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Source: *International Organization*, Vol. 39, No. 4 (Autumn, 1985), pp. 667-697

Published by: The MIT Press

Stable URL: <http://www.jstor.org/stable/2706719>

Accessed: 22/02/2010 10:52

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Explaining choice of development strategies: suggestions from Mexico, 1970-1982

David R. Mares

Development, which encompasses both a structural transformation of a nation's economy and an increase in the social welfare of its population, requires choice. There is more than one route to modernity, as Gershenkron, Moore, and Cardoso, and many others have noted.¹ The paths that countries take depend upon policy choices that shape development strategies. How should we explain choices in development strategies?

The spectrum of possible alternatives is broad, but at the poles we can distinguish two general strategic tendencies. National economic strategy may be outward- or inward-oriented: it may respond quite directly to international market forces, or it may insulate the domestic economy to a greater or lesser degree from them.²

Within each of these two broad categories, many forms are possible. Import-substitution industrialization (ISI), for example, is an inward-oriented strategy but with a very important external constraint, a foreign-exchange bottleneck that threatens the nation's ability to import the goods necessary for growth.³

I thank Nathaniel Beck, Peter F. Cowhey, Jorge Espinosa de los Reyes Dávila, Jane Milner-Mares, the editors of *IO*, and in particular Peter A. Gourevitch and David D. Laitin for helpful comments. Partial support for this research came from the Latin American Program of the Woodrow Wilson Center and the University of California Consortium on Mexico & the United States.

1. Alexander Gershenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Harvard University Press, 1962); Barrington Moore, Jr., *Social Origins of Dictatorship and Democracy* (Boston: Beacon, 1966); and Fernando Henrique Cardoso and Enzo Faletto, *Dependency and Development in Latin America* (Berkeley: University of California Press, 1979).

2. Bela Balassa, *The Newly Industrializing Countries in the World Economy* (Elmsford, N. Y.: Pergamon, 1981), essay 1.

3. For a discussion of ISI and its problems, see Ian Little et al., *Industry and Trade in Some Developing Countries* (London: Oxford University Press, 1970); Werner Baer, "Import Substitution and Industrialization in Latin America: Experiences and Interpretations," *Latin American Research Review* 7 (Spring 1972), pp. 95-122; Joseph Grunwald, "Some Reflections on Latin American Industrial Policy," *Journal of Political Economy* 78 (August 1970), pp. 826-56; the special issue of *World Development* 5, 1-2 (1977) devoted to Latin America in the post-ISI era; and Albert O. Hirschman, "The Political Economy of Import-Substituting Industrialization in Latin America," *Quarterly Journal of Economics* 82 (February 1968), pp. 2-32, which emphasizes the sociopolitical obstacles to the continued success of ISI.

There are a variety of ways (not mutually exclusive) to deal with ISI's tendency to require increasing imports. First, a country can decrease its need to import by deepening the import-substitution process (as did Mexico and Brazil in the 1960s) or by slowing growth (as Colombia did in the late 1970s).⁴ Second, a country can increase its ability to pay for the required imports: the value of exports may be increased through unit price rises, expansion of traditional exports, or stimulation of diversified nontraditional exports. The commodity price boom of the early 1970s, Mexico's expansion of winter vegetable exports, and Colombian textile exports are examples.⁵ Finally, a country can finance its import needs through foreign investment via debt or equity.⁶

The existence of so wide a range of development strategies, as well as the conditions of economic crisis that affect most of the South, require us to examine the politics of development strategy. Economists have undertaken several comparative studies of economic policy in the developing world.⁷ The literature is, however, sparse with respect to comparative analysis of the political processes by which such policies are adopted.⁸ Analysis of domestic and international macroeconomic policy making in the industrialized countries, by contrast, is currently very popular. It should provide suggestions about how to proceed in the analysis of Southern strategies.

The question of who makes the choices has to be posed at two levels: the

4. René Villarreal, "The Policy of Import-Substituting Industrialization, 1929-1975," in José Luis Reyna and Richard S. Weinert, eds., *Authoritarianism in Mexico* (Philadelphia: ISHI, 1977), pp. 67-107, for Mexico; Werner Baer, *The Brazilian Economy*, 2d ed. (New York: Praeger, 1983), for Brazil. For Colombia see Balassa, *Newly Industrializing Countries*; Albert Berry and Francisco Thouni, "Import Substitution and Beyond: Colombia," *World Development* 5, 1-2 (1977), pp. 89-109; and David Morawetz, *Why the Emperor's New Clothes Are Not Made in Colombia* (New York: Oxford University Press, 1981).

5. See, respectively, Barry P. Bosworth and Robert Z. Lawrence, *Commodity Prices and the New Inflation* (Washington, D.C.: Brookings, 1982); David R. Mares, "Agricultural Trade: Domestic Interests and Transnational Relations," in Jorge I. Domínguez, ed., *Mexico's Political Economy* (Beverly Hills: Sage, 1982), pp. 79-132, and Morawetz, *The Emperor's New Clothes*.

6. Benjamin J. Cohen, *Banks and the Balance of Payments* (Montclair, N.J.: Allanheld, Osmun, 1981); Charles Lipson, "The International Organization of Third World Debt," *International Organization* 35 (Autumn 1981), pp. 603-31; Jeff Freiden, "Third World Indebted Industrialization: International Finance and State Capital in Mexico, Brazil, Algeria, and South Korea," *ibid.* 35 (Summer 1981), pp. 407-31; and Balassa, *Newly Industrializing Countries*, pp. 52-53.

7. Little et al., *Industry and Trade*; Balassa, *Newly Industrializing Countries*; William R. Cline and Sidney Weintraub, eds., *Economic Stabilization in Developing Countries* (Washington, D.C.: Brookings, 1981); Rosemary Thorp and Lawrence Whitehead, eds., *Inflation and Stabilization in Latin America* (New York: Holmes & Meier, 1979); Keith Griffin, *The Political Economy of Agrarian Change* (Cambridge: Harvard University Press, 1974).

8. This is perhaps best explained by the domination of two models in the analysis of Latin American political economies, bureaucratic-authoritarianism and dependency. Initially, they provided very important critiques of modernization theorists and "developmentalists." But their alternative explanatory power waned as evidence surfaced to dispute the models' economic underpinnings. On bureaucratic-authoritarianism see David Collier, ed., *The New Authoritarianism in Latin America* (Princeton: Princeton University Press, 1979); on dependency see Theodore H. Moran, *Multinational Corporations and the Politics of Dependence* (Princeton: Princeton University Press, 1974).

first is, who defines the limits of choice; the second, who makes decisions within those limits. The unequal distribution of power in the international political economy places constraints on the behavior of Third World countries vis-à-vis the industrialized countries. These constraints can be political or economic. In political terms, for example, the United States does not intervene when France elects a Socialist president but does when Chile's democratic process produces a Socialist chief of state.⁹ In economic terms, international markets constrain choices by placing high costs on inefficient strategies. The international political economy is also a factor in a more indirect way, by influencing the distribution of economic power in the domestic economy.¹⁰

Some of the more radical interpreters of international political economy, particularly within the dependency perspective, believe that international forces set very narrow limits on Third World choices. Consider, for example, a country faced with a balance-of-payments problem that arises from the need to import intermediate and capital goods until import substitution is completed. The country can theoretically confront its balance-of-payments gap by combining an increase in the value of its exports (through increases in volume or unit prices) and some type of compensatory finance from countries with trade surpluses (such financial flows may come directly or through multilateral institutions). The industrialized countries that dominate international financial institutions and possess lucrative markets oppose this strategy, however, because it would strengthen the developing economies. In response to trade diversification and expansion in the Third World they construct nontariff barriers and use the International Monetary Fund (IMF) to subvert economic nationalism and open Third World economies even further.¹¹

This picture of international relations contains some important truths, but on the whole it is false. Since at least the 1960s the international political economy has been receptive to trade expansion by the Third World and to financing of balance-of-payments constraints. Even after the oil shock of 1973 and the recession in OECD countries the "Gang of Four" (Hong Kong, Taiwan, South Korea, and Singapore) was able to increase manufactured exports to regain their previous growth rates.¹² Western Europe and the United States also increased preferential treatment for imports from devel-

9. Allende faced internal problems, of course, but the U.S. economic boycott and covert activity were fundamental to his overthrow.

10. Peter A. Gourevitch, "The Second Image Reversed: International Sources of Domestic Politics," *International Organization* 32 (Autumn 1978), pp. 881-912.

11. On the threat of nontariff barriers and neoprotectionism see Baer, "Import Substitution," and René Villarreal, "Proteccionismo industrial, fomento a las exportaciones y el nuevo GATT de los 80's," *Economista Mexicano* 14 (January-February 1980), pp. 32-46; for criticisms of the IMF strategy, see Villarreal, *La Contrarrevolucion Monetaria* (Mexico, D.F.: Oceano, 1983); Cheryl Payer, *The Debt Trap* (Harmondsworth: Penguin, 1974).

12. Bela Balassa, "The Newly Industrializing Countries after the Oil Crisis," in Belassa, *Newly Industrializing Countries*, pp. 29-81.

oping countries.¹³ The rise of the Eurocurrency market brought private banks into the picture, offering loans with virtually no regard as to use. Even the IMF began to recognize the need for longer-term adjustment assistance.¹⁴ And in at least one case, Singapore, direct foreign investment proved fundamental in overcoming balance-of-payments difficulties arising from the 1973 oil shock.¹⁵

The limits that the international political economy sets on choice are broad, even for Third World countries. Today international political constraints affect only those strategies dependent upon territorial acquisition or implemented by leaderships that the United States defines as Marxist-oriented. Economic constraints are more pervasive, but even they allow a great latitude of choice. In the case of the expansion of the international capital markets and the newly industrializing countries, for example, some countries did not rely on the market (Singapore, Hong Kong, Taiwan, and Colombia); those that used it extensively did not use it for the same purposes (Brazil to finance the 1973 oil shock, Mexico to push growth to historic highs); and others pulled back in time to prevent their debts from transforming a short-term liquidity problem to a solvency problem (South Korea and Venezuela).

What national variables might explain the different responses among countries and the changes within countries? The literature on the politics of economic policy suggests three major forces that will determine choice: dominant social coalition, state, and ideology.

In one sophisticated treatment of the social coalition approach Peter Gourevitch identifies actors by economic sector: agriculture, industry, and labor, with domestically and internationally oriented variants.¹⁶ A sector's policy preference, and hence its political behavior, is determined by its "situation." Though situation is the product of various elements, Gourevitch emphasizes location in the international division of labor.¹⁷ His approach is eclectic with regard to what influences the situation of a sector, but his work ultimately concentrates on how sectors line up on a particular policy.

The statist approach to foreign policy, by contrast, disputes the primacy of interest groups. It holds that the state (understood as the decision makers central to the particular issue-area) has an interest independent of particular societal forces. The degree of its policy independence depends upon the

13. Tracy Murray, *Trade Preferences for Developing Countries* (New York: Wiley, 1977); the author points out, however, that the GSP has not done enough for the majority of developing countries.

14. Raymond R. Mikesell, "Appraising IMF Conditionality: Too Loose, Too Tight, or Just Right?" in John Williamson, ed., *IMF Conditionality* (Washington: Institute for International Economics, 1983), pp. 48–49.

15. Balassa, *Newly Industrializing Countries*, essay 2, pp. 52–53.

16. Peter A. Gourevitch, "International Trade, Domestic Coalitions and Liberty: Comparative Responses to the Crisis of 1873–1896," *Journal of Interdisciplinary History* 8 (Autumn 1977), pp. 281–313, and "Breaking with Orthodoxy: The Politics of Economic Policy Responses to the Depression of the 1930s," *International Organization* 38 (Winter 1983), pp. 95–129.

17. Gourevitch, "Breaking with Orthodoxy," pp. 97–99.

resources that state elites can deploy to overcome resistance.¹⁸ These resources can be of an economic nature, such as control over the domestic financial system, or they can be part of the structure of the political regime itself, as in corporatist institutions.¹⁹ The terms of this complex interaction between state and society evolve through a country's political development.²⁰ In this approach, whatever the historical source of state strength and autonomy, one focuses on the policy preferences of state elites and elites' ability to marginalize or channel societal preferences.

Analysts dealing with economic policy in developing countries need to be sensitive to the influence of domestic structure in deciding whether an interest-group approach, a statist approach, or some combination best explains choices in a particular country. In political systems where the short-term accountability of the political elite is low while its access to society's resources is high, such as those of an authoritarian-corporatist nature, a statist approach may be useful.²¹ Its use does not imply that policy makers can completely ignore societal forces and preferences, however, for societal forces will influence the costs of the policy options from which state elites choose. In capitalist countries the holders of wealth will be particularly influential. But in a state-dominated political system, as the Mexican case demonstrates, societal influences will not determine choices in development policy. The state in such systems therefore possesses great latitude both in shaping and in responding to those interests.

Analysts who recognize that the international political economy determines a range of options but reject the determination of choice by interest groups must account in some other way for the policy preferences of state decision makers. Obviously, self-preservation (preservation both of one's own position and of the system) will carry a good deal of weight. But how does the policy maker interpret reality and decide on the policies necessary for stability? At this point ideology becomes a fundamental part of the explanation of policy choice. As recent studies have shown, ideas have an independent power in the decision to make war, in the formulation of international monetary and commercial policy, and in the making of domestic policy.²²

18. Stephen D. Krasner, *Defending the National Interest* (Princeton: Princeton University Press, 1978).

19. Cf. John Zysman, *Governments, Markets and Growth* (Ithaca: Cornell University Press, 1983); Philippe C. Schmitter, "Still the Century of Corporatism?" *Review of Politics* 36 (January 1974); Alfred Stepan, *The State and Society: Peru in Comparative Perspective* (Princeton: Princeton University Press, 1978).

20. Peter J. Katzenstein, ed., *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: University of Wisconsin Press, 1978); see especially his concluding essay.

21. See the collection of essays in James Malloy, ed., *Authoritarianism and Corporatism in Latin America* (Pittsburgh: University of Pittsburgh Press, 1977).

22. See, respectively, Krasner, *Defending the National Interest*; John S. Odell, *U.S. International Monetary Policy* (Princeton: Princeton University Press, 1983), and Stephen D. Krasner, "U.S. Commercial and Monetary Policy: Unravelling the Paradox of External Strength and Internal Weakness," in Katzenstein, *Between Power and Plenty*, pp. 51-87; and Albert O. Hirschman, "The Turn to Authoritarianism in Latin America and the Search for Its Economic Determinants," in Collier, *Bureaucratic Authoritarianism*, pp. 61-98.

In this article I seek to illuminate the politics of the transition between development strategies through an analysis of Mexico. From the 1940s to 1970 Mexican development was based upon an import-substitution strategy partially supported by revenues generated through tourism and the export of primary products. By the late 1960s the distribution of wealth within the country and the trade costs of that strategy had begun to undermine the country's development. Since then Mexico has attempted to shift economic policy. A fundamental component of its new development strategy has been to diversify exports to sustain, rather than replace, ISI. Three Mexican presidents have announced their intention to pursue this new strategy, on four separate occasions (in 1970, 1975, 1977, and 1982). The first three times it was abandoned; it is too early to tell about the fourth.

Mexico failed to make the transition from one strategy to the other. Because the new strategy emphasized exports, we can focus on trade policy to illustrate *why* it failed, using the three major theoretical perspectives sketched above.²³ In authoritarian Mexico the state has sufficient power to place the statist argument at the center of analysis. Ideology constitutes a fundamental intervening variable. Mexican leaders perceive that the best way to minimize the country's vulnerability to disturbances in the international political economy is, as far as possible, to insulate the domestic political economy. Diversifying exports, on the other hand, requires greater efficiency in the domestic economy in order to integrate it more fully into the international market. Thus when an alternative means for meeting the ISI foreign-exchange bottleneck presents itself, the strategy of diversification falls victim. In this formulation domestic social coalitions and the international political economy both impose costs associated with each policy choice—costs insufficient, however, to determine state choice.

I start by examining the interaction between Mexico's dominant coalition, which has seen shifts in its internal balance of power after 1940 and 1968, and the institutional structure of presidential dominance over the political system. This opening section sets the context for an analysis of the trade and development policies implemented in 1970–1982. The second section examines policy under the Echeverría administration (1970–1976), and the third focuses on that of López Portillo (1976–1982). In both I emphasize how the constraints and opportunities noted in the first section influenced the attempt to make trade policy support diversification of exports. The final

23. Trade policy is an important component of development strategy. During the primary export stage its purpose was to stimulate the competitiveness of national products in the international market. With the turn to ISI its task changed to protecting the domestic market. In the diversified export strategy the task of trade policy becomes more complex, for it must now perform both external and internal functions. The external task is similar to the primary export stage, although more complicated because the export of industrial products is also sought. Internally, its function is to make the domestic economy competitive internationally without destroying the productive plant created by ISI.

section contains some suggestions from the Mexican case for the comparative analysis of the political economy of development strategies.

The political economy of trade and development in Mexico

The IMF, petroleum, and foreign banks

The international political economy is receptive to a variety of development strategies, including export stimulation. But in Mexico's case two influences that originate in the international political economy posed challenges to the country's ability to decide on a development strategy. They were the IMF stabilization program for Mexico, 1976–1979, and the evolution of international markets, specifically the energy and financial markets.

In 1976 Mexico entered into an agreement with the IMF under the Extended Fund and Compensatory Financing Facilities. IMF stabilization is often criticized for weakening a country's productive capacity because of its obsessive short-term focus on inflation and the public-sector deficit. In the Mexican case the agreement with the IMF included some of the standard items, among them reduction of the budget deficit, wage restraint, and a reduction in protection of the domestic economy; overall, however, the package was "not very harsh" by IMF standards and its impact was probably minimal.²⁴ The López Portillo administration had begun its term that same year with the conviction that international competitiveness was necessary and could be attained only through orthodox policies. In addition, Mexico had begun to rationalize trade policy before the IMF agreement came into force.²⁵ Some of these changes temporarily went far beyond IMF requirements while others fell far short, but more generally the interests and beliefs of the López Portillo administration and the IMF initially coincided.²⁶

The second international influence on Mexico relates to its position as an energy exporter. The petroleum bonanza after 1973 suggested that high rates of growth could be sustained without increasing economic efficiency, thereby making the sacrifices of rationalization unnecessary. But energy exports weaken the domestic productive structure by permitting exchange-rate overvaluation and a relaxation of the foreign-exchange bottleneck, thereby making exports more expensive and imports cheaper and more abundant. Mexicans were certainly aware of this possibility, particularly as it pertained to the agricultural sector; often citing the Venezuelan experience, they sought to avoid it.

24. E. V. K. FitzGerald, "Stabilization Policy in Mexico," in Thorp and Whitehead, *Inflation and Stabilization*, p. 51.

25. Sidney Weintraub, "Case Study of Economic Stabilization: Mexico," in Cline and Weintraub, *Economic Stabilization*, p. 286.

26. Lawrence Whitehead, "Mexico from Bust to Boom: A Political Evaluation of the 1976–1979 Stabilization Programme," *World Development* 8 (November 1980), pp. 843–64.

Yet the petroleum boom does not so much explain programs within the Mexican development strategy as provide a mechanism whereby to implement particular programs. For example, earnings from petroleum exports were insufficient to finance the growth rates sought, and Mexico turned increasingly to the international capital markets. But the petroleum boom itself does not tell us why Mexico turned to foreign debt, nor why international bankers were receptive to Mexican needs. Echeverría, before Mexico's petroleum bonanza, had relied upon foreign debt to finance growth. The debt strategies of Brazil and South Korea demonstrate that access to capital markets was possible without petroleum exports, and in addition, not all countries that had access chose to exercise it. The petroleum "explanation" lacks explanatory power.

An emphasis on international markets fails on another fundamental question regarding Mexico's development strategy. By the summer of 1981 it was clear that the international energy market had weakened and financial markets had increasingly turned against borrowers. Floating interest rates were part of the package to shift risk from lenders to borrowers, and increasing spreads as well as interest rates after 1979 should have suggested caution.²⁷ Nevertheless, political leaders continued to borrow short-term for medium- and long-term investments as well as for the support of overvalued exchange rates. That they did so even in the face of massive capital flight indicates that one must look to Mexico's political economy, rather than to events in the international arena, to explain Mexico's choice of strategy.

Mexico's ruling coalition and presidential dominance

The modern Mexican state emerged after almost two decades of revolution, civil war, and military revolts (1910–1929). Out of this turmoil was constructed an elite-centered consensus: it allowed regional strongmen to dominate their areas in return for peace in national politics. Under the presidency of Lázaro Cárdenas (1934–1940) this elite coalition was broadened to include labor and peasants. In addition, the representation of business and industry was formalized through mandatory membership in peak associations. These corporatist organizations not only serve as channels by which societal forces gain access to decision makers, they also permit representatives of the government to influence the content and presentation of societal demands.²⁸

27. Cohen, *Banks and BOP*, pp. 43–47; Lipson, "International Organization of Third World Debt."

28. Standard works on Mexico's political economy include Frank Brandenburg, *The Making of Modern Mexico* (Englewood Cliffs, N.J.: Prentice-Hall, 1964); Raymond Vernon, *The Dilemma of Mexico's Development* (Cambridge: Harvard University Press, 1963); Clark Reynolds, *The Mexican Economy* (New Haven: Yale University Press, 1970); Roger D. Hansen, *The Politics of Mexican Development* (Baltimore: Johns Hopkins University Press, 1971); and Susan Kaufman Purcell and John F. H. Purcell, "State and Society: Must a Stable Polity Be Institutionalized?" *World Politics* 32 (January 1980).

These broader alliances were constructed on the basis of material and ideological interests. Peasants were given land reform, and the urban industrial labor force support for organization and strikes. Entrepreneurs got state subsidies for their enterprises through import protection and below-cost sales of inputs produced by state-owned enterprises, as well as control over labor and peasant demands for a more equitable distribution of the benefits of economic growth.

The ideological principles of the Revolution, chief among them social justice and national sovereignty, have been fundamental to the longevity of the coalition. Despite some measure of land reform and profit sharing, wealth is more highly concentrated in Mexico than in other developing countries. Nevertheless, the public continues to believe both in the goal of social justice and that it is attainable within the bounds of the present system.²⁹ Analysts give land reform considerable credit for this perception in the countryside, and land reform is still held sacrosanct despite its contributions to deteriorating conditions in Mexican agriculture. Poor economic performance, therefore, is not sufficient to jettison programs associated with ideological positions; history and contemporary politics seem to ensure their survival.

Mexicans similarly operationalize the principle of national sovereignty. The history of foreign domination is strong in Mexico: three centuries of Spanish colonialism ended only after a thirteen-year struggle (1810–1823); French troops occupied the country in support of the emperor Maximilian in the mid-19th century; and the United States invaded Mexico three times (1846, 1914, and 1916), seizing half of its territory after the initial incursion. The Mexican Revolution of 1910 embodied a xenophobic reaction to that domination and installed the search for national self-determination as an integral part of the national psyche. It is in this context that we must remember one of the attractions of import-substitution industrialization everywhere: it promised to insulate the domestic economy from much of the international fluctuations to which developing countries were especially vulnerable. In practice ISI merely transferred the vulnerability of the domestic economy from the export to the import side. However, its initial successes led policy makers to perceive autonomous national development as a goal not only desirable but also, with the correct state policies, attainable.³⁰

The Mexican ruling coalition has been extraordinarily stable since 1934. It has included all of the major groups in Mexican society. Some key bargains struck among the leaders of these groups ensure that all will continue to perceive their interest in remaining within the coalition. Two domestic political bargains are of particular interest. The first involves support for the system even in the face of short-run losses, because of a guarantee of compensation

29. Gabriel A. Almond and Sidney Verba, *The Civic Culture* (Boston: Little, Brown, 1965).

30. Hirschman, "Turn to Authoritarianism in Latin America," 65–68, makes a similar argument.

in the long run. The second involves joining an alliance for economic growth to produce the benefits that will allow peaceful distribution from an expanding pie.³¹

Although the ruling coalition includes all important social groups, the distribution of influence within the coalition varies. What determines variation is the need for the coalition to respond to pressures that build under the pattern of economic growth as well as the authoritarian nature of the political system.

Mexican political institutions have played important roles in influencing group mobilization and intergroup conflicts.³² Because Mexico was a late industrializer, the state took an active role in the economy, and a number of elements combined to give the state an important degree of autonomy from social pressures in its policy making.³³ (One could say that the ruling coalition gave the state these powers, but the important point is that these powers help insulate policy makers from immediate social pressures.) The single-term presidency was a demand of the Mexican Revolution as a response to electoral manipulation by the Porfirian dictatorship. One result has been that office holders escape electoral constraints on their behavior. In addition, presidential dominance over the political apparatus is nearly complete for five years (once his successor is chosen, a year before taking office, the president becomes a lame duck). Congress does the president's bidding (rejection of a president's proposals is unheard of, and even modification is rare); the judiciary generally follows the president's lead; and most major political posts (governorships and party offices) are selected by the president. Even the opposition respects the office: incumbent presidents are rarely criticized by name, their ministers usually being blamed for misinterpreting or misleading the president. The dominant party uses the finances and other resources of the government, all major office holders are members of the party, and the electoral machinery is controlled from the center.

Mexico's political economy gives the president many tools that increase his leeway to formulate and, as we shall see, even implement policy. Obviously, his freedom of action is not unlimited, but the constraints on his policy-making ability are significantly underdetermining. We must be sensitive to the interaction between the demands of the dominant social coalition and the preferences of the current Mexican president.

From 1934 to 1940 President Lázaro Cárdenas emphasized nationalism

31. See Jorge I. Domínguez, "Introduction," in Domínguez, *Mexico's Political Economy*, pp. 10–11; and Purcell and Purcell, "State and Society."

32. For a similar argument about the United States, see Theda Skocpol, "Political Response to Capitalist Crisis: Neo-Marxist Theories of the State and the Case of the New Deal" *Politics and Society* 10, 2 (1980), pp. 155–201.

33. Douglas Bennett and Kenneth Sharpe draw upon Gershenkron, *Economic Backwardness*, and Hirschman, "Political Economy of ISI," in "The State as Banker and Entrepreneur: The Last Resort Character of the Mexican State's Economic Intervention, 1917–1970," in Sylvia A. Hewlett and Richard Weinert, eds., *Brazil and Mexico* (Philadelphia: ISHI, 1982).

and distribution of economic resources. Labor and peasants found their influence within the ruling coalition at its height. By 1940, however, the emphasis had changed to economic growth based on import-substitution industrialization. As a result influence within the ruling coalition shifted from labor and peasant sectors to large-scale domestic and foreign capital. Small-scale Mexican manufacturers for the domestic market also found their influence waning in the 1940s as heavy industry and foreign capital began to dominate the import-substitution development strategy; they were given protection but the dynamic sectors of the economy were increasingly out of their hands. The urban middle classes also found their democratic aspirations increasingly marginalized. These shifts were not frictionless: there were major strikes in the late 1940s and 1950s, land invasions in the late 1950s, and serious electoral attempts in 1940 and 1952 to create a new ruling coalition. The dominant coalition met the challenge through electoral fraud, repression, cooptation, and the distribution of some benefits.

The alliance among industrialists, finance capitalists, farmers, direct foreign investors, and fiscal conservatives in the bureaucracy ushered in a new stage of ISI. Known as "Stabilizing Development," this new stage emphasized wage restraint, increased transfers from the agricultural to the industrial sector, and a close watch over state expenditures. Its political counterpart resulted in the ouster of reformers in 1965 and the reestablishment of control from the top.³⁴

Revitalization of the inward strategy, 1970–1976

By 1970 Stabilizing Development and the existing balance in the ruling coalition were presenting political elites with serious problems. After a decade of relative price stability, limited imports (5% of total supplies of consumer goods, 22% of intermediate goods, 50% of capital goods), and growth of 6 percent per annum in gross domestic product (GDP), external and internal constraints began to threaten continued growth.³⁵ Agriculture and tourism were among the chief generators of foreign exchange (foreign debt played a small though increasing role), but agriculture was beginning to suffer the consequences of years of policy bias in favor of the urban industrial sector.³⁶ As agriculture stagnated and the demand for foreign exchange grew with the

34. On Stabilizing Development see René Villarreal, *El desequilibrio externo en la industrialización de México (1929–1975)* (Mexico: Fondo de Cultura Económica, 1976); Leopoldo Solís, *Economic Policy Reform in Mexico* (Elmsford, N.Y.: Pergamon, 1981); Carlos Tello, *La política económica en México, 1970–1976* (Mexico: Siglo XXI, 1979); FitzGerald, "Stabilization Policy"; Weintraub, "Case Study"; and Whitehead, "Mexico from Bust to Boom."

35. Villarreal, *El desequilibrio*, p. 72.

36. The bias against agriculture tends to accompany all ISI strategies; cf. Bruce F. Johnston and William C. Clark, *Redesigning Rural Development* (Baltimore: Johns Hopkins University Press, 1982), pp. 70–115.

economy, the current-account deficit became a serious issue. The 1970 deficit in the current account of more than \$1 billion represented a 50 percent increase over 1969 and triple that of 1966.³⁷

Political elites also confronted a political challenge: the balance in the ruling coalition had become clearly unstable. Partly as a result of the economic situation, but also because of the closed nature of the political system, cohesion in the ruling coalition deteriorated. Of particular concern was the alienation of the middle class. Middle-class representatives had attempted to reform and democratize the Institutional Revolutionary party (PRI), but the expulsion of Carlos Madrazo from the party's presidency in the mid-1960s dashed their hopes. Their children attacked the closed nature of politics through the university, with strikes in 1965 and 1968, the latter brutally suppressed by military force. The need to rely on repression (overseen by Luis Echeverría while minister of the interior) demonstrated a failure of the political system: the preferred tactics, ignore and coopt, had not worked.³⁸

As newly elected president, Luis Echeverría sought to revitalize the alliance by orchestrating a shift in favor of an (Echeverría-led) populist coalition. This coalition was expected to provide support for shifting economic policy to a new development strategy, "Shared Development." It had four pillars: the use of public expenditure to stimulate demand and broaden the domestic market; the fuller use of already installed productive capacity; the deepening of import substitution; and the expansion of diversified exports to help confront the foreign-exchange bottleneck.³⁹

This politicoeconomic project was to have been supported by a shift of influence within the ruling coalition, from the national capital-fiscal conservative-foreign investment alliance to a national populist alliance. The new alliance would include labor, peasants, the middle class, and the national bourgeoisie. They would look to Echeverría for leadership, and they would support his efforts to regain control of the economy and distribute the benefits of growth to all members of the alliance.

The new national-populist alliance was to have been constructed around various "terms of trade."⁴⁰ Labor would receive higher wages and social welfare benefits, as well as democratization of their unions, in return for mobilizing political support behind the president. Peasants were also expected to support Echeverría in return for accelerated land reform, increased social welfare, and expanded public investment in rural infrastructure. The middle class was given an electoral reform that emphasized (as compared with the

37. Villarreal, *El desequilibrio*, p. 110.

38. Bo Anderson and James D. Cockcroft, "Control and Cooptation in Mexican Politics," in James D. Cockcroft, André Gunder Frank, and Dale L. Johnson, *Dependence and Underdevelopment* (Garden City, N.Y.: Anchor, 1972), pp. 219-44.

39. Solís, who was director of planning at the time, *Economic Policy Reform*, pp. 41-43, 57-62; see also Villarreal, *El desequilibrio*, p. 19.

40. The phrase is from Gourevitch, "Breaking with Orthodoxy," p. 98.

parties to the right and left) the PRI's national ideology; the reform was designed to stimulate middle-class participation in the system and rekindle identification with the PRI. Leftist intellectuals were also given direct incentives, including a cabinet ministry, to forgo alignment with incipient guerrilla movements and follow Echeverría. National capital was to get more space in the national economy through the Mexicanization of foreign firms and the transfer of their technology to Mexico. In return, Mexican entrepreneurs were expected to invest in productive rather than speculative enterprises and to accept a major tax reform that would finance the expansion of the state's role in the economy.

Echeverría's national-populist alliance faced problems from the beginning. The president's attempt to maintain control over sectors undermined their solidarity with him. In the case of labor, Echeverría's sponsorship of independent unions was an obvious challenge to the labor boss Fidel Velázquez and his national Confederation of Mexican Workers (CTM), the country's largest union and a pillar of the PRI. Velázquez's veiled threat to the president, that the confederation could act within or outside the constitution in defense of the union's interests, ended the president's flirtation with an independent labor movement.⁴¹

Echeverría also had problems with peasants and the middle class. Peasants, stimulated by the populist rhetoric, began to take land reform into their own hands, threatening not only the rural fraction of Mexican capital but also corporatist organizations in the countryside.⁴² As in the labor case, the president found independent mobilization too threatening to the ruling coalition. He consequently depended upon the traditional corporatist allies of the state to pressure national capital to acquiesce in the new distribution of influence within the alliance. His strategy failed and led to a polarization of Mexican politics. Combined with increasing inflation, it pushed the middle class into an alliance with national capital that opposed Echeverría's development strategy.

The national bourgeoisie was not enticed by the prospect of control of foreign capital. The national bourgeoisie based their opposition upon the direct threats that they perceived in the new economic policy, which relied heavily upon increased state intervention in the economy. Not only were they concerned about competition from state enterprises that did not need to report a profit, but they were also being asked to finance this expansion through tax reforms. Their opposition took the form of decreased investment, rejection of the 1972 tax reform, and capital flight, which became "a serious destabilizing factor" by 1973.⁴³ This response directly challenged Echeverría's

41. I thank Elan Bisberg for bringing this threat to my attention; the politics of the Echeverría period is analyzed at length in David R. Mares, "Agriculture and Dependent Development: Politics in an Evolving Enclave Economy" (Ph.D. diss., Harvard University, 1982).

42. *Ibid.*, chap. 4; Steven Sanderson, *Agrarian Populism and the Mexican State* (Berkeley: University of California Press, 1981).

43. FitzGerald, "Stabilization Policy," p. 42.

TABLE 1. *GDP growth rates by presidential administration (in percent)*

<i>Gustavo Díaz Ordaz</i>		<i>Luis Echeverría</i>		<i>José López Portillo</i>	
1965	6.5%	1971	4.2%	1977	3.4%
1966	6.9	1972	8.4	1978	8.3
1967	6.3	1973	8.4	1979	9.2
1968	8.1	1974	6.1	1980	8.3
1969	6.3	1975	5.6	1981	8.1
1970	6.9	1976	4.2	1982	-0.5

Source. For 1965 to 1981, James W. Wilkie and Stephen Haber, *Statistical Abstract of Latin America*, vol. 22, p. xii, Table 3; for 1982, Banco Nacional de México, *Examen de la situación económica de México* 59 (December 1983), p. 585.

economic policy. It forced him to finance state expenditures through other means but, in the absence of foreign-exchange controls or devaluation, many of those "other means" were actually financing capital flight.

Given this lineup of social forces, one might expect Shared Development to fail. By 1976 the new economic policy had indeed succumbed, amidst debt and political crises; but in terms of economic growth it actually performed well from 1972 to 1975 (see Table 1). Such unexpected success is interesting for two major reasons, one theoretical and the other of more empirical value. First, it might suggest that the identity and policy preferences of the dominant social coalition do not determine economic policy. Second, it might suggest that the costs incurred in the search for alternative sources of development funds were major contributors to the economic crises of 1976 and 1982.

In search of answers let us turn to the response of the Echeverría administration to such formidable domestic opposition. Echeverría had domestic and foreign options and policy tools that allowed him to avoid capitulation to those who opposed his economic policies. Export diversification failed; the new economic policy then concentrated on broadening the domestic market and deepening ISI.

In 1971 export subsidies (CEDIs) were introduced. The level of protectionism in the domestic economy was not altered, however, and overvaluation of the exchange rate was permitted to increase, thereby undermining the impact of the CEDIs. Capital and labor that benefited from ISI would, of course, oppose changes in these two policies, but subsequent Mexican experiences, as well as those of Brazil and Colombia, suggest that a selective reduction in protectionism and multiple exchange rates can mitigate such opposition.⁴⁴ To understand why Echeverría did not adopt such policies, we

44. Financial authorities did fear capital flight if there was a devaluation in 1982. But there were other reasons as well for allowing a progressive overvaluation to occur. Increased inflation would follow a devaluation, at least in the short run. In addition, after two decades of exchange-rate stability devaluation would be seen as a policy failure rather than policy tool. Finally, many of Mexico's exports would not respond to currency depreciation because they were denominated in dollars (e.g., minerals, coffee, petroleum).

need to consult the Mexican ideology of national autonomy and the options that allowed him to implement the new development strategy despite domestic opposition.

The Echeverría administration tried to stimulate diversified exports in order to limit the sensitivity and vulnerability of the national economy to the international political economy. As a result, the national economy was not asked to become efficient in order to compete internationally. Rather, the burden of stimulating Mexican exports was put upon the national treasury (through the payment of subsidies) and other countries, particularly the industrialized ones. To a large degree Echeverría's foreign policy sought to pressure the industrialized countries into agreement on a New International Economic Order (NIEO) because the NIEO implied greater access to lucrative markets at higher prices not through economic but through political mechanisms. The failure of the NIEO meant the failure of this line of attack. Finally, exports themselves received low priority in Shared Development. From 1972 to 1975 economic growth occurred despite a deteriorating trade balance, thereby lessening the pressure to stimulate exports.

By 1975, however, the internal and external weaknesses of the path chosen by Echeverría were threatening the economic program. In January 1975 the diversified export component of Shared Development was suddenly called upon to save the entire project. Rationalization of the structure of protection was begun; this step, while it would increase imports in the short run, promised in the medium run to make exports more competitive as regards cost and quality. The lateness of the policy change doomed it, however. By August of the same year the external disequilibrium was of such a magnitude that the short-run costs were perceived to be too great. Tariffs were increased and all imports became subject to permits. In light of these events liberalization of CEDIs could accomplish little.⁴⁵

What of the central components of Shared Development? Even here Echeverría had options. Direct foreign investment continued to increase until 1975 because the disadvantages of the new rules were outweighed by the attractions of an expanding and protected market. Private foreign banks were willing to supply the capital needed to maintain the parity of the peso and support the expansion of state-owned enterprises, filling the void left by Mexican entrepreneurs. (The number of state-owned enterprises grew dramatically under Echeverría, reaching 845.)⁴⁶ The state was also able to tap domestic savings directly, through its manipulation of the reserve requirements for private bank deposits. These reserves were transferred to the Central Bank, which in turn made them available to the state. Monetary policy further responded, helping to finance a public-sector deficit that rose

45. Villarreal, *El desequilibrio*, pp. 195–97.

46. Wayne A. Cornelius, "The Political Economy of Mexico under De la Madrid: Austerity, Routinized Crisis, and Nascent Recovery," *Mexican Studies/Estudios Mexicanos* (Winter 1985), p. 89.

from an average annual rate of 2.5 percent of GDP in 1965–1970 to 5.7 percent of GDP between 1971 and 1976 (it reached 9.5% in 1976).⁴⁷

While these options and tools increased the ability of the president temporarily to circumvent opposition from within the ruling coalition, they did not guarantee success. To have been successful, the Shared Development strategy would have had to have been scaled down, because it was financed by methods unsustainable in the medium run (or only at a very high political and economic cost): foreign debt, inflation, and direct foreign investment. But Echeverría did not reconsider the scope of his economic policies and pushed these financing methods beyond their limits.

Why did Echeverría decide to pursue his policies beyond what the new sources for financing development allowed? A social coalition analyst would argue that the president was pushed by demands to create employment and distribute benefits for labor and peasants. And certainly those demands had to be addressed, which is why the social coalition must be part of the context of analysis. But *any* strategy would have had to address those demands. There are various ways of meeting them, some more destabilizing than others. The strategy of diversifying exports would have produced more jobs per peso invested because one of Mexico's comparative advantages is obviously its low-wage labor.⁴⁸ In addition, as the strategy reduced the bias in favor of capital and against labor, it would have bettered the distribution of income. Once Echeverría opted for a strategy with low labor absorption per peso invested, he trapped himself.

In 1976 the program of Shared Development collapsed. Private businessmen contributed to the failure, but state policy was equally responsible. The public-sector deficit was fueled by the tenfold expansion of state-owned enterprises, many of which provided services below cost. The financial authorities meanwhile fueled capital flight through currency speculation by continuing to support the peso. In political terms Echeverría's strategy also failed. National capital clearly opposed the president. The ability of the corporatist organizations to undertake controlled mobilization of peasants, long an important factor in political stability, seemed to be eroding.

As Mexico changed presidents, the country had an IMF stabilization program and a political crisis of a magnitude unprecedented in decades. The search began anew for a social coalition and a development strategy that would provide sustainable growth.

47. Weintraub, "Case Study," p. 19.

48. It is often assumed that an export emphasis requires wage repression. Although repression may initially be the case, export success can expand the economic pie, allowing wages to rise. Morawetz, *The Emperor's New Clothes*, shows that wages in the Colombian textile industry were lower than in the East Asian (pp. 82–85). And if our concern is with the quality of life, family income in Brazil in the late 1960s rose as more jobs became available because of the success of export policies.

The shift outward, 1976-1982

President López Portillo inherited two major problems. The economic strategy of his predecessor had failed dramatically, leading the country into inflation, devaluation, capital flight, foreign debt, and an IMF-monitored stabilization program. In political terms Mexico was facing the worst political succession crisis since the Cárdenas years. To confront these challenges the new president tried to revive the battered social coalition that had provided Mexico with both economic growth and political stability. López Portillo sought to mobilize this coalition to support diversification of exports, particularly those from the manufacturing sector. He believed he could use the crisis that he had inherited to force the national economy to become more efficient and internationally competitive.⁴⁹

The revival of the political coalition in support of López Portillo's economic policies amidst economic crisis required that the president emphasize ideological interests and promises of future material benefits. A two-prong strategy was formulated. The new president sought to mobilize social forces behind a national task, the "Alliance for Production," and the marginal sectors of society received limited payoffs (including subsidized basic foodstuffs and increased benefits for the major unions). But in general labor and peasants lost more than they gained in terms of real wages and land reform, in order to help create a climate propitious to private investment. Labor and peasants put up only limited opposition to the austerity measures of 1977 and failed to gain in the distribution of benefits from the recovery of 1978—powerful testimony to the corporatist nature of their mobilization and organization.

In accord with the desire to foster national unity the new Cabinet included representatives of both liberal and neomercantilist economic and social ideology. Even those social groups which could not find representation within the PRI were courted for their allegiance to the political system. López Portillo's administration introduced the most far-reaching electoral reform in modern Mexico's history when it legalized the Communist party. The timing of the party's legalization (when the country was under an IMF stabilization program) underscores the importance that López Portillo gave to broadening the social bases of the political system, which he would use to reorient economic policy.

The emphasis on stabilization and subsequent noninflationary growth made business the key group in the López Portillo administration. After the experience of the Echeverría years domestic capitalists were wary of supporting the new president until he had demonstrated his respect for the private sector and the ability of his economic program to produce growth.

Under López Portillo the attempt to diversify exports in order to support

49. Dale Story, "Trade Politics in the Third World: A Case Study of the Mexican GATT Decision," *International Organization* 36 (Autumn 1982), pp. 770-72.

the import requirements of ISI followed two strategies. (Jettisoning ISI was never considered.) From 1977 to 1979 Mexico adopted an orthodox strategy of export stimulation, based upon increasing the international competitiveness of the national economy and negotiating political access to export markets.⁵⁰ Such a course required sacrifices by certain economic sectors as well as abandonment of principles, among them the belief that the national sovereignty is best protected by insulating the national economy from international forces. This period was one of “mainstreaming” Mexico into the liberal international trading system.

In 1980 Mexican policy broke sharply from this liberal economic path by discarding the economic component of the marketplace and emphasizing its political nature. Petroleum exports, highly valued in the international environment of 1979–1981 but insufficient in themselves for Mexico’s needs, were to be tied to purchase of nonpetroleum exports and investment in the Mexican economy. In this sense López Portillo returned to Echeverría’s strategy of making international actors pay for Mexican exports, but this time with an apparently stronger bargaining chip: petroleum rather than the NEIO. In addition, again as under Echeverría, foreign debt would be used to raise the extra resources needed to generate high rates of economic growth. This period reasserted an autonomous National Project: Mexico would set the terms for its increased integration into the liberal international trading system.

Trade policies illustrate these different development strategies. A liberal strategy would require a trade policy that stimulated the integration of the Mexican economy into world markets, while a nationalist strategy would seek insulation. Through the debates over trade policy, therefore, we can evaluate the contribution of the social coalition and statist perspectives to the choice between integration and insulation.

Mainstreaming Mexico, 1977–1979

In the early part of López Portillo’s administration there was considerable debate about the merits and costs of integration. The protagonists were in the bureaucracy and the intellectual community. The economic nationalists found their chief representative in the minister of planning, Carlos Tello. Those who believed that Mexico had little choice but to become more competitive and integrated in the international political economy included the ministers of the treasury (Julio Rodolfo Moctezuma Cid), foreign affairs (Santiago Roel), and commerce (Héctor Hernández). Most importantly, President López Portillo sided with the latter group.⁵¹ The policy debate

50. David B. Yoffie, *Power and Protectionism* (New York: Columbia University Press, 1983), illustrates quite clearly that these strategies are fundamental to East Asia’s export success, which does not depend on surrender to some market-determined price.

51. Story, “Trade Politics in Third World.”

erupted into the open at the end of the first year, when Tello resigned in protest. In a weak attempt to preserve the illusion of national unity on policy López Portillo asked for the resignation of Moctezuma Cid. But with the incumbents at foreign affairs and commerce unchanged, López Portillo's policy preferences remained clear.

There is little evidence that organized labor, business, or peasants played a direct role in influencing policy even though their interests would clearly be affected by changes in policies. Two main factors explain the apparent lack of major dissent in this first period. First, the administration moved slowly. The trend was toward mainstreaming the economy, but at a pace that would allow efficient industries to adjust. (On the one issue on which the government acted quickly, moving closer to the United States, the opposition was limited to nationalist intellectuals.) Second, the autonomous capacity of major organizations to oppose the president directly was limited, particularly in the cases of labor and peasants. Business had access to the weapon used against Echeverría, capital flight, but López Portillo's generally probusiness stance, and renewed economic growth in 1978, reduced the weapon's attractiveness to private business as a whole.

These explanations emphasize state leadership. An analysis of three components of trade policy supports such a focus.

Protectionism. In the early years of mainstreaming a selective policy of trade "rationalization" (the gradual elimination of "excessive" protectionism) was undertaken.⁵² This process was to be twofold: first an elimination of licenses in favor of tariffs, and then a gradual reduction in the tariff level. Phase one proceeded quite well: from the late 1950s to 1976 the percentage of products subject to import permits rose from 33 percent to 85 percent. By 1979, however, it had dropped back down to 33 percent.⁵³ Also, the "official value" system of establishing duties on imports and exports was gradually eliminated in favor of an invoice valuation system.⁵⁴ In phase two subsidies were used to compensate for tariffs, and there were decreases in the levels of tariffs themselves.⁵⁵

Trade liberalization also began to make its presence felt. In response to a growing overvaluation of the peso the importation of nonproductive and luxury goods increased dramatically. In 1979 imports of beverages rose 117

52. Secretaría de Hacienda y Crédito Público y Secretaría de Programación y Presupuesto, "La política económica a corto y mediano plazo," *Comercio Exterior*, January 1978, p. 101.

53. Cf. Little et al., *Industry and Trade*, pp. 362-74. Statistics from World Bank, *Mexico: Manufacturing Sector* (Washington, D.C., 1979), p. 1.

54. Gretchen Hempel, "Mexico: Profile," draft (U.S. Dept. of Agriculture, March 1981), sec. 4, p. 40; *Comercio Exterior*, January 1979, p. 31. Under the official value system the government established official prices for an article if there was reason to believe that the declared invoice value was low; ad valorem duties would then be collected on the basis of the new price. The administrative character of the system permitted its use as a nontariff barrier.

55. *Comercio Exterior*, April 1979, p. 398; September 1980, p. 949; and May 1980, p. 445.

percent, musical, sound, and video equipment 80 percent, and books 67 percent.⁵⁶ In 1978 only 5.8 percent of overall imports had been consumer goods; the figure rose to 8.4 percent in 1979 and would reach 12.1 percent in 1980.⁵⁷

Reducing protection in the domestic economy, while necessary for export promotion, has the potential to stimulate political conflict. In Mexico protection was reduced not only for the intermediate and capital goods markets but also for consumer goods. Yet in this first period there was very little opposition from either labor unions or business associations.⁵⁸

Because of the effectiveness of the corporatist structure, unions were unable to prevent the decline of real wages and reductions in land distribution. Corporatist organizations representing business were similarly loyal to government policy. In contrast to the polarization that occurred under Echeverría, capital remained within the corporatist organizations. The government was able to manipulate the benefits and costs of acquiescence to the policy so that capital did not find it in its interests to challenge the liberalization policy. The benefits from government control of the unions and a gradual liberalization outweighed the potential costs of government mobilization of peasants and labor against capital and polarization between the state and capital.

Export promotion. Export promotion was a relatively low-cost policy. Fiscal and institutional incentives for export were provided with only an indirect cost to nonexporters. Thus there was little opposition to the reintroduction of the CEDI tax-rebate program in 1977. Another promotional effort was revitalizing the Banco Mexicano de Comercio Exterior (Bancomext). It underwent fiscal and financial surgery in order to make it more efficient and then its jurisdiction, domestic and international, was expanded.⁵⁹ By 1978 Bancomext was issuing medium- and long-term credits to foreign banks to finance their countries' imports from Mexico.⁶⁰ In addition, some export taxes were eliminated.⁶¹

The sensitivity of the López Portillo administration to the need to provide payoffs is illustrated in one of the few export promotion policies where some domestic dissent surfaced. In an effort to guide the economy through the new phases in its development strategy (not just on the export side), national planning was stressed. The most important effort was the National Industrial Development Plan (NIDP), 1979–1982. The NIDP recognized the dangers

56. *Ibid.*, May 1980, p. 445.

57. SPP, *10 Años de indicadores económicos y sociales de México* (Mexico, D.F., 1982), p. 184, Table VI.70.

58. The chief organ of the industrial protectionists did not take an opposing stance on the opening of the economy until the very end of the GATT debate in 1980.

59. "El Bancomext durante 1977. Resumen," *Comercio Exterior*, April 1978, pp. 392, 399.

60. Francisco Alcalá Quintero, "El financiamiento al comercio exterior de México," *Comercio Exterior*, September 1978, pp. 1048–49.

61. "Recuento nacional," *Comercio Exterior*, September 1980, p. 949.

of depending upon the export of a single primary product, petroleum. It advocated the use of petroleum-generated revenues and foreign debt to diversify the internal and external structures of the economy so that by 1982, 66 percent of the value of exports would derive from nonpetroleum sources. As part of the process of stimulating manufactured exports the Plan suggested modifying the protection allocated to industry and providing subsidies to those manufacturing branches which might be able to initiate or raise their exports.⁶² But the Plan's stress on industry and exports stimulated protests from other economic sectors for balance. López Portillo responded with the elaboration of the Global Development Plan, 1980–1982.

In terms of export promotion one policy stirred great controversy. Significantly, the opposing groups were foreign: transnational auto companies and the U.S. State Department. The 1977 automobile decree manipulated incentives (including access to the large and lucrative Mexican market) and constraints to convince the transnationals to include Mexico in their worldwide sourcing network. The corporations and the State Department initially protested. But that alliance, and with it State's ability to pressure for change, broke up as the transnationals came to recognize the benefits of access to Mexico. As long as the Mexican market remained one of the fastest-growing in the world, the transnationals would become partners with the Mexican state in the battle over the new international division of labor.⁶³

Access to markets. In the international trade environment characterized by the "new protectionism" López Portillo sought to provide assured access to export markets. Recognizing that the United States dominates Mexico's commercial relations (it accounts for two-thirds of Mexican imports and exports), he placed much importance upon supporting that economic reality with a political convention. Within a year of taking office López Portillo negotiated Mexico's first bilateral trade agreement with the United States in thirty-five years.

The only opposition to the search for a closer relationship with the United States came from nationalist intellectuals, who found the trade treaty objectionable in terms of both the bilateral and the multilateral foreign economic policy of Mexico. Third World countries were opposing efforts by industrialized countries to gain trade concessions in return for greater market access. The United States–Mexico bilateral trade treaty was the first between

62. "El sector externo de México en 1978 y sus perspectivas," *Comercio Exterior*, March 1979, pp. 268–70; "Los objetivos del Plan Industrial," May 1979, pp. 521–28. For a critique of these plans see Gerardo Bueno, "Petróleo y planes de desarrollo en México," *ibid.*, August 1981, pp. 831–40.

63. Cf. Charles A. Ford and Alejandro A. Violante Morlock, "Policy Concerns over the Impact of Trade-Related Mexican Automotive Policy and U.S.-Mexican Relations," *Inter-American Economic Affairs* 36 (Autumn 1982), pp. 3–42; see also Douglas C. Bennett and Kenneth E. Sharpe, "Agenda Setting and Bargaining Power: The Mexican State versus Transnational Automobile Corporations," *World Politics* 32 (October 1979), pp. 57–89.

a Northern and a Southern country under the GATT tropical products negotiations, signifying that Mexico had broken ranks with the Third World on this important issue. But with the resignation of Tello the nationalist intellectuals lost their ability to influence policy. López Portillo would not give them another opportunity to express themselves effectively until the beginning of the next period, in late 1979.

The treaty was a relatively low-cost way for Mexico to “test the waters” of the liberal trading system because it allowed Mexico to disregard provisions if it believed that the agreement was not serving its purpose. The United States, in turn, persuaded Mexico to agree to treatment “in the same manner as if Mexico were a Contracting Party to the General Agreement on Tariffs and Trade” (Article IV:4) and was able to establish in formal terms the U.S. interest in Mexico’s gradual reduction of “the impediments presented by the current system of import licenses.”⁶⁴ But the trade treaty was overshadowed and eventually doomed (López Portillo decided not to have the Mexican Congress ratify it) by the Mexican administration’s other effort to move closer to the United States.

The discovery of large oil and gas reserves led Mexico to search for export markets, and the neighboring United States was a logical customer. In 1977 the Mexican government negotiated a deal with private U.S. companies to export natural gas to the U.S. market. But the deal fell victim to the debate over President Jimmy Carter’s energy program; the price was deemed too high and the U.S. government rejected the agreement. Secretary of Energy James Schlesinger even went so far as to note that “sooner or later” Mexico would have to sell to the United States, implying that it would do so on U.S. terms.

The pipeline to the U.S. border was already under construction, but to preserve national dignity López Portillo could not capitulate to U.S. pressure. Significant Mexican domestic opposition arose after, but only after, the U.S. rebuke. Negotiations were broken off, and the Mexican president announced that the gas would be used domestically.⁶⁵ Although a natural gas agreement was signed two years later (for a smaller volume), U.S. actions in 1977 showed López Portillo that increased dependence on the United States was not prudent; as a consequence that bilateral trade treaty fell through. López Portillo now looked elsewhere, and more cautiously, to increase the country’s economic involvement with the liberal international trade regime.

In January 1979 Mexico began negotiating a protocol for joining the GATT. Given the country’s concern over exporting industrial products and the rebuke that the United States had recently administered at the bilateral level, GATT

64. *Agreement: On Trade Matters between the United States of America and the United Mexican States*; I am grateful to Gustavo del Castillo for providing me with a copy of the text.

65. Richard R. Fagen and Henry R. Nau, “Mexican Gas: The Northern Connection,” in Fagen, ed., *Capitalism and the State in U.S.-Latin American Relations* (Stanford: Stanford University Press, 1979), pp. 382–427.

entry appeared the only solution. Mexico had previously kept at arm's length from the GATT because the GATT constrains the ability of a state to make trade policy in terms of what it perceives best for national development. In January 1979, however, membership seemed unavoidable.

By the time the protocol was completed in October, however, the international situation had changed dramatically. Mexico, it seemed, did not have to take the liberal route. As a result of the overthrow of the shah of Iran a year earlier, the price of petroleum skyrocketed: in March 1978 the OPEC benchmark for oil was \$14.56 barrel, in November 1979 the price on the spot market surpassed \$35. Real prices for crude had declined from 1975 to 1978; this second oil shock meant not only an increase in foreign-exchange revenue for petroleum exporters and a renewed attempt by OECD consuming countries to woo them but also a new burst of liquidity in international financial markets.⁶⁶

The López Portillo administration responded to this new situation by reversing its trade strategy. The goal of policy was still to finance ISI with industrial exports. Mainstreaming the economy, however, no longer appeared necessary.

The national project and the reassertion of Mexican autonomy, 1980–1982

Mexicans judged that the concessions they had been offered to join the GATT were in reality short-term and carried significant liabilities for the country's future development policies. They believed that they no longer needed the GATT.⁶⁷ Although López Portillo convoked a national debate in November 1979 on the question of GATT membership, his negative decision was, in all likelihood, already taken.⁶⁸

López Portillo made the final GATT decision known in a March 1980 pronouncement that also disclosed two other major policy decisions. In the petroleum sector the levels of production and export were to increase only moderately, from 2.25 million barrels per day (mbd) to 2.7 mbd (plus or minus 10%) by 1982 for production, despite pressure from consuming countries, particularly the United States, to increase levels much more dramatically. At the same time the Mexican president unveiled a new agricultural program (the Sistema Alimentario Mexicano, SAM), rejecting the notion of compar-

66. Freiden, "Third World Indebted Industrialization"; Cohen, *Banks and the BOP*.

67. Cf. Villarreal, "Proteccionismo industrial," pp. 32–46.

68. Confidential interviews, 1983 in the Foreign Ministry and 1985 with an ex-Cabinet member; Story maintains that the president in fact favored joining GATT when the debate began. My point is that he favored it in January, but by November circumstances seemed to allow him to avoid this external constraint on his and future presidents' behavior.

ative advantage that would have the country import its staples and export petroleum.⁶⁹

These three policy decisions, announced on the anniversary of the expropriation of the foreign oil companies, were an effort to redefine the relationship between Mexico and the international political economy, which under López Portillo's efforts to mainstream Mexico had been in flux. Now it was clear that liberal rules and comparative advantage would again be taking a back seat to the state's perceptions of Mexico's needs. The traditional notion that national autonomy is best attained by limiting sensitivity to international forces resurfaced, financed by apparently permanent shifts in Mexico's favor in international energy markets.

López Portillo looked to petroleum exports to reorient Mexico's development strategy in the direction of manufactured export-led growth and therefore considered that mainstreaming Mexico was no longer necessary. In a world perceived as desperate for energy Mexico's reserves would allow it to set new rules for its participation in the international energy market; politics would make Mexican exports competitive even if they were inefficient. Under this strategy, export promotion and efforts to gain access to markets became one. Events in the international political economy, however, would combine with structural problems within the Mexican economy itself to destroy this attempt at reorienting trade policy to serve the needs of a new development model.

Export promotion and access to markets. The high point of the new trade strategy was reached early in 1981 with a Franco-Mexican trade agreement. Under this agreement Mexico would export petroleum to France and open its markets to a variety of products from France; in return France committed itself to stimulating coinvestments in the Mexican economy and to transferring technology. In addition, the French offered Mexican products access both to their domestic market and to their international trade network. Finally, Mexico also received a promise of help in training technicians in the urban transportation field.⁷⁰ This successful use of petroleum exports for market access and for technology transfer appeared to augur a rosy future.

International factors beyond the control of any Mexican president shortly broke the new strategy. The international recession in the advanced capitalist countries and OPEC's inability to reduce production by 10 percent led to a

69. There were two major justifications given for the SAM program of self-sufficiency. There were indications that this trade could be very expensive for Mexico: the industrial plan projected that if the current trend continued to 1990, 54% of petroleum revenues would have to be used for imports of basic foodstuffs, thereby leaving little to finance other projects in the economy. In addition, there was fear that supplies from the international market would be unavailable either for domestic political reasons (U.S. president Nixon embargoed the export of soybeans in the fight against inflation during 1973) or for foreign-policy concerns (the United States has historically attempted to use food aid as a tool of foreign policy).

70. *Comercio Exterior*, March 1981, p. 261.

serious weakening of the world petroleum market. In January 1981 spot prices began to decline.⁷¹

Jorge Díaz Serrano, director of the state oil corporation PEMEX, responded to the soft market in a very orthodox fashion: on 3 June 1981 he dropped the price of the heavier Maya crude from \$34.60 to \$30.60 (the higher-quality light Istmo remained at \$38.50). His decision in effect tested the viability of the new development strategy for the first time. Díaz Serrano was clearly in the minority on the issue, and he paid for it. Accused of sabotaging the national patrimony, he left office three days later.

Unfortunately for Mexico, the downward pressure on petroleum prices was the work not of one man but of a changing market over which Mexico now had little influence. When the new director of PEMEX raised prices to compensate for Díaz Serrano's actions, France and Japan suspended their purchases. For the month of July, Mexican petroleum exports fell by 310,000 barrels per day. In early August, PEMEX went further than even Díaz Serrano had done, lowering prices on both types of Mexican crude: Istmo to \$34.00 and Maya to \$28.50. After acrimonious negotiations in which Mexico threatened to expel all French investment from the country, both France and Japan renewed purchases, albeit at the new lower price. Mexico now found it difficult even to maintain export volume. The new reality was clear at the end of August, when PEMEX signed an agreement to supply the U.S. strategic reserve; now Mexico, which for nationalist reasons had earlier made an important policy decision to keep exports to the U.S. market first under 60 percent and then under 50 percent of total exports, found itself supplying the reserves on which the U.S. government would depend in any political confrontation with OPEC.⁷²

Bad news never travels alone. The prices of the other products that Mexico exported were also affected by the world recession. Coffee exports, the country's second-largest foreign-exchange earner, were suspended in July in hopes that the Brazilian freeze would send prices upward.⁷³ The year 1981 also demonstrated that manufactured exports were not holding up well; they were faced with a combination of increased demand at home, recession abroad, an overvalued peso, and continued inefficiency. While total exports had risen 50.6 percent in the first three months of 1981 compared with 1980, those from the manufacturing sector rose only 1.6 percent.⁷⁴

Protectionism. The new shift in economic strategy implied that the removal

71. *Petroleum Intelligence Weekly*, 6 July 1981, p. 4. The initial Mexican response was to fill its contracts with a greater mixture of heavier Maya crude (a 70-30 mix, up from 60-40) despite the protests of buyers. *Ibid.*, 2 March 1981, pp. 11-12, and 23 March 1981, pp. 5-6.

72. "Recuento nacional," *Comercio Exterior*, June 1981, pp. 613-14; August 1981, pp. 858-59; and September 1981, p. 984.

73. *Ibid.*, August 1981, p. 861.

74. *Ibid.*, June 1981, p. 615.

of protection would slow, reversing itself as the short-term trade balance weakened. As 1980 drew to a close, it became clear that the performance of the trade sector was encountering serious problems. Despite dramatic growth in the value of petroleum exports in each of the years 1977–1980 (\$0.9, 1.6, 3.6, and 10.1 billion, respectively), the deficit in the current account continued to expand dramatically, rising to \$6.5 billion by 1980. The chief culprit was the industrial sector. Its trade deficit increased over 400 percent between 1977 and 1980 and accounted for 70 percent of the nonpetroleum deficit of the period.⁷⁵ The component parts of this deficit sketch the magnitude of the failure of the economic program that López Portillo's policies, including trade policy, were supposed to bring to Mexico. Manufacturing industry, expected to be the motor of Mexico's future development, increased its export value 16 percent in 1977 and 24 percent in 1978, but then its position deteriorated dramatically, with increases of only 11 percent in 1979 and 5 percent in 1980 (export value would turn negative, at -2%, in 1981).⁷⁶ As its contribution to foreign-exchange earnings was declining, so its use of them was rising rapidly: the import elasticities for the manufacturing sector set records each year with figures of 2.4 in 1978, 2.7 in 1979, and 3.1 in 1980.⁷⁷

On 2 October 1980 the government responded to this weakening trade picture by reestablishing import permits for nonproductive and luxury goods. As the general economic situation worsened in 1981, new efforts were undertaken to find substitutes wherever possible, lower the cost of necessary imports, and keep out nonessentials. Import licenses were reintroduced, tariffs were increased, necessary imports were exempted from value-added tax, and official prices for calculation of tariffs were reinstituted.⁷⁸ The destruction of trade rationalization was complete.

The collapse of export diversification and stimulation resulted from a shift to a new development strategy whose international foundations proved impossible to sustain. As Mexico's inflation rate hovered in the high twenties while that of the United States began its descent under the Reagan administration, the peso became even more overvalued.⁷⁹ The industrial-sector deficit was more than consuming petroleum-generated foreign exchange; foreign debt, increasingly short-term, was used to subsidize the peso. In 1980 and 1981 not only did the U.S. prime rate and the international cost of

75. "La evolución reciente y las perspectivas de la economía mexicana," *Economía Mexicana* 3:1981, p. 11.

76. *Comercio Exterior*, February 1978, p. 243; February 1979, p. 254; May 1980, p. 444; March 1981, p. 355; and April 1982, p. 475.

77. "La evolución . . .," *Economía Mexicana* 3:1981, p. 11.

78. "Recuento nacional," *Comercio Exterior*, October 1980, p. 1081; August 1981, p. 861; September 1981, p. 983; October 1981, pp. 1114–15; and November 1981, p. 1247.

79. In 1981 the Mexican WPI rose 24.5% while the U.S. PFP increased 9.2%. The Mexican Wholesale Price Index is from SPP, *10 Años*; the U.S. Producer Finished Prices, not seasonally adjusted, are from the *Federal Reserve Bulletin*, April 1982, no. 68 Table 2.10, p. A46.

TABLE 2. *Accumulation of public-sector foreign debt under pressure from the current account and capital flight, 1979–1981 (in U.S. \$ billions)*

<i>Year</i>	<i>Current Account Deficit</i>	<i>Capital Flight^a (Errors and Omissions)</i>	<i>Foreign Debt</i>
1979	4.9	+0.7	3.5
1980	6.8	2.0	4.1
1981	11.7	5.5	19.2

a. Capital flight also occurred through the capital account, but it is impossible to determine how much was not of a legitimate business nature.

Source. Secretaría de Programación y Presupuesto, *Anuario Estadístico de los Estados Unidos Mexicanos*, 1981, p. 319; foreign debt from Rosario Green, "México: crisis financiera y deuda externa," *Comercio Exterior*, February 1983, p. 105.

money increase, Mexico also had to pay higher spreads and accept shorter-term loans. Nevertheless, the international financial market was glad to lend to a worthy borrower in a time of global recession. As a result, public foreign debt dramatically increased (the 1981 total represented an increase of 100% over 1978) even as capital flight was accelerating (see Table 2).⁸⁰

Before mid-1981 López Portillo appeared to ignore the seriousness of the peso's increasing vulnerability. Confidential interviews suggest that he was receiving conflicting information from his two chief economic advisers, the secretaries of finance and planning, who were rivals to succeed him as president. It is difficult to believe that López Portillo, a former secretary of finance, could have been so confused. Rather, it was the perceived need to keep an economy highly dependent upon imports growing that kept López Portillo away from devaluation, at least until Secretary of Planning Miguel de la Madrid was selected as his successor. The constraints imposed by society were dramatically limiting the state's options.

Once de la Madrid became the candidate of the official party, the short-term rationale changed. De la Madrid was initially a weak candidate, more a personal imposition by the outgoing president than his predecessors had been. With worries about the candidate's ability to overcome this weakness, López Portillo could not risk a stabilization effort of the magnitude necessary to attack the crisis. Efforts were focused upon moderate changes in fiscal policy.⁸¹

By early 1982, however, the problems of the country ran too deep for marginal adjustments to work. A contraction in imports contributed to the slowdown in production because many of the imports were still necessary

80. Rosario Green, "México: crisis financiera y deuda externa," *Comercio Exterior*, February 1983, p. 105.

81. SPP, "Exposición de motivos de la Iniciativa de Decreto del presupuesto de Egresos de la Federación para el año de 1982 (fragmentos)," *Comercio Exterior*, February 1982, pp. 191–97.

for the ISI-influenced economy. The petroleum market continued soft, and the foreign-debt situation became precarious. Confidence in the peso had never recovered, and capital flight both out of the country and into domestic dollar accounts accelerated.

In mid-February, López Portillo finally succumbed to the pressure: in the face of massive capital flight the peso was devalued some 80 percent. The medicine was strong, and the middle of a presidential campaign is a dangerous time for any regime to implement a full austerity program. So February's actions were mitigated by wage increases and rumored central bank intervention, suggesting a desire to avoid confronting the problem until after the July elections.

The election came and was proclaimed a success (participation increased and the left performed poorly). Having survived the key political moment, the state regained its capacity to initiate and implement policy. The López Portillo administration began to make the adjustments needed to stabilize the economy. By now the economic situation was of such a magnitude that drastic measures, some unthinkable even under Echeverría, were believed to be necessary. Societal input would be minimal, its capacity to block implementation nonexistent.

Orthodox stabilization measures proved unable to stop the hemorrhaging of the economy, particularly because they allowed private actors considerable freedom of action. López Portillo, rather than turn economic policy making over to the private sector, looked to the national populists for guidance. In August 1982 López Portillo oversaw two major devaluations (from the high 40s to over 100 pesos per dollar), the imposition of currency controls, and nationalization first of the dollar accounts held in Mexican banks and then of the banks themselves.

Explaining transitions between development strategies: suggestions from Mexico

In December 1970 the incoming president's economic policy team suggested that Mexico needed to alter its development strategy. Although policy makers initially gave some thought to import substitution financed by diversified exports, by 1972 they decided to finance ISI with foreign debt; public expenditure would broaden the domestic market. During 1977–1980 the López Portillo administration did adopt the strategy of diversifying exports. Two variants of the strategy alternated: from 1977 to 1979 exports were stimulated by increasing economic efficiency, but in 1980 it was international political bargaining that was to make exports competitive. The failure of the latter variant ushered in a *de facto* growth strategy based upon energy exports and foreign debt under which import substitution actually regressed. In 1982 incoming president Miguel de la Madrid responded to the collapse of that

strategy by adopting stabilization and an economic program based on diversified exports.

In a little more than a decade Mexican leaders have changed development strategies four times. The immediate stimulus for change varied: large central bank reserves and domestic recession in 1972;⁸² balance-of-payments problems in 1976 and again in 1982; and the renewed expansion of the international energy and financial markets in 1979. The direction of change also varied, in 1972 in favor of Shared Development; in 1976 and 1982 toward economic rationalization in support of diversified exports; and in 1979 in search of the national project.

These four cases, three of which I have analyzed in detail, suggest that Mexican development strategies always emphasize import-substitution industrialization. Those strategies prefer to overcome the ISI foreign-exchange bottleneck by deepening ISI to reduce import requirements and financing what remains (the diversification of exports to offset imports is decidedly less desirable). These preferences, ironically, increase Mexican vulnerability, leading to balance-of-payments crises and forcing the country to attempt to adjust by means of diversified exports.

I have argued that the behavior of international actors and markets and the preferences of domestic social forces are necessary but insufficient for an understanding of the development strategies adopted by Mexico. Social coalitions and international conditions present various options and different costs associated with them. But they prove to be significantly underdetermining.

The international political economy, as noted in the introduction, presents nations with options. But a focus on the international arena cannot explain why nations choose some options and ignore others. Consequently, the availability of options, although a fundamental component in the analysis of economic policy choices, has quite limited explanatory power.

A sophisticated social coalition argument (one that goes beyond the counting of votes of social forces assumed to be of equal weight in the political economy) also helps analysis but is also significantly underdetermining.⁸³ In 1972, in

82. Solís, *Economic Policy Reform*.

83. This is one of the chief failings of a recent attempt to examine the importance of domestic politics in Mexican foreign economic policy. Story, "Trade Politics in Third World," uses Mexico's rejection of GATT membership to argue the importance of bureaucratic and interest-group politics. A closer look at trade policy and not just the GATT decision, which was only one part of it, albeit an important one, demonstrates the problems of transferring a model derived from a pluralist political system to one characterized by an authoritarian-corporatist structure. If the national debate on the GATT was to be the key element in the president's decision, it would have marked the first time in Mexico's history that policy was determined by the uncontrolled articulation of societal interests. In the general area of trade policy one could also ask, if protectionist and nationalist forces were so strong, why was significant rationalization/liberalization possible in 1977-1979? With respect to the GATT case itself, despite detailed investigation of the positions of various social and bureaucratic forces, Story is never able to demonstrate their impact on the actual decision. (The vote in the Cabinet is insufficient. The 5-3 vote was negative only because the president had replaced a liberal foreign minister

the face of opposition from the most powerful societal group, entrepreneurs, the state had options and took them. During 1977–1979 Mexico pursued a policy that might have alienated entrepreneurs again and that placed a great economic burden on labor and peasants. By carefully timing and defining the scope of the policies, and relying on its penetration of corporatist organizations, the state was able to defuse dissent without abandoning the new policy. When that policy changed in 1980, most social forces favored the new change. But when we look at all three changes, we find that a more consistent explanation would focus on the international options that state leaders faced. It was the shift in energy markets that allowed state leaders to move policy in the direction that they preferred: ISI without a greater integration of national industry into the international political economy.

The incorporation of the statist perspective into our analysis significantly increases our explanatory power. The needs of the social coalition place constraints upon state leaders, but in deciding how to address those needs state leaders gain great latitude from the state's domestic tools and the options presented by the international political economy. How, then, can we explain the persistence of development strategies that increase the country's vulnerability to international events over which they have little influence? The answer lies in a particular, historically grounded ideological conception of national autonomy as well as a need to push growth to historic highs. The desire for national autonomy leads Mexican leaders to continue to orient development around import substitution even though ISI has reached a point where the country could now gain more by greater use, without complete surrender to market forces, of the price mechanism and foreign trade.⁸⁴

But the dysfunctionality of the ideology of national autonomy in today's interdependent world is not itself a sufficient explanation for change in Mexican development strategy. Colombia, as noted previously, seems to have adjusted to its balance-of-payments problems by abandoning the strategy of diversifying exports adopted earlier and depending upon slower growth to relieve pressure on the external sector. Mexico could have made a similar adjustment. A moderate growth rate in 1979–1981 as a response to international recession would have implied less foreign debt and lower inflation. Policy makers in charge of the 1960s' variant of ISI understood the economic (although not the political) consequences of inflation, and they deliberately slowed growth twice after periods of high growth. (In 1964 real GDP grew at 11.4%, greater than the petroleum boom high of 9.2%.)⁸⁵

with a nationalist one. Also, Cabinet votes have rarely determined major decisions; if a vote had been taken, the banks would probably not have been nationalized in 1982.) In fact, Story's evidence that López Portillo favored GATT entry in November 1979 is weak. He assumes on the basis of facial expressions and cryptic remarks that López Portillo's previously favorable stance did not change.

84. This is the argument of Little et al., *Industry and Trade*, for the advanced Third World countries they studied.

85. Solís, *Economic Policy Reform*, p. 29.

Why did Mexican leaders in the 1970s, but not in the 1960s, perceive a need to push economic growth to its limits? Within the authoritarian-corporatist political regime, it is clear, the domestic political-economic context had changed dramatically since the 1960s. Leaders knew they had to address long-ignored demands for jobs and a more equitable distribution of income—whatever development strategies were chosen, that is, they had to address those requirements of the social coalition. It was because of the Mexican ideological conception of national security that Mexican presidents did not follow Brazil and Colombia into a strategy of diversifying exports. Instead, both Echeverría and López Portillo chose to limit the integration of Mexican industry into the international political economy. They financed rapid, inefficient growth through unsustainable internal and external means.

This dynamic model has a more general usefulness for understanding policy choice. At base it emphasizes a broad range of policy options and the lack of singular determinants of policy choice. The critical variables in expanding or shrinking the range of policy options include the opportunities and limits presented by the international system, the strength of demands made by the domestic social coalition, and the policy instruments available to the state. The last two are strongly related to the structure of the political system.

The identification of available options does not explain the ultimate choice of policy, however, and it is at this point that the statist argument makes its greatest contribution. It draws our attention to the state's ability to influence the creation and the demands of the social coalition itself, and it demonstrates that the state may be able to implement policy even in the face of domestic opposition. In this context a historically grounded ideology becomes an important intervening variable in determining state choice.

This framework suggests a way in which to understand the interrelationships among international and domestic factors in the choice of economic policy. It is not parsimonious because the options faced by the state are constrained by the domestic and international political economies. It demands attention to political structure and to history. A significant increase in the explanatory power of our analyses will, however, be ample reward for the extra effort involved.