.

Strategies towards outward and inward FDI

Given a policy environment increasingly constrained by multilateral organizations, trade agreements and globalization, Thurnbon and Weiss (2006) contend that one of the most important challenges for developing countries today is to make outward and inward FDI improve technological development, diversify towards more promising sectors and advance growth.

While Korea, Singapore, India and to a lesser extent Brazil are still very proactive embarking on strategic actions of different kind to improve the quality of FDI and diffusion of knowledge along production chains,[16] in contrast, Mexico has become increasingly passive, showing an absence of strategic purpose in this regard. There is no intervention to induce foreign companies to discover new areas of growth, to develop national suppliers, increase the proportion of national content, particularly in the maquiladora industry,[17] or to make outward FDI impact positively the country's economy in terms of new technologies, higher positions in value chains or diversification towards more sophisticated export markets.

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14 See: http://www.oecd.org/dataoecd/9/44/41850733.pdf

15 The IBD and WB reports confirm mixed results for the poverty programs: in the rural areas extreme poverty diminished from 42.4% to 27.9% from 2000 to 2004, but in urban areas it remains constant at about 11.3% (World Bank 2005).

16 Thurnbon and Weiss (2006) detail the strategies of Korea and Taiwan, Chibber (2003) documents the case of India, and Goldstein and Schneider (2004) and Amann (2004) Brazil's experience.

17 David Márquez Ayala (*La Jornada*, 11-junio-2007), argues that official export statistics have integrated maquiladoras and manufacturing exports which, in his view, seems to indicate that government has given up the idea of increasing levels of national integration and that Mexico has become a big maquiladora with no sense of direction or industrial policy other than what is convenient to TNCs.

There are even setbacks in several cases which clearly illustrate an absence of industrial planning: The IBM, which in the eighties and early nineties developed a network of suppliers in Guadalajara, gradually reduced its activities in the region until it retired practically altogether. The automotive industry has increased substantially the proportion of imported parts because national content requirements were lifted after NAFTA came into effect and there was no incentive to substitute such requirements. Since the 1980's Vitro (a Group from Monterrey) formed an alliance with Whirpool to produce electronic appliances for the North American market but in 2004 the Mexican group sells its stake to the American partner, giving-up a research center they put up together in Monterrey as well as the knowledge and experience in a rather attractive sector, from the technological point of view. In 2005 Grupo Alfa (also from Monterrey) sold the steel company Hojalata y Lamina (HYLSA) to Techint (today Ternium, a leading steel company in Latin America from Argentina). HYLSA was founded in the 1940's achieving important technological developments in steel mills, notably the process of direct reduction, as well as 1,200 patents in Asia and Latin America. In the same sector Grupo IMSA was also taken over in 2008 by Ternium, which has achieved an important position in the Mexican Steel market.[18] In 2006 Grupo Kuo (formerly Desc), one of the largest Mexican groups in the industry of autoparts, experiences a setback when it is forced to sell for 7.6 million dollars to the German corporation Kolbenschmidt Perburg an affiliate (Pistones Moresa), a company that had developed its own technology. LG recently announced it was moving the maquiladora plant in Mexicali to Brazil and Sony was also shutting down operations in Tijuana. Both of these plants had attracted investments from Korean suppliers and built up sophisticated networks in the region (López Aymez and Salas-Porras 2008)

As in other countries in Latin America, Mexican outward FDI has increased substantially in the past decade reaching 28 $US billion dollars in 2005 and 24 billion in 2007 (Santiso 2008), and comparing favorably to other countries in the region (Brazil FDI reach 35 $US billion in 2007). As can be seen in Table 2, several Mexican groups have gained a foothold in other countries, particularly in Latin America and to a lesser extent the US where they have achieved outstanding rankings (for example, Cemex has become the largest corporation in construction materials on a worldwide scale; Carso Global Telecom rank first in Latin

[18] Following the acquisition of IMSA, Ternium became the leading supplier of flat steel products in Mexico, concentrating 40% of the market (see Annual Report 2008).

America both in land line and mobile telecommunications; Maseca controls a high proportion of an expanding tortilla market and Bimbo several areas of bread manufacturing in Mexico, the US and Latin America). However, Mexican multinationals concentrate predominantly in low value added sectors where mature technologies prevail, as in the case of cement and other construction materials (glass and steel), besides perishables and other consumer products. Of the 10 largest Mexican industrial groups recorded in Table 2, only Alfa and Kuo undertake more technologically complex production in the industry of autoparts and petrochemicals. With few exceptions (see Table 2), Mexican economic groups expand towards countries with similar or inferior levels of technological development, an evidence that they do not expand in search of new technologies, of a better position in the production chain, to promote intra-firm trade and exports from Mexico (supplier, design or construction contracts) or to satisfy more demanding and sophisticated markets, but mainly to improve monopolistic control in not very promising links of production chains, with little transformation potential.[19] As can be seen in Table 2, almost 44% of the foreign affiliates of the 10 largest industrial groups are located in Latin America, almost 30% in the US, 17% in Europe and only 9% in Asia. Santiso (2008) documents that some corporations producing autoparts, like Nemak (belonging to Alfa), affiliates of Grupo Kuo (Desc) and IMSA (now belonging to Ternium) have increased considerably their exports from Mexico; however, such exports do not depend on their investment abroad. On the contrary, their foreign investment usually depends on their clients' location and needs, though technological and organizational spillovers may follow. In order to better satisfy the requirements of its main clients, Nemak has invested in Germany, Czech Republic, Eslovaquia, Hungary and China.

Mexican passive strategies towards FDI, both inward and outward,[20] exhibit an erosion of the planning capacities attained during the 1950s to 1970s when the state limited the percentage of FDI allowed in key economic sectors (mining, autoparts and petrochemicals), inducing joint ventures of foreign and Mexican business which were entitled to fiscal,

[19] Rodrik (2007) and Evans (1997) argue the state can induce business to explore and expand economic sectors with greater transformation potential.

[20] Lall (2001) distinguishes between passive and active strategies to promote FDI. The former only liberalize investment while the latter offer subsidies in infrastructure, taxes, highly qualified work force and other incentives to attract foreign investment in technological advanced activities, committed to increase exports and percentage of national content, to generate foreign currency or to transfer technology and know-how.

financial, infrastructure and other incentives.[21] The testimony of Antonio Ortiz Mena (2000) is very illuminating in this respect. Minister of Finance from 1958 to 1970 and one of the main architects of the long and sustained growth characterizing this period of Mexican history, he gives an interesting account of the capacity achieved by political elites to promote *mexicanization* of several industries and negotiate with foreign institutions and investors, even in situations as difficult as the one they faced when the electric industry was nationalized.[22] Nationalization of this industry was considered fundamental to economic development and particularly important to encourage the formation of Mexican enterprises, expand and diversify the industrial base and the internal market but it entailed complex negotiations to convince " […] governments and international investors that policies of *mexicanization* applied by the government responded to technical/economic reasons which tried to strengthen the economy through the development of Mexican entrepreneurs and did not originate in a socialist orientation " (Ortiz Mena 2000, p.191). However, frictions and tensions could not be avoided, particularly with Eugene Black, the World Bank president, who demanded to raise electric tariffs in order to recover the $37 million which Compañía de Luz y Fuerza Motriz owed to this bank. Adolfo López Mateos, Mexican president at the time refused to meet such demands and the country did not get credits from this bank until Black left the presidency. The bold attitude towards foreign powerful interests is quite a contrast with the fear political *elites* show today when the need to renegotiate NAFTA, particularly the agricultural chapter, is put on the table.

Ortiz Mena's testimony also exhibits a much greater autonomy of political elites in this period of Mexican history, their capacity to plan and pursue short and long term policy objectives, all of which entailed attracting and convincing business –some times on a very individual basis- about the advantages and promising perspectives of a development project. To take business on board, reduce foreign investment and increase national investment –particularly in mining, petrochemicals and autoparts- a set of incentives was offered which included fiscal, financial and other subsidies that substantially reduced risk and turned

[21] Those firms following the limits of FDI agreed in each sector were considered Mexican and were entitled to subsidies and other incentives.

[22] Two large foreign electric corporations, Compañía de Luz y Fuerza Motriz –Mexican Light and Power from England- and Impulsora de Empresas Eléctricas –American Foreign Power- controlled around 33% of the electric capacity in the country, other companies belonging to North American and Canadian business controlled 27% and the remaining 40% was controlled by the state company CFE.

investments profitable. And the climate of stability and trust provided by political elites was particularly important.[23]

TABLE 2:
INTERNATIONALIZATION OF MEXICAN 10 LARGEST INDUSTRIAL GROUPS (2008)

OWNER/GROUP	**FOREIGN AFFILIATES**		**COUNTRIES**					**YEAR**		**INDUSTRY**
	TOTAL	LA	US[b]	EU	Asia	70s[a]	80s	90s	00s	
Carlos Slim Helú / *Global Telecom, Carso*	32	26	5	1		-	-	2	30	Telecommunications, retailing
Lorenzo Zambrano / *Cemex*	37	7	8	12	10	-	-	11	26	Cement
Jose A Fernández C / *FEMSA*	9	9	-	-		-	-	1	8	Beer and soft drinks
Carlos Fernández González /*Modelo*	8	2	2	2	2	-	2	2	4	Beer
Dionisio Garza M / *Alfa*	32	9	14*	8	1	2	6	10	14	Autoparts, petrochemicals & food products
Roberto González B / *Maseca*	18	7	5	3	3	2	-	4	16	Maize flour
Daniel Servitje / *G Bimbo*	32	17	13	1	1	-	-	13	19	Bakery
Adrían y Federico Sada G. / *Vitro*	9	4	2	3		1	1	3	4	Glass
Fernando Sendereos M / *KUO (Desc)*	3	-	2	1	-	-	1	1	-	Petrochemicals and autoparts
Julio César Villarreal / *Villacero*	5	-	4	1	-	-	2	3	-	Steel products
TOTAL	**185**	**81**	**55**	**32**	**17**	**5**	**7**	**58**	**69**	

Fuente: own research
[a] 0 antes; [b] Includes plants in Canada; LA: Latin America; US: United States; EU: European Union.

The purpose is not to idealize the ISI development model, some practices of which were seriously wanting, particularly the failure to require business to increase productivity and competitiveness in exchange for protection and subsidies, to curb rent seeking behavior, collusion of monopolistic interests, and corruption practices of different sort, in addition to

[23] Another account of planning capacities lost is that of David Ibarra (2006), who was also a member of the political elite during the period of stabilizing development, characterized by a strong developmental state.

a proliferation of planning agencies which turned public action incoherent.[24] In short, a balanced mix of what Rodrik (2006, p. 106) calls 'carrot and stick' (promotion and discipline) policies was missing.[25] But notwithstanding these and other shortcomings, policy capacities were developed and policy space significantly enhanced, allowing for a diversification of the economy, an enlargement of the internal market and high rates of growth. And most important of all, in spite multiple contradictions and inconsistencies, a common national project permeated the state apparatus and political elites, giving them a sense of purpose and direction.[26]

Even if it fell short in rationalizing growth, from the 1950's to the 1970's the Mexican state aggressively stimulated growth into more modern areas, such as steel and metal tools (AHMSA, Sicartsa, Fundidora Monterrey), petrochemicals (Pemex and Fertimex) telecommunications (Telmex), television and media, air and auto transport (DINA, METRO, Aeromexico). It subcontracted large infrastructure projects (dams, underground transport, highways, airports) encouraging the highly sophisticated construction private firms, such as ICA and GMD. The thrust to diversify into more advanced and promising sectors, a key objective of a state with a strategic orientation (Rodrik 2007, Hausman and Rodrik 2003 and Villagómez 2003),[27] has clearly been lost in México. Moreover, productive chains have been seriously disassembled in the past 20 years[28] and, as it has been shown, Mexican big business increasingly abandon previous successful experiences in technological development.[29]

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[24] During the administration of José López Portillo, among many other, we find the following plans, Plan Nacional de Desarrollo Agroindustrial, May 1977; Plan Nacional de Desarrollo Pesquero, August 1977; Plan Nacional de Desarrollo Industrial, March 1977; Plan Nacional de Empleo, December 1979; Plan Nacional de Turismo, December 1980, resides many legal reforms in different areas of the economy, some of which were quite contradictory among themeselves (Ayala Espino 2001, pp. 438-445)

[25] As in most of Latin America, too much and too irrational diversification was the result of ISI strategies, because according to Hausman and Rodrik (2003), the state did not help prune those firms and activities which turn out to be inefficient. The clue, in their view is "[…] to encourage investments in the modern sector *ex ante*, but to rationalize production *ex post*." (p.8)

[26] Such sense of purpose can be appreciated not only in the accounts of members of the political elites (David Ibarra 2006, Ortiz Mena 2000) but also in the documents of business associations (CNIC, Concanaco, Concamin, Canacintra, among others). See annual reports of Concanaco, CNIC and other business chambers.

[27] According to Peres (2006, p. 67) "The core of a policy for accelerating economic growth is a combination of knowledge accumulation and diversification of the productive structure."

[28] The textile, capital goods and toys industries have been particularly affected, as can be seen in Ibarra ….

[29] Enrique Dussel Peters (2009) argues that the Mexican economy undergoes a process of de-industrialization seriously affecting both the internal and the export markets.

Loss of autonomy *vis à vis* big business

In addition to the passive strategies with respect to FDI and scarce capacities (or will) to implement those policies which are still viable in the context of globalization and greater restrictions by multilateral and regional institutions, other shortcomings make a return to a developmental state extremely difficult. On the one hand, loss of autonomy *vis à vis* national and foreign capital which has been particularly remarkable during processes of privatization and bailout of firms facing difficulties or bankruptcy, the incapacity to guarantee minimum conditions of competition and to avoid tax evasion, as well as the unfavorable terms under which concessions for public services are agreed (banking, highway construction and administration, telecommunications, television and in general mass media); on the other hand, institutional failure to orient and mobilize resources towards productive ends. All of these shortcomings exhibit an increasingly weak state. [30]

Big Mexican business conceive public goods as if they were their own; they strongly oppose any distributive policy affecting, even if slightly, their property; they usually colonize public regulatory and planning agencies and tend to easily accommodate their interests with those of public officers by means of tax exemptions, bailouts, subsidies and outright corruption. Though examples are plentiful, some are particularly troubling. In addition to absorbing a debt of 10 billion US dollars held by banks during the nationalization of 1982, the state created a trust –Fideicomiso de Cobertura Cambiaria (*Ficorca*)- to guarantee 11 billion dollars of private foreign debt, at the end covering with public funds 50% of that amount, 80% of which was held by large economic groups, notably, Alfa, Cemex, Visa y Vitro (all of them from Monterrey).[31]

Privatization of state enterprises since the 1980's –in telecommunications, steel, airlines, petrochemicals and banks- was engineered by international financial institutions closely linked to Mexican big business, as it can be seen in MacLeod (2005 p.51-52), who stresses the lack of autonomy with which the state conducted the process. Among the firms which

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[30] Guerrero, López Calva and Walton (2006, p. 3) characterize weak institutions as those which are not capable of limiting the influence of powerful groups and defend the interests of society at large, including those of future generations. Among the relevant institutions, they include regulation bodies, the judicial system, civil service, political parties and the executive. They point at two types of distortions: policies designed to serve the interests of particular and powerful groups and the veto power of these groups forcing suboptimal policies which favor their interests. They argue that in Mexico most regulating agencies are weak because they lack autonomy.

[31] This process has been documented by MacLeod (2005), Garrido (1998), Centeno (1994) and Maxfield (1990).

evaluated public assets, put up the proposals and offered consultancy services, MacLeod documents the following: McKinsey Corporation and Booz Allen & Hamilton engineered at least 10 out of 18 privatizations which took place at the end of the 1990's; Goldman-Sachs which was the main advisor in Telmex privatization and two banks; First Boston, Bank of America, Barclays, Price Waterhouse, Salomon Brothers, Merrill Lynch, Credit Commerciale of France, Donaldson Lufkin & Jenrette and Manufacturers Hanover valuated the banks assets and formulated projects for sale; Mercer put together Ferronales privatization and First Boston Bank becomes its main financial agent.

Despite the advantageous conditions in which state companies were acquired by private groups,[32] most of these acquisitions failed and in several cases had to be rescued again: thus, both of the privatized airline companies –Aeromexico y Mexicana- were highly indebted when the 1995 crisis broke out and they ended up among Fobopraa-IPAB troubled assets. After restructuring both companies, the state privatized them again around 5 years ago and today once more they are facing severe financial difficulties which require state support. And this story is quite recurrent: banks were privatized between 1990 and 1992 and they were bailed out between 1994 and 1995 through Fobopraa-IPAB, a rescue package entailing high costs in terms of the public resources it will demand for years to come; highways were privatized in the 1980's and since then they have been rescued several times; sugar mills have been given state financial support of different sort in the past two decades. And even if Telmex has been relatively successful since it was privatized at the end of the 1980's, it has enjoyed monopoly conditions and other privileges (tax exemptions and transfers) allowing an exceptionally rapid growth in Latin American markets.

On the other hand, and as it has been made public in recent months, the Mexican state has an increasingly reduced capacity to raise tax income from national and foreign corporations which have frustrated time and again a more progressive fiscal reform.[33] Resistance to the most recent reform –the CETU tax- by big business reveals they are not willing to make concessions even in the context of a credibility crisis; but it also reveals the state's incapacity to negotiate and enforce a new fiscal instrument. Accordingly, the proposal to reduce exemptions stemming from philanthropic donations was the object of hard bargaining.

32 For the terms of privatization, see: MacLeod (2004) y Ramírez (2000).
33 Mexico has the lowest tax income in all Latin America, 9% as percentage of GDP.

President Calderon strongly argued poverty urgently needed an increase in social policy spending, not charity, but with partial results.

Additionally, tax exemptions limit enormously the capacity to raise public income. According to the National Federal Auditing Agency (la Auditoría Superior de la Federación, AFS), the Servicio de Administración Tributaria (SAT), equivalent to the IRS in the US, had to return between 2000 and 2005 almost 680 billion pesos (around 68 $US billion at the time) to large corporations. According to the report of the Federal Auditor, "Devolutions are highly concentrated in the country, contravening the principle of fiscal equity. In 2005, the largest fifty tax payers only paid an average of 74 pesos on revenue", that is, less than 10 dollars at the time.[34] Failure to raise tax revenues has led the state to make Petróleos Mexicanos (PEMEX) transfer almost 60% of sales income, severely undercutting investment projects and expansion potential of this state firm.

Results of the new regulatory functions assigned to the state are disappointing. The state has not been able to guarantee the minimum competition required for economic efficiency. Even if the Federal Commission for Competition (Comisión Federal de Competencia, CFC) has become an autonomous agency since 2006, with the faculty to sanction monopolistic practices, a weak judiciary tends to revert many of the penalties with appeals that benefit those having the resources to sustain long legal procedures. Guerrero, López Calva and Walton (2006, p. 23-24), document that from 1998 to 2006 out of 39 cases in which the CFC acknowledged monopolistic practices, 12 appeals favored big business, condoning or substantially reducing fines; 24% of monopolistic abuses were carried out by big corporations controlled by families listed in *Forbes Magazine*. Regarding mergers and acquisitions, out of 1,297 cases examined in this period only 14 were blocked by the CFC, and out of 106 cases of companies controlled by big business, only one merger was rejected.

Several sectors function in monopolistic or oligopolistic conditions,[35] but particularly damaging for the economy are the cases of telecommunications and mass media. In the case of the former, high tariffs and costs seriously affect the competitiveness potential in many

[34] See report presented by Arturo González de Aragón, Superior Federal Auditor to the Senate, 1-August-2008. www.macroeconomia.com.mx/articulos.php?id_sec=23&id_art=1948&id_ejemplar=107

[35] According to Eduardo Porter, in Mexico large parts of the economy are controlled by monopolies or oligopolies, to such an extent that one family –headed by Carlos Slim- controls a fortune estimated in Around 60 billion dollars, almost 7% of GDP, while the largest US fortune –Bill Gates'- only represents 0.5% of American GDP (*New York Times*, 28-08-2007). According to Villamil (2007) Televisa concentrates el 67.5% of eletronic media, Carlos Slim Helú 75% of telecommunications, Lorenzo Zambrano more than 80% of the cement market and Germán Larrea almost 70% of copper production.

sectors and the economy as a whole. Telmex operates as a monopoly in the landline telephone segment (where it controls around 90% of the market) and America Movil as an oligopoly in the mobile segment (with more than 70% of the market); in the case of mass media, Televisa and Televisión Azteca concentrate 95% of all concessions having a decisive influence in an economic area of great political and ideological impact and forcing sometimes the terms of the law regulating the sector. The Federal Commission of Telecommunications (COFETEL) which is supposed to supervise competition in the sector has been colonized by these corporations that have obstructed entry of new firms into the sector.[36] The approval in 2007 of the so-called Televisa Law,[37] is still more harmful since it clearly exhibits the patrimonial vision these business groups have, not only with respect to the executive but the legislative, which had to undergo great pressure to subordinate the public interest to the interests of these two powerful television firms. And even if the law was modified due to a constitutional dispute pushed forward by a group of senators, the strength of these media interests was exhibited throughout the process.

Evidence about the state incapacity to regulate and contain banking practices has been pointed out, particularly by former public officers and academics who argue this is a key sector to surmount the present crisis. Guerrero, López Calva and Walton (2006, p. 11) document that between 1994 and 2001 concentration of assets in the five largest banks increases from 74 to 88%. In December 2008 the five largest banks concentrate 78% of assets, two banks -Citi-Banamex and BBV-Bancomer- control more than 43% of total assets, more than 42% of the loan portfolio and almost 48% of profits, according to the Banking and Security Commission (CNBV), equivalent to the SEC.[38] Foreign banking groups in México report high profits, even in the context of the financial crisis (up to 30% or more of their profits worldwide) but do not pay taxes, or their taxes are returned. In spite of strong criticism about the level of commissions and interests, these remain among the highest in the world.[39] Recent attempts by Congress to regulate further these practices failed. In addition,

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36 The most notorious case is the unsuccessful attempt of the American company NBC which has not been able to get a concession from the state to operate in the Mexican media market.

37 According to Villamil (2007, p. 74), the Law was written out in Televisa's offices.

38 See: http://sidif.cnbv.gob.mx/Documentacion/Boletines/BM%20Diciembre%202008.pdf

39 Recently Banco de México put a cap on commissions in certain services, but pension funds increased them by more than 200%. In 2007 Banamex' pension fund reported a profit of almost 84 million US dollars, followed by Bancomer pension fund, with roughly 50 US million. These two pension funds concentrated almost 60% of all profit in the sector.

they receive high interests on the debt still due for the 1995 banking bailout (notes with IPAB/Fobaproa) which reduce enormously the state potential to invest in infrastructure.

Last, but not least, the capacity to absorb and mobilize economic resources towards productive ends, one of the widely acknowledged characteristics of developmental states (Stubbs 2005; Chang and Shin 2003; Ffrench-Davis and Ocampo 2001; Migdal 1988),[40] leaves Mexico in a very low footing. Though public officers often argue public revenue is scarce, the income the state gets hold of from different sources is still enormous. Three sources are especially significant in terms of how they were misspent: extraordinary oil revenue throughout the Fox administration, foreign income from remittances and pension funds. Regarding the first source, according to the Superior Auditor of the Federation, during Fox Administration extraordinary income stemming from the prices of oil reached 720 billion pesos (around 72 billion dollars at the rate of exchange of the time), "73% of which was applied to current spending, 14% to financial investment, and only 13% to direct physical investment"[41] Likewise, the extraordinary growth in remittances (which according to Banco de México meant an income of 90 billion dollars from 2001 to 2006) were not channeled or induced to spending in productive projects, such as infrastructure and education which could help contain migration in regions with high levels of population expulsion.

Moreover, the state has not been able to mobilize savings from pension funds to finance productive investment. At the end of 2007 total assets of *Afore* pension funds reached almost 83 billion dollars (at the rate of exchange of the time). Instead of channeling those funds to finance industrial activities, education, R&D and productive infrastructure they have been oriented to the securities market and have consequently been devalued, giving evidence once again of the lack of policy instruments and strategies to put resources to a more productive use.

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[40] Stubbs (2005) documents how East Asian countries, particularly, Japan, South Korea, Taiwan, Singapore, Hong Kong, Indonesia and Thailand, experienced a miraculous growth from the end of World War II to the end of the Cold War not only because they received extraordinary revenue from different sources (US economic help first and later that of Japan, increases in prices of raw materials, growth of US spending in the region due to the Cold War, remittances, among other), but also because they managed to simultaneously strengthen an institutional capacity to mobilize those resources to the development of productive infrastructure, industrial facilities and human capital.

[41] Ver: www.macroeconomia.com.mx/articulos.php?id_sec=23&id_art=1948&id_ejemplar=107. It is paradoxical that the new political elite which has so harshly criticized the Administration of José López Portillo for squandering oil revenue in the 1970's cannot account for the extraordinary resources of the past 8 years.

From the point of view of the incapacity to channel available resources to productive ends, more troubling still is a persistent trend to under use funds assigned to investment, while current spending grows beyond the limits approved in the Budget Law for each year. From 2000 to present, funds not spent have been recurrently returned to Hacienda from areas for which they were approved. Thus, even funds which have been exclusively allocated to stimulate de economy, or to counter the current financial crisis, have not been spent according to plan. Only 16 % of approved spending for building, refurbishing and maintaining highways (roughly 28 billion dollars) have been used in the first quarter of 2009, despite increasing criticism from private business organizations demanding more public spending to weather the financial crisis.[42]

Oversight procedures –as all those mandated by the Ministry of Public Service- have become so complex and contradictory that they slow down or seriously obstruct the potential to undertake investment and productive spending, without really controlling current discretionary spending and corruption.

The public agencies which played such a fundamental role in mobilizing resources during the period of the so called stabilizing development have either disappeared (Banrural, Banco Mexicano Somex, Inmecafé), have no clear purpose (Nafinsa and Bancomext),[43] or have no planning or executive capacity (Secretaría de Economía)[44] to orient ordinary and extraordinary income to create infrastructure, jobs, human capital and R&D.

Industrial facilities and financial agencies have disappeared, engineers, technical cadres and experts in *Pemex, Bancomext* and *Nafinsa* have been fired or retired before their due time wasting valuable human capital accumulated during many years, all of which shows lack of planning capacity to revise and redefine objectives. As Francisco Suárez Dávila, ex public officer and ex legislator, recently pointed out, the functions of Nacional Financiera (*Nafin*), the development bank which contributed to diversify de economy in the 1960s and 1970s are increasingly limited to giving liquidity to firms, and more recently to bail out large

[42] Claudio X González Laporte, president of del Consejo Mexicano de Hombres de Negocios (CMHN) censures the government and legislative for lacking continuity and profoundness in their actions (*El Financiero*, 3 March 2009).

[43] Nafinsa contributed to the creation of several Basic industries, such as steel, copper, fertilizers: it supported the development of infrastructure, the electric industry. Bancomext was the main vehicle to promote exports.

[44] According to Francisco Suárez Dávila, the Fund for the Small and Medium Size Firm (Fondo Pyme), which is run by Ministry of the Economy is an aberration because it has no rules or mechanisms to recover funds which end up as hand-outs, exacerbating clientelism, often with political purposes. This is a kind of fund which is not found any where in the world which should be incorporated in Nafinsa. (*La Jornada*, 18-January-2008).

corporations affected by the financial crisis (such as Cemex and Comercial Mexicana). *Bancomext*, the development bank whose main function was to promote exports has been dismantled, even when Mexico has become the Latin American country with the largest number of trade agreements. Thus, 230 specialists from this bank risk being displaced to *ProMéxico,* an agency created in 2007 to promote FDI. According to Suárez Dávila, that decision would not only counter legal dispositions regarding the purpose of *Bancomext,* but it would seriously limit both, FDI and export promotion. Thus, "When we try to account for low economic growth the answer is to be found in the abandonment of development banks," says Suarez Dávila (*La Jornada*, 18-January-2008), who was Undersecretary of Finance, director of Banco Mexicano Somex; Banco Obrero, Nacional Financiera, among other posts in the state banking system, and also one of the members of the political elite displaced from the state apparatus for not sharing market-centered development strategies.

In short, the Mexican state has wasted or mishandled enormous resources in the past decade because ruling elites have not been able to realign previous development agencies, to create new planning and regulatory capacities, to stimulate competition, productivity and competitiveness.

Basis of support and opposition: Neoliberal and developmental alliances

In the past 25 years public officials committed to developmental strategies have gradually been displaced to agencies or organizations not directly involved in policy making. In addition, engagement in NAFTA, in particular, almost completely wiped out all spaces and capacities for development in the state apparatus, driving support for development strategies to the fringes (state universities, independent organizations, foundations, left wing parties and organizations).

The bold and more independent mind-set characterizing developmental elites from the 1950s to the 1970s is a stark contrast with the more mediocre approach of political *elites* today, which is particularly noticeable when the need to reform NAFTA is considered. The idea of renegotiating NAFTA alone, seems to frighten Mexican political elites who fear Mexico has more to loose. Thus, Javier Lozano, Secretary of Labor and Social Provision recently discarded renegotiating the Agricultural Chapter of NAFTA because, in his view, the country might be affected since the US may want to revise other chapters that have benefitted México (*La Jornada*, 2-February-2008). In a similar vein, Santiago Creel, coordinator of the PAN fraction in the Senate, strongly opposed the idea of revising the Agricultural Chapter because it would entail giving up to US requests.[45] Also telling in this respect was a recent debate on a TV program (*Espiral, 27-April-2009)* where state economic policies to help the car industry weather the crisis were discussed and where Lorenza Martínez Tigueros, Undersecretary of Industry and Commerce, defended the measures implemented by the government along the productive chain but vehemently opposed all those options contravening NAFTA, even when she acknowledged the US had breached since the very beginning the Agreement in the transport of merchandise across the border.

State agencies that still have some developmental functions in Mexico are headed by elites closely linked to private interests. As can be seen in Table 3, the developmental banks *Nafinsa* and *Bancomext* are both presided over by Héctor Rangel Domene who has been in the past decades closely linked to powerful financial interests, national and international. He was Chief Executive Officer of *Bancomer* after it was privatized in the early 1990s and he was confirmed in this position when the bank was taken over by the Spanish group BBVA. From 2000 to 2002 he presided over the Mexican Banking Association (ABM), from 2002 to 2004 over the peak business association CCE and from 2007 to 2008 over the most important private sector think tank (CEESP). He has been director of several boards of large corporations, particularly from Monterrey (for instance, Gruma and IMSA). As President of CCE in 2003 he actively participated in workshops geared to the formation of the Alliance for Security and Prosperity in North America (ASPNA) the main objective of which was to deepen NAFTA, set up by 2010 a common market and a security perimeter.

The Ministry of Economy (Secretaría de Economía) is presided over by Gerardo Ruiz Mateos whose only asset is being a close friend of President Felipe Calderon. Several political analysts have pointed at his lack of experience and at a very ordinary trajectory. Top positions in Social Christian associations, which have been founded and are run by large business, notably USEM, Fundación Mexicana para el Desarrollo Rural and IPADE reveal close connections to private interests and ideological affiliations with a philanthropic, aid-oriented view of development strategies, focused on poverty alleviation.

As has been mentioned before, *Promexico* which was created in 2007 has been absorbing some of the functions previously held by *Bancomext*. This agency is in charge of Bruno

[45] See: (http://www.proceso.com.mx/noticia.html?nta=56868)

Ferrari who is also a close friend of FCH (both attended the same university) with very little experience in the tasks he has to undertake.

TABLE 3 AGENCIES AND OFFICERS CONCENTRATING DEVELOPMENTAL FUNCTIONS				
DIRECTOR	AGENCY	UNIVERSITY	Public posts	Private posts
Héctor Rangel	Nafinsa and Bancomext	Purdue Stanford	Somex Pemex	Citibank Bancomer ABM CCE CEESP Gruma Board IMSA Board Consultoría
Bruno Ferrari	Promexico	Escuela Libre de Derecho Holy Cross	SRE	Grupo Pulsar Geminis
Gerardo Ruiz Mateos	Ministry of the Economy	ITESM IPADE	Campaña FCH Coordinador de Gabinete	Director FunRural and USEM

While public officials controlling the main public developmental agencies still in place have no clear purpose to articulate industrialization plans or development projects, create public goods and spill over effects on several areas of the economy, former public officials, such as David Ibarra, Francisco Suárez Dávila, Fernando Solana, Jesús Silva Herzog and Carlos Tello Macías, with a much clearer idea as to the way forward in order to return to a developmental path, have been increasingly marginalized from the state apparatus since Salinas Administration. However, they undoubtedly represent a source of know-how and experience in this respect.

After Cuauhtémoc Cárdenas, Porfirio Muñoz Ledo, Ifigenia Martínez and other members of the PRI who did not endorse Salinas' views and strategies left this party in 1988, a process of restructuring of the state apparatus led to an increasingly greater marginalization of public elites having a critical stand on the Neoliberal project of development. Some of them –particularly, Cuauhtémoc Cárdenas, Porfirio Muñoz Ledo and Ifigenia Martínez- participated in the construction of a left wing party –the PRD- while others retreated to legislative functions (Fernando Solana and Francisco Suárez Dávila), public universities and international organizations (Carlos Tello Macías and David Ibarra Muñoz), political institutes (Fundación Colossio) and independent associations (Comexi). From all of these organizations they have become increasingly engaged in recent discussions and proposals regarding the privatization of Pemex, the state of developmental agencies, the situation in the banking system, strategies and counter cyclical policies to meet the financial crisis and other national problems.

Thus, Francisco Suárez Dávila, David Ibarra, Manuel Bartlett, Carlos Tellez and Jesús Silva Herzog regret foreign control of Banks because they do not finance productive activities and charge high commissions. In particular, David Ibarra Muñoz, former Ministry of Finance has strongly criticized banks in different forums because they do not give credit to productive activities (only to consumption and mortgages) failing to meet their most important role in the economy. He also objects to a strategy relying on high interests and commissions which allows banks to sustain and encourage large bad loan portfolios (*La Jornada*, 23 January-2008). He also disapproves a social policy which is completely disarticulated from economic policy because it hinders the integration of the labor force to formal economic activities, reproducing marginality and poverty. He urges the need to articulate an industrial policy because 'we are unlearning to produce', as the country has lost 30 to 40% of the textile industry, 100% of the toy industry and almost all the capital goods industry. In his view, "Government response to the social mess has been ideologically biased or simply reactive" (*Universal*, 16 May 2009).

Along the same guidelines, Francisco Suarez Davila suggests to overhaul internal engines which have broken down. He argues that engineering, project evaluation and execution capacities have been lost leading to an extremely mediocre economic performance, the lowest growth throughout Latin America and most emerging markets, in large part because banks no longer lend to productive activities.

Fundación Colossio (a research center created by PRI) recently organized a Forum about the present financial crisis, its consequences and the best way out. While Isaac Katz, an economist heading the Economics Department at ITAM, contended the crisis was a short-term crisis, Jesús Silva Herzog and David Ibarra Muñoz argued it was the most sever crisis since 1929, a structural long-term crisis which will require profound counter-cyclical policies. It is a structural crisis because, in their view, it affects the whole mode of operation of the economy and recovery will be a slow and painful process. Furthermore, Luis Antonio

Godina, former president of Fundación Colossio, underestimated the instruments the state has offered so far. While Mexico remains tied to neoliberal precepts, he said, the state becomes and increasingly active force throughout the capitalist world.

Concluding remarks

Reforms to construct a regulatory state stem from problems accumulated throughout the 1970's and 1980's, but the changes undergone in the last two decades can be better understood in the light of realignments and contradictions of forces both within the state – between public officers resisting or promoting reforms- and in the national, regional and international context. Financial crisis experienced in the 1980's and 1990's in the great majority of developing countries speed processes of reform, in particular privatization, deregulation, financial and commercial liberalization all of which lead to regulatory state institutions. NAFTA and other trade agreements accelerate and deepen such reforms.

Mexico adopts in this way the guidelines stemming from a regulatory state. Widespread privatization takes place and a general retreat of the state to overseeing, supervising and monitoring procedures and standards in different areas. Autonomous agencies are increasingly common, not only in the economic sphere (Banco de Mexico, CNBV, Cofetel, Condusef) but also in social spheres (human rights). However, elites cannot profit from the opportunities offered by this transition because they lack a sense of purpose, a long term national project capable of unifying its different components (political, economic and intellectual elites), the state apparatus and reconstituting planning and development capacities seriously weakened throughout 25 years of Neoliberal administrations. Consequently, an increasingly predatory orientation of the Mexican state affects processes of privatization and prevents public agencies from becoming truly autonomous. Furthermore, in the absence of such strategic vision, Mexico cannot take full advantage of the possibilities available within the frameworks of the WTO and OECD, which still allow indirect interventions, such as incentives in activities with high scientific and technological contents, funding high risk ventures in technological development, government procurement, financing and infrastructure for export orientated activities. Though it is argued the Mexican state lacks the resources to undertake these interventions, what it really lacks are the institutional capacities to mobilize available ordinary and extraordinary resources to all these fundamental areas. Extraordinary resources from oil revenue and remittances are squandered or deviated to different forms of corruption. As a result, Mexico falls behind in productivity, competitiveness and R&D. In addition, Mexican elites trade away policy space for access to the American market eroding significantly the capacity to experiment new options of development. Last, the absence of a national project to respond to the new context of globalization leads the state to delegate fundamental responsibilities –in education, health and planning- on economic elites, philanthropic institutions, regional and international organizations.

The coalition switching in the 1980's the policy paradigm from a developmental, nationalistic, protectionist paradigm to a Neoliberal, outward looking paradigm was a top-down effort involving organizations, universities, intellectuals, journalists, public officers and business associations. On the contrary, the main thrust for a comeback to a developmental state in Mexico may have to come –as in other countries in Latin America- from the bottom-up for two reasons: on the one hand, the increasingly greater discontent and social instability, and on the other, the marginal situation of those elites most deeply committed to the set of principles associated to a developmental state.

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