Third World Quarterly, Vol 23, No 3, pp 491–512, 2002

Carfax Publishing
Taylor & Francis Group

Private sector power and market reform: exploring the domestic origins of Argentina's meltdown and Mexico's policy failures

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ABSTRACT *The failure of market reforms in Latin America to produce sustained growth and equitable prosperity is demonstrated most clearly by Argentina's most recent economic and political meltdown. But economic difficulties, poverty and searing inequality has continued to plague the Mexican case as well. Latin American policy makers themselves have begun to contribute to the growing discussion of policies necessary to confront the lingering economic and social challenges. Included among the recommended policy prescriptions are increased social spending, supported by tax reform, assistance to small and medium enterprise, and an end to corruption. Such policy reforms require governments that are autonomous from particular business interests with established institutional channels capable of securing generalized business cooperation and support. This article argues that the market reform experiences of Argentina and Mexico reinforced preexisting power structures and political practices, strengthening the economic clout and personalized political access of the owners of powerful holding companies, a situation diametrically opposed to the sort of business state relations conducive to further essential reforms. As the case of Argentina illustrates, this sort of skewed policy influence is liable to generate strong opposition and resistance to the market model.*

Both Mexico and Argentina have undergone market liberalizing reforms involving trade liberalization, privatization and deregulation and for both countries sustained and equitable prosperity have proven elusive. Perhaps not surprisingly, the leaders behind these reforms have since gone down to electoral defeat: Peronist Carlos Menem lost to Alianza presidential candidate, Fernando de la Rúa in 1999, while Vicente Fox won over the PRI presidential candidate in the Mexican election in 2000. In Argentina the achievements of economic reform have been the most disappointing. By the end of 2001, as the International Monetary Fund refused to release a $1.3 billion (US) loan installment, Argentina teetered on the verge of defaulting on its $132 Billion (US) debt. With unemployment nearing 20% and 15 of its 36 million people now living in poverty, a

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ISSN 0143-6597 print/ISSN 1360-2241 online/02/030491-22 © 2002 *Third World Quarterly*
DOI: 10.1080/01436590220138394

political crisis hit as four presidents exited from office. Although the situation in Mexico has been less dramatic, economic difficulties and massive poverty (estimated at 38 million) have found expression in stiff public resistance to further neoliberal policy reform and growing criticism of the new political leadership.[1]

This article explores the domestic factors that have patterned the way in which market reform has been carried out. I argue that the personalized alliances between state market reformers and powerful members of the private sector have had important policy consequences. In both countries, the executives and owners of powerful conglomerates maintained direct and personal access to the policy reform process—an access and an impact unmatched by any other societal group. Their ability to play such a privileged role in the market reform process was a consequence of preexisting economic concentration and political practices, factors which placed these business groups in the best position to take advantage of the opportunities afforded by the new economic model, particularly in the areas of export promotion and the purchase of state companies. While entrepreneurial organizations have been and continue to be important in bolstering the power and policy influence of the biggest private sector interests, and in acting in a lobbying capacity for other entrepreneurial interests, it was policy networks of a personalistic type that were the most important fora of private sector policy influence during the market reform years.[2] As a consequence, the market reform experience in both countries left a legacy of highly skewed policy influence in which the most important actors in the new economic model gained excessive policy influence.

This article argues that this legacy has created difficulties for the task of addressing the problems of what has been referred to as 'second stage reform'.[3] As doubts about the efficacy of the original Washington consensus grow, a group of Latin American politicians and intellectuals critical of the results of first stage reforms, have advocated changes necessary to ensure the eventual success of the neoliberal model in the region. The Mangabeira Group, was co-founded by Brazilian Harvard professor Roberto Mangabeira Unger and Jorge Casteñeda, currently Mexico's minister of external relations. Its members include Mexican president Vicente Fox, and three members of former Argentine President Fernando de la Rúa's first cabinet: Rodolfo Terragno, cabinet chief, Graciela Fernandez Meijide, minister of social action, and Frederico Storani, minister of the interior.[4] Noting the failure of the market model to bring about equitable distribution in income and wealth, the group advocates the promotion of small and medium enterprise (key to employment and therefore to poverty reduction), an increase in social expenditures, funded by a reformed tax system (including progressive taxation on personal consumption, tax on assets and punishment of tax evaders), increased public investment in infrastructure, the termination of state protection of private cartels and monopolies, and the eradication of corruption and inefficiency in government.

Such a policy prescription depends heavily upon the state's ability to draw support from a broad cross section of society, including support from a wide array of private sector interests. The importance of both state autonomy combined with sufficient 'connectedness' with the private sector to secure its

co-operation has been seen as key to successful policy change. Peter Evans has suggested the importance of the 'embedded autonomy' of the state, defined as 'a concrete set of social ties which bind state to society and provide institutionalized channels for the continual negotiation and renegotiation of goals and policies'.[5] Such arrangements are especially important for the policies of second stage reform. Measures to break up monopolies, end tax evasion, reform the tax system, support small and medium enterprise and end corruption require a state not permeated nor unduly influenced by particular private sector interests and one that is able to ensure the co-operation of all of those private sector interests affected by policy changes. This task requires the abandonment of the highly personalistic channels of policy influence of the market reform years. In both Mexico and Argentina, the electoral defeats of governments responsible for the first phase of market reform could have provided an opportunity for a fundamental alteration in business state relations. As I will argue below, under Argentine president de la Rúa, macro economic instability severely restricted the government's ability to broaden its entrepreneurial base. While the new government of President Duhalde includes previously excluded entrepreneurial groups, their direct representation within the cabinet means that the state will continue to lack the necessary autonomy to effectively lead economic policy change. In Mexico, the new political leadership has accorded the private sector direct representation within the state, a common practice in Argentina. In both cases, there is a failure to institutionalize the relations between the private sector and the state in such a way as to enhance private sector co-operation and state autonomy. As we will see, the close personalistic alliances between political leaders and big business blocked polices which could contribute to more equitable prosperity.[6]

The private sector, the state and the market in Argentina

The market reform experiences in both Mexico and Argentina built upon the power structures and institutional arrangements of previous decades—structures and arrangements that witnessed the emergence of powerful conglomerates, holding companies of industrial, service and financial activities, controlled by prominent families. The Argentine state, was however, considerably weaker than the Mexican one, and more consistently permeated by members of the private sector who used the state in the protection and expansion of their particular interests. Until the brutal military dictatorship of 1976-1983, however, business organizations (associations, chambers and peak business organizations) were important political actors; indeed, appointments to government positions usually drew from their ranks.[7] Further, Argentine business organizations were sharply divided between those vehemently opposed to state intervention in the economy (landed, commercial and big industrial interests) and small and medium entrepreneurs with a strong disposition towards interventionism to protect fledgling industry. By the late 1950s, this divide had translated into an intense struggle between the Peronist General Economic Confederation, representing small and medium entrepreneurs, and the vehemently anti Peronist and anti statist Co-ordinating Association for Free Businessmen's Institutions (ACIEL), the peak

organization bringing together the big landed, commercial industrial interests represented by the Rural Society, the Chamber of Commerce and the Argentine Industrial Union (UIA).[8]

The period of brutal military rule between 1976 and 1983, known as the *proceso*, was a turning point in business state relations: it weakened all entrepreneurial organizations while privileging big industrialists and financial interests. The General Economic Confederation (CGE) was immediately disbanded and all enterpreneurial organizations were intervened by the military. Meanwhile, the importance of government appointments in providing personal channels of policy influence augmented with the appointment of José Martínez de Hoz to head up the economy ministry. A landowner and industrialist de Hoz was a member of the Rural Society. The positions of minister of foreign trade and director of the national planning office were filled by individuals with ties to the highest financial circles. At the same time, economic policy hit small and mediium enterprises hard, especially industry, and concentrated economic power in the hands of favoured big business interests. Trade liberalization in consumer goods industries produced a sharp increase in bankruptcies, especially among small and medium firms producing for the domestic consumer market.[9] At the same time, the decision to streamline the state by contracting out a variety of public enterprise activities, such as, maintenance, transportation, consulting and petroleum exploitation, entailed special treatment to a small number of large industrial companies which expanded rapidly as state contractors. These companies were afforded assured markets, tax privileges, guaranteed payment, and easy credit from the state Banco de la Nación. Moreover, there was overlapping ownership between these big companies and private banking, facilitating access to international financial markets and financial speculation. Hence, it was these same businessmen who benefited from the government bailout of the private banking sector when the financial crisis hit Argentina in 1980.[10] By the time Argentina returned to democratic rule in 1983, the role of entrepreneurial organizations had been considerably weakened. Moreover, while after the return to civilian rule business associations returned to active lobbying (the CGE was reestablished), President Raúl Alfonsín (1983-1989) generally bypassed entrepreneurial associations and followed the practice of calling the country's most powerful entrepreneurs together to inform and to consult on policy matters.[11] This was a practice that would become the norm under market reformer Carlos Menem.

Argentina's market reforms, carried out under Peronist President Carlos Menem, in power between 1989 and 1999, were implemented in record time: by 1994 most federally owned public companies had been privatized, including those in sacrosanct areas such as petroleum, and trade had been liberalized. Although policy change was initiated by the political elite, with the exception of trade liberalization big business was intimately involved in the reform process and benefitted inordinately.[12] Most entrepreneurial organizations, on the other hand, while they continued to lobby the executive both privately and publically, saw their role in policy development strictly limited. President Menem's initial cabinet appointments signalled an openness to big business: he appointed Miguel Roig, a senior executive of the economic conglomerate Bunge y Born, economy

minister and replaced him in the post by another senior executive of the same firm, Nestor Rapanelli. When it became clear that these appointees were not able to stabilize the economy, President Menem abandoned the idea of allowing particular business interests direct control of the economy ministry. However, the removal of big business appointees did not signal a role for entrepreneurial organizations as important channels of policy influence.

Indeed, almost all entrepreneurial organisations were frustrated in their attempts to gain access to the highest reaches of political power between 1989 and 1995. Indeed, all members of the private sector interviewed in the course of this research (both leaders and rank and file members of entrepreneurial organisations) who were not members of the organisation integrating the presidents of the country's most powerful 40 holding companies, the Council of Argentine Business (CEA), claimed little opportunity to express their views to senior government officials. When they did gain an audience, they claimed they were not listened to. All claimed that Domingo Cavallo, minister of economy between 1991 and 1996, was difficult to deal with. Indeed, interview data revealed that institutionalised arrangements linking the authorities and private sector were not important mechanisms in obtaining access to the key policy makers, particularly the minister of economy. The official consultative mechanism, the Production Council, composed of representatives of business, labour and the government, was seen by both business leaders and government officials alike as 'window dressing'—a forum where, in general, the government would communicate policies it had already decided upon.

By far the most excluded and angry businessmen, however, were small and medium industrialists who claimed that they had absolutely no access to the highest reaches of political power. But even the leaders of the larger and more powerful Argentine Industrial Union claimed considerable difficulty in making their views known; its leaders expressed great reluctance even to broach one of their greatest concerns: the issue of the negative impact of the fixed exchange rate on export competitiveness.[13] Established in 1991 to control the country's hyperinflation, the Convertibility Plan pegged the peso to the US dollar. This policy would come under increasing criticism from both industrialists and the IMF. But the government refused to budge on this issue, showing itself to be manifestly unsympathetic to the problems faced by industrialists when the Brazilian crisis hit in 1998, rendering Argentine exports even less competitive because of the Brazilian devaluation. Then Economy Minister Roque Fernández characterized the UIA's request for protection as coming from entrepreneurs 'who are trying to achieve through corporatism what they haven't achieved as businessmen'. By the national election in 1999, this situation had spurred the UIA to demand that the political parties state their positions on industrial policy.[14]

On the other hand, members of the Council of Argentine Business (CEA)[15] had easy and immediate personal access to both Menem and the economy minister.[16] These business leaders were clearly strong Menem supporters, describing him as 'an excellent president' and Domingo Cavallo and his economic team as both easily accessible and highly competent. CEA members had high praise for most aspects of economic policy.[17] Even as Menem's support among Peronists began to diminish in the late 1990s, while his opponent within the Peronist movement,

Eduardo Duhalde, gained strength, the CEA criticised Duhalde's lack of commitment to continued privatisation and remained staunchly Menemista. Bankers and big industrialists were the only entrepreneurs to express concern at Menem's arrest on corruption charges, while medium entrepreneurs found it difficult to hide their satisfaction.[18]

Argentina's big conglomerates became the major beneficiaries of the market reform process. Big exporting firms benefited from tax breaks designed to stimulate exports, with the consequence that by 1995 half the country's exports were accounted for by only 30 firms.[19] But where big private sector firms benefited the most was in the privatisation programme. Indeed, the inordinate benefits stemming from privatisation became a key part of the process of binding the private sector, especially the big industrialists who had been former state contractors, to the Menemista project and of ensuring enthusiastic entrepreneurial support for Menem. Public enterprise contractors, who had prospered under military rule, were strong opponents of privatisation if it meant a reduction in business for them. Generosity toward the private sector, therefore, was key to the regime's ability to move forward rapidly not only in privatisation but in other areas of reform policy.[20] A few domestic companies, mostly former government contractors, were part of consortia, composed also of multinational banks and foreign companies, which purchased public companies.[21] Indeed, one analysis points out that the actual number of domestic firms participating in purchasing consortia is smaller than originally thought, since there are numerous cases in which a particular enterprise participates in more than one consortium.[22] Moreover, potential purchasers were directly involved in the privatisation process, forming an integral part of the domestic policy networks developing privatisation and, later, regulatory policy. Both government officials and business leaders interviewed attested to the very close involvement of the private sector in the privatization process, from gathering information to the details of privatisation decrees. Members of the private sector were involved in the development of tenders assuring them not only of winning the bids but of advantageous terms.[23] In the words of one former highly placed technocrat who had been closely involved in the reform process:

> The private sector has enormous influence on government policy. Although it was the political elite who made the decision to finally make drastic changes in economic policy, once that decision had been made the private sector had enormous influence over exactly how those changes were played out.

The government assumed the debts of the privatised firms and companies were sold, with less profitable activities removed and with their labour forces reduced.[24]

Without mechanisms of accountability, the process became one in which kickbacks and commissions were given in return for rigging bids and selling privileged information to entrepreneurs.[25] Two of Menem's closest public enterprise interveners (Jorge Triaca, who became the intervener for the steel company SOMISA, and Maria Julia Alsogaray, who took over the telephone company ENTEL and SOMISA) were charged with corruption as a consequence of their actions in privatisation processes. Menem himself intervened directly, modifying the

original terms of tenders after bids had been asked for in two of the most controversial cases widely believed to have involved irregularities, ENTEL and Aerolíneas Argentinas. Wide discretionary powers and attendant irregularities were integral to the rapidity of the process since officials had no need to spend time securing approval for their decisions or justifying them before higher authorities. After Domingo Cavallo took over the Economy Ministry in 1991, there was increased interest in the establishment of regulatory bodies. However, purchasers also became closely involved in the development of the regulatory frameworks for their recently purchased activities. Regulatory bodies were established for telecommunications (two years after its privatisation), for electricity, gas and sanitary services, but did not operate transparently because of the links of appointees to the private sector.[26] Moreover, because they had access to international financial markets and became highly indebted in US dollars, the biggest conglomerates had a powerful vested interest in the maintenance of convertibility—devaluation would have disastrous consequences for their debt load. The big banks made hefty profits from borrowing in US dollars and lending out at exorbitant interest rates.[27]

Politically, the conglomerates were closely linked to Menem. They made heavy campaign contributions to the Peronist party: officially the top six conglomerates are reported to have contributed $700 000 each to Menem's 1989 campaign, while Bunge y Born claims that its actual contribution was $3 million. During his tenure as economy minister, Domingo Cavallo reportedly received a monthly stipend of $8000 per month from the Fundación Mediterranea, a think-tank largely funded by the private sector. Numerous allegations and charges of corruption have been brought against top-level officials accused of taking kickbacks from the private sector. In short, close personal ties between the executives of the country's big conglomerates and the political elite had produced a policy outcome which was both corrupt and inordinately beneficial to the country's powerful conglomerates.[28]

The Argentine market reform experience, although rapid and thorough by Latin American standards, left many problems in its wake—problems linked to the exclusionary and corrupt way those reforms had been carried out. Monopolies or duopolies existed in a number of sectors, contributing to the high prices that negatively affected living standards. The commitment to peg the peso to the dollar, embodied in the Convertibility Plan, hurt the industrial sector, increasing the cost of borrowing and discouraging exports. Unemployment and poverty rose through the second half of the 1990s.[29] For many among the public, the defeat of the Peronist party in 1999 raised the possibility of addressing these issues.

The private sector, the state and the market in Mexico

Scholars working on Mexico have held a considerably wider spectrum of opinion on the question of business–state relations than has been the case for Argentina. A number of well known works has emphasised the interlinks between political and economic elites, arguing that policy results from the coincidence of interests that holds these elites (often referred to as the 'revolutionary family') together. Others have emphasised the distinction between the state and the private sector

and have pointed to state bureaucratic policy makers as the initiators of public policy. This perspective focuses on the ways in which capital has been dominated and controlled by the state through the allocation of credit, import licences, cheap inputs and other business requirements.[30] Hence, despite business influence over policy as a consequence of its representation on various boards, agencies and commissions, business is seen as being in a relatively weak position, involved in a process that is one of consultation rather than bargaining. Indeed, the absolute autonomy of the Mexican state from the country's most powerful business interests was demonstrated, according to some, by the 1982 bank nationalisation decision, which directly contravened the wishes of the private sector.[31] Furthermore, even if there are important linkages and a mutuality of interests between political and economic elites, top state officials have not been recruited from the ranks of the private sector, as was so often the case in Argentina. In Mexico there has been a distinct base (initially from the National University, later from private universities) and political class (including political families) from which the Mexican political leadership has been recruited.[32] Despite the existence of legislation facilitating state interference in business associations, these have generally operated independently of the state and, for all but the most powerful businessmen, business associations have been important interlocutors with state officials.[33]

The Mexican private sector, like the Argentine one, has been split historically between a small and medium sector and big business composed of financial/industrial conglomerates. In the Mexican case the small and medium industrialists, concentrated in the Valley of Mexico, tended to be pro-regime (or pro-PRI) and have been represented by their own organisations: the National Chamber of Transformation Industry (CANACINTRA) and the National Association of Transformation Industry (ANIT). Like their Argentine counterpart, Mexican small and medium business has been strongly supportive of the state and of state intervention in the economy, with CANACINTRA having been especially adept in the past at obtaining meetings with ministers and other government officials.[34] As in the Argentine case, Mexican economic policy, prior to market reform, was highly protective of the private sector, with quota protection being the preferred instrument of protection for industry, administered at the discretion of committees of officials and businessmen.[35]

Big business in Mexico has its origins in the Monterrey Group, a network of powerful financial/industrial conglomerates that originated in the pre-Revolutionary period and endeavoured to manipulate the state in order to ensure market monopolies and high profits. Geographically isolated from the Mexican state, it has been characterised by fierce resistance to state incursions into economic areas that impinge on its interests and strong anti-labour sentiments. Its ties to the state have been through personal, rather than institutionalised channels, even though it has experienced periods of extreme tension, if not conflict, with the state. The most notable conflicts occurred during the last years of the Echeverría administration, when government expropriation of large landholdings in northern Mexico precipitated massive capital flight, and as a consequence of the bank nationalisation under President López Portillo in 1982.[36]

The economic importance of the Monterrey business group was reinforced by

increasing economic concentration after 1960. Powerful industrial and financial interests became linked through holding companies and connected to one of the major banks through bank ownership of shares and financial ties. By the late 1970s these economic groups had become highly integrated with the biggest banks: Banamex and Bancomer acquired ever larger numbers of industrial shares. The country's most powerful industrial and financial interests, 37 businessmen controlling some 70 economic groups, are represented by the Mexican Council of Businessmen (Consejo Mexicano de Hombres de Negocios (CMHN). Like its Argentine counterpart, the CEA, the CMHN is an organisation integrated by individual, powerful, businessmen. And, like its Argentine counterpart, it has been consistently and strongly anti-statist.[37] Since its inception in the mid-1960s, CMHN members have had direct personal access to the president and to members of the cabinet and this has been the primary means through which they have pressed their particular interest on the state.[38] Moreover, these powerful business interests have dominated most other important entrepreneurial organisations, such as the Business Co-ordinating Council (CGE), the Mexican Business Council for International Affairs (CEMAI), the Confederation of the Mexican Republic (Coparmex), the Confederation of the Industrial Chambers of the United States of Mexico (Concamin), the National Confederation of Chambers of Commerce (Concanaco) and the Mexican Bankers Association.[39] But the split between big business, on the one hand, and small and medium business, on the other, seemed to recede in importance as market reform made its way onto the policy-making agenda by the mid-1980s. In the years immediately preceding market reform it appeared that Mexican entrepreneurs, traumatised by the 1982 bank nationalisation, were more firmly united in their growing hostility to state intervention in the economy.[40] But the process and impact of market reform in providing inordinate benefits to the already powerful would ultimately accentuate the old division within the business community.

Although initiated in 1985 under President de la Madrid, the Mexican market reform process experienced its heyday under the presidency of Carlos Salinas (1989–94). In Mexico, as in the Argentine case, the private sector, including big business, was excluded from the decision to liberalise trade. However, once the difficult phase of trade liberalisation was complete, state market reformers opened personalised channels of policy influence to the country's most powerful private sector interests in the belief that the active support of the private sector was key if greater dependence on market forces was to become a reality. Throughout the Salinas years members of the CMHN maintained the most direct and immediate access to cabinet ministers.[41] Institutionalised channels linking powerful members of the private sector to the policy process did develop; for example, the Co-ordinating Committee for Commercial Export Business Organisations (COECE), controlled by the country's most important industrial conglomerates, allowed big business ongoing direct input into the NAFTA negotiating process.[42] However, the most important channels linking the country's most powerful businessmen and cabinet members under President Salinas were ongoing personal contacts. Here is what the president of one large export company (and a member of CMHN) had to say about government business relations:

> The process of consultation … is largely done on an informal basis between government ministers and individual company executives. My company has excellent relations with the current administration. I can call a minister any time to arrange a meeting. I speak personally with President Salinas every three or four days or so.

Claudio X Gonzalez, a shareholder and member of the boards of directors of three of the country's biggest conglomerates, was a personal friend of Salinas, arranging his meetings with other conglomerate heads, acting as his adviser on foreign investment issues, and accompanying both commerce minister Serra Puche and José Córdoba, head of the office of the presidency, on official trips abroad. Purchasers of public companies, Carlos Cabal Peniche and Carlos Slim were both close to Salinas and both accompanied him on international tours. Explicit business deals linked the president's brother, Raúl Salinas, to the country's most powerful businessmen, especially to those who bought public firms and who contributed very large sums of money to Salinas' election campaign. As in Argentina, big business provided financial support to the political leadership: it headed up Salinas' party fund-raising committee, with top businessman Miguel Alemán serving as the PRI's finance secretary for the 1994 national elections. Enormous contributions were requested by the PRI of its powerful business supporters and they usually complied.[43]

The access of the country's powerful businessmen to policy makers was parallelled, as in the Argentine case, by the benefits they received. The owners of powerful conglomerates benefited the most from market reform, reaping the opportunities afforded by President de la Madrid's export promotion programme, which provided preferential treatment in the areas of credit and tax relief for the country's 100 biggest exporters. This situation continued under President Salinas, with the consequence that the export incentive programme produced a highly concentrated export structure with a small number of internationalised firms. Furthermore, as in Argentina, the most important privatised companies fell into the hands of the most important industrial/financial conglomerates; by 1992 the country's most important financial, industrial and service activities were in the hands of four conglomerates.[44]

Mexican businessmen and government officials were more modest than their Argentine counterparts in the impact they were willing to acknowledge business had had on economic reform policy, citing the technocratic policy elite's own policy preferences as key. However, respondents readily pinpointed a variety of reform areas where they were certain big business pressure had been instrumental in bringing about reforms much faster than would otherwise have been the case. These included constitutional changes that opened up basic petrochemicals to private, including foreign, capital investment and privatisation of the banking sector.[45] Both government officials and big business acknowledged that pressure from the latter was instrumental in the decision to delay the opening up of the banking sector to foreign investors, in restricting competition in telecommunications following privatisation, and in keeping foreigners out of the airlines.[46] Bankers wanting to buy state-owned banks and the conglomerate purchasers of the country's airlines and telecommunications firms demanded the restriction or exclusion of foreign competitors and were able to get the agreement of technocrats in charge of privatisation because these government officials saw

such a concession as a means by which they could obtain higher prices for privatised companies.[47] Moreover, it is widely believed that a number of privatisations, such as those of the state telephone company (Telmex), highways, and banks, was carried out in a highly discretionary fashion by the president and a few top officials, in a process that privileged the president's close business friends.[48] The case of Telmex, which at sale provided for monopoly control of the country's telecommunications industry until 1997, to close presidential confident Carlos Slim is the most well known example of cronyism in the Mexican privatisation process. In addition, the close ties between senior members of the administration, especially the president himself and his economy minister Pedro Aspe, and executives of the big conglomerates, probably made the 1995 peso crisis worse than it otherwise would have been. In the final months of the Salinas government it was the executives of the big conglomerates who convinced Aspe not to devalue, thereby delaying the inevitable and deepening the crisis.[49] As in the Argentine case, small and medium business lacked both the personal contacts and institutional channels to the highest reaches of power; they were often highly critical of Salinas' market reforms. Hence, while the owners of the biggest conglomerates remained on side, other members of the private sector became highly critical of the government and its policies. A plethora of local business organisations (in Nuevo Leon, Chihuahua, Jalisco) called upon the government to revise its economic model.[50]

The economic crisis and peso crash in 1994–95 marks the beginning of attempts to grapple with some of the consequences of the initial reforms. As in Argentina the reform process became associated with increased poverty and inequality.[51] Poverty alleviation, decentralisation, the mitigation of monopolies and the privatisation of companies in state hands were now on the policy agenda. Moreover, the peso crash ushered in a period of rising political opposition, both from within the PRI and from outside it to both the political elite which had carried out such reforms and to further neoliberal reforms. The growth of this opposition, disillusioned with the inadequacies of the neoliberal model and disgusted with the corruption and cronyism of the country's political leadership, opened up the opportunity to broaden state–society and state–business relations, and to embark upon policies that would address the problems raised by the reform process.

Business and the state: the challenges of second stage reform

In both cases the market reform policy process was a highly concentrated activity, invariably resting in the hands of a small policy elite from whom highly personalised policy networks spanned outward, incorporating domestic actors who closely collaborated in the market reform project—invariably powerful members of the private sector. In both cases, market liberalisation produced a situation in which assets came to be concentrated in the hands of a reduced number of conglomerates who had acquired inordinate political power. Corruption and cronyism have been a feature of the reform process, and played a part in the electoral defeats of the governments responsible for reform.

In Argentina the opposition Alianza (a multiparty coalition including the

Radical Party and FREPASO), whose candidate won the Argentine presidency in 1999, called for policies to address the interests of small and medium enterprises, rural producers, the poor, the unemployed, the domestic market, social policy and corruption. However, the worsening economic circumstances under which the new government took power made it difficult, if not impossible, to address the needs of previously excluded groups. Argentina had been hit by the Mexican crisis, followed in 1998 by the Brazilian crisis. The existence of the convertibility law combined with the strengthening of the US dollar continued to impede export expansion. In addition, under these circumstances the country was facing the pressing need to arrive at an adjustment programme with the IMF. The pressure for budget austerity clashed with the political need to address growing demands to alleviate unemployment and poverty and to improve living standards generally. Protests of the unemployed against the termination of government employment programmes occurred in the provinces and protests by farmers called for government aid throughout 2000 and 2001. As government revenues declined, the newly elected administration sought desperately to raise revenues through broadening the tax base and through curtailing evasion. Preoccupied with this growing economic and political crisis, the de la Rúa administration had scant opportunity to move on its campaign promises.[52]

The legacy of Menem's market reform, which had privileged the big conglomerates, was a bitterly divided private sector. For the first two years of the new government the scenario recalled the bitter conflict between Peronist and anti-Peronist business associations, in which one or the other was excluded from power. The opposition Alianza had appealed to those entrepreneurs left out of Menemist economic model. The first two years of the de la Rúa government, therefore, witnessed a return of vigorous lobbying by business associations in which CEA members, now excluded from power, clashed with those organizations whose interests were now favoured by the state. The CEA's economic plan, which called for the layoff of 100 000 public employees and a steep government expenditure reduction was rejected by the newly elected president. The CEA also lobbied unsuccessfully for the appointment of neo-classical economist Ricardo López Murphy as minister of the economy in de la Rúa's first cabinet. CEA members openly expressed their lack of confidence in the new government, particularly with regard to the risk of devaluation, accused the government of poor communication and of lack of clear direction and criticised the administration for giving priority to industry over services. Members of the CEA expressed serious concern for what they characterised as a retrogression in policy: a retreat from commercial opening and deregulation. On the other side were industrialists, construction entrepreneurs and some agriculturalists, who had been alienated by the previous administration and who were now grouped into the 'Grupo Productivo'.[53] By the late 1990s the leadership changes in the UIA, an important member of the Grupo, had resulted in an executive board that was anti-Menemist and concerned about measures to strengthen national industry and employment. Under the new government, the Grupo Productivo was accorded access to policy makers. The Argentine Industrial Union got its man, José Luis Machinea, appointed economy minister in the first de la Rúa cabinet. And the government announced an industrial policy geared to help small and medium

business, an export incentive programme and, in November 2000, a plan to promote investment, growth and employment by tax cuts.[54]

Conditions, however, were not conducive to the broadening of the state's entrepreneurial base, despite the fact that a number of the government's initial policy pronouncements did go some way towards addressing the concerns of those entrepreneurs who had been excluded from power during the heyday of market reform under Carlos Menem. The plans of the new government ran headlong into a public deficit of $7 billion and the necessity of making extensive budget cuts. The strongest supporters of deficit reduction continued to be the most powerful entrepreneurs grouped in the CEA, while the rest of the entrepreneurial sector expressed growing demand for interventionist measures to protect industry and employment. By early 2001 Machinea was replaced by López Murphy, the economist supported by CEA members. With the appointment of Domingo Cavallo, the original architect of the convertibility plan, as economy minister later that same year, a much more selective entrepreneurial involvement in the policy process was once again practised by the government. Shortly after his appointment, Cavallo summoned the country's 50 most important firms, most members of the CEA, to a meeting in the ministry of economy to explain his new convertibility policy, which would tie the peso to an average of the US dollar and the Euro dollar. Entrepreneurs appointed to the newly created 'Advisory Commission on Strategies for the Promotion of External Trade' were appointed as individuals (some allegedly '*amigos*' of Cavallo), not in any capacity as leaders of entrepreneurial organisations. Later the government invited the heads of the country's big conglomerates to a dinner at the presidential residence in order to 'open a channel of dialogue distinct from that which it has with the entrepreneurial entities'.[55] The big conglomerates stood strongly against the abandonment of convertibility: no doubt their enormous political clout, as in the Mexican case, contributed to the delay in devaluation, thereby worsening the impact once the decision was taken to devalue.[56]

By the end of 2001 the division within the entrepreneurial sector was sharply polarised between the Grupo Productivo, which demanded an end to the preoccupation with the deficit, an end to convertibility and a national industrial reconstruction plan, and the CEA, whose members demanded zero deficit and the maintenance of convertibility.[57] The disillusionment with the skewed distribution of costs and benefits meted out by the last decade of reforms was reflected in President Duhalde's remark that his administration meant the 'end of an alliance between political and financial power that was damaging the country'.[58]

In Mexico, personalised entrepreneurial links with the executive, particularly with the President, continued with Carlos Salinas' successor, Ernesto Zedillo: big business, which had contributed heavily to Zedillo's election campaign, had direct personal access to policy makers.[59] Government officials and powerful business leaders admitted to the ongoing involvement of big business in most aspects of economic policy during the Zedillo years; in fact, two businessmen interviewed claimed that the involvement of the private sector in economic policy was greater than it had been under the previous administration. One of the most reprehensible consequences of close personal access was the bank rescue operation. Personal access to President Zedillo was key in determining govern-

ment aid to the big banks teetering on the brink of collapse following the 1995 economic crisis. Bankers each made separate deals with the executive with some obtaining considerably more advantageous terms than others.[60] Fobaproa (the Bank Fund for the protection of savings) provided funds for banks to meet their foreign currency obligations, buying the past due portfolios of ailing banks, while the Programme for Temporary Capitalisation was set up to allow banks with problems in meeting their commitments to depositors. By 1996 $16 billion had been spent to stave off the collapse of the banks.[61]

Given that Zedillo was a PRI president and a former close collaborator of his predecessor, Carlos Salinas, it was perhaps not realistic to expect a change in policy direction or process despite the rising political opposition (including from within the PRI) to both further market reforms and to the leadership that had implemented them. In this context it was unlikely, for example, that monopoly practices could be dealt with swiftly. The ability of conglomerate magnate Carlos Slim to influence executive decision making with regard to anti-monopolistic measures pertaining to his telecommunications empire—attested to by three highly placed public officials—is perhaps the most well known case. The Federal Competition Commission admitted that the will of the president was involved in its decision to allow Telmex to acquire a controlling interest in one of the television companies owned by media conglomerate Televisa—a decision that was challenged in the Chamber of Deputies and by other business interests.[62] Although long distance telephone service was opened to foreign competition, the failure of the government to make the local telephone industry more competitive, despite strong public pressure to do so, stemmed from Slim's economic clout and personal political contacts. Nevertheless, in the face of rising political opposition (particularly once the government had lost control of congress in 1997), the Zedillo administration was forced to address some of the growing criticisms of his predecessor's policies and practices: the government improved executive accountability, especially as it pertained to privatisations, and backed down on earlier plans to privatize Pemex petrochemical plants and electricity.[63]

It was not until the PRI was ousted from the president's office in 2000 by presidential candidate Vicente Fox, however, that the public really believed that a new era of democracy, openness and honesty in government was in the offing. Unlike de la Rúa's alliance, which contained an important leftist component in the form of FREPASO, the most important party of Fox's coalition, the rightist Popular Action Party, was very strongly pro-market. At the same time, however, Fox brought on board two leftist advisors, Jorge Castañeda and Adolfo Aquilar Zinzer, and, as his election campaign progressed, he began to address such issues as poverty alleviation, support for small and medium enterprises, reform of the tax system, employment creation and an end to corruption. Although Fox, like de la Rúa, was also constrained by problems of the public deficit, his view of what constituted sound economic policy and his appointment of many powerful private sector allies to important government positions constrains his policy choices. His regime is a highly personalistic one and there is little evidence of an attempt to broaden the entrepreneurial basis of the state, or of institutionalising state–business relations.

Powerful members of the private sector are heavily represented among those

closest to Fox and as a whole reflect the new administration's firm commitment to continued market liberalisation. Fox himself is a former Coca Cola executive. Roberto Hernández, the main shareholder in the country's largest bank, Banamex, and Justino Campéan, a senior executive in the media giant Televisa, are leading members of the 'Amigos de Fox' movement. The private sector has now gained strong representation in the state—a situation reminiscent of Argentina during much of the twentieth century and an important departure from past Mexican practice. An unprecedented number of cabinet appointments (nine) went to individuals with experience in the private sector: Pedro Cerisola y Weber, formerly the head of Telmex in the federal district and Fox's campaign manager, was appointed minister of communications and transport. Ernesto Martens Rebelledo, a strong proponent of private investment in the energy sector and a former executive of Union Carbide, was given the energy portfolio, while the new Minister of Agriculture, Javier Usabiaga, is owner of an agricultural export company. Franciso Gil Díaz, architect of Mexico's trade liberalisation drive and later director general of Avantel, a subsidiary of the Banamex-Accival group, was appointed finance minister, while Mario Laborín, director general of BBV Bancomer, was appointed head of the country's most important development bank, Nacional Financiera. The new director of the state petroleum company, Pemex, is a former executive of Du Pont and member of the board of directors of a variety of important private companies. Fox's appointment of four powerful members of the private sector to the board of Pemex brought about accusations that these appointments were payoffs for campaign contributions. One of these appointees was Carlos Slim, the owner of Telmex; the others were Lorenzo Zambrano Trevino, head of Cemex, Rogelio Rebolledo Rojas, of Pepsico, and Alfonso Romo Garza (agribusiness, Grupo Savia, and chairman of groupo Pulsar). Slim, Lorenzo Zambrano and Romo Graza are among the top 10 richest men in the country. While big business had nothing but praise for the Fox administration, the organisations representing small and medium enterprise were expressing the fear that the new government would privilege macroeconomic indicators (especially the fiscal deficit) over the well-being of the population, the productive apparatus and the domestic market.[64]

Nevertheless, upon assuming power, Fox's administration did make an effort in the direction of policies that would garner support from a wider cross-section of the public. Indeed, by 2001 and under growing political pressure the new administration was promising higher spending on social welfare, health and education, along with tax reform to raise money for these programmes. But Fox lacked the resources to carry such policies forward and the political backing to carry out effective tax reform. By 2001 the Mexican economy was slowing down and markets were demanding that the fiscal balance be addressed. The previous government had been under-reporting its deficit situation such that by 2001 the fiscal deficit was expected to be 3.5% of GDP, not the earlier official estimate of 0.65%, making necessary a substantial budget cut. Fox's budget for 2001 called for a reduction of 30 billion pesos. Budget reduction was to come from, among other places, the support programme for small and medium enterprise.[65]

Business pressure has played an important role in economic policy under Fox, as illustrated by the tax reform issue, which is a particularly pressing problem in

Mexico.[66] Early in his election campaign, Fox had proposed a tax on wealth, or property taxes (in Mexico this currently brings in only 0.3% of GDP as opposed to 3.2% in the USA) but this proposal met with stiff resistance from the private sector, producing a subsequent proposal to levy a 15% Value Added Tax on all goods including food and medicine, which had previously been exempt. This new proposal was supported by the private sector.[67] Meanwhile, the country's powerful bankers have succeeded in pressuring the government to backtrack on plans to allow foreign banks to establish branches in the country and to promise to consult the big domestic bankers when the policy is reviewed in the future.[68] Suspicions about Fox's personal links with the owners of the biggest conglomerates have been fuelled by the fact that his government has made no attempt to carry out an investigation of the bank rescue operation and by the designation of eight entrepreneurs to accompany him on a trade mission to South America. The fact that three of these entrepreneurs were among those who had benefited from the highly questionable bank rescue operation of the previous administration triggered substantial criticism in the media and a promise by the government that henceforth the leaders of organisations representative of the business community rather than of individual businessmen would be invited on such missions.[69] As in Argentina, the big conglomerates are the strongest supporters of keeping down the public deficit, probably the administration's greatest concern at the moment.[70] Thus Fox's faith in the market and his direct incorporation of big business interests into the state apparatus—developments that have been further reinforced by budget constraints—inhibit him from pursing policies that might incorporate a broader cross-section of public interests.

Conclusions

For most of their histories business–state relations in Argentina and Mexico differed in important ways. Historically, Argentina lacked a state with even a modicum of independence capable of arbitrating the competing pressures from business groups; indeed, for most of the twentieth century powerful private sector interests achieved direct control of the most important cabinet portfolios. In Mexico, on the other hand, the state achieved a certain degree of independence from the private sector, although the extent of that independence is a topic of considerable debate. In both cases the Depression and the Second World War created a small and medium business sector especially dependent upon the state for protection and support, although in Argentina the conflict between Argentine big business linked to export activities and small and medium business orientated to the domestic market, was considerably more marked. In both Mexico and Argentina the predominance of big conglomerates with personalised access to the highest reaches of political power was a feature of the period immediately before market reform. In both cases powerful holding companies had not only created their own organisational bases but lobbied for policies favourable to the interests of their holdings through direct personal contacts with political leadership figures.

In the market reform era the political influence of these powerful holding companies reached its zenith and the marginalisation of other private sector

interests, particularly small and medium business, increased. Although institutionalised channels to policy makers were certainly present, personal access and personalised institutional relationships between businessmen and policy makers were a predominant feature of the process of market reform. Business influence on market reform, particularly privatisation, was, however, considerably greater in Argentina than Mexico, although the depth of the economic crisis faced by Argentina reduced the amount of influence business could have in protecting themselves from foreign entry into areas where foreign capital had been previously excluded. Policy during the period inordinately benefited those with the closest contacts to senior policy makers: it was the companies of the big conglomerates who were able to take advantage of government programmes and move into export markets; these too were the purchasers of public companies. Close political alliances between the executives of conglomerates and government policy reformers were the order of the day. But the relationship had produced a number of nefarious consequences, particularly in privatisation and in the maintenance of unsustainable exchange rates. Moreover, the new economic model had a variety of drawbacks (poverty, inequality) and, punctuated by economic crises in both countries, it failed to deliver on its promise of sustained prosperity. Elections at the end of the century were an opportunity to revise some of the most troubling aspects of the economic model.

Latin American intellectuals and policy makers have themselves come to realise that adjustments to the model are now necessary; some of the most important recommendations (such as tax reform, support for small and medium business) involve measures which necessitate support and co-operation from a broad cross-section of the private sector. To carry out reforms the state must maintain autonomy from particular business interests while opening channels of communication and fora of co-operation; an arrangement known as 'embedded autonomy'. The analysis of the evolution of business–state relations carried out here suggests that Mexico and Argentina have made little progress in this direction. In Argentina the close personalistic alliance between big business and the political elite, and the consequences for the skewed distribution of benefits and losses of the initial market reform period, have generated political polarisation and the rise to power of a new alliance questioning neoliberalism. Previously excluded entrepreneurial groups, demanding policies to support the domestic market, now have direct representation within the state: under president Duhalde, José Ignacio de Mendiguren, former Industrial Union president, was appointed minister of production. In addition, labour has probably improved its access to the policy process with the appointment of a former trade union House of Representatives candidate as minister of labour. In Mexico the skewed policy influence of the owners of Mexico's big conglomerates continued into the administration of Ernesto Zedillo. With the election of Vicente Fox, a strong advocate of the market, we have witnessed the privileged access of business leaders to the policy process through their appointment to top-level government positions—a situation that is sure to reduce state autonomy. In neither case do we see a move towards the sort of 'embeddedness'—state distance from powerful societal groups—necessary for effective policy change.

There are clearly a number of factors that have encouraged policy environ-

ments in which big conglomerates gain inordinate influence over policy. The maintenance of domestic business confidence involves a careful watch over public spending (usually expressed as resistance to populist pressures for social spending that the country cannot afford). This context, so very sensitive to business confidence, encourages policy elites to maintain and even expand privileged channels of policy consultation to a greater extent than in the past. The enormous economic power of the conglomerates means that they can veto policies they do not like through failure to invest or through disinvestment. In a situation of economic deterioration, such as that faced by Mexico in 1995 or Argentina in 2001, support from these powerful economic interests may be essential to maintaining investment and growth. Moreover, within the private sector they are the strongest proponents of public deficit reduction and state streamlining, the major demand placed on these countries by multilateral lending institutions when economic difficulties arise. They provide a ready ally for policy makers seeking support for politically difficult decisions. But as so clearly demonstrated by the Argentine case, their privileged access to political power has been important in inhibiting changes seen as necessary to a more equitable distribution of the loses and benefits of reform. Moreover, the orientation of the new Argentine administration has raised concerns about a return to populist unsustainable economic policies. It is perhaps reasonable to be more optimistic about the Mexican case since the economy seems to be back on track following the 1995 crisis. Nevertheless, the political preponderance of big conglomerates could result in growing opposition to the current economic model, and in pressure not to amend but to change the economic model in fundamental ways.

Notes

The interview data from which this paper draws was collected in Mexico in 1991 and 1999 and in Argentina in 1995. In total, there were 22 interviews of Argentine entrepreneurs and public officials and 34 interviews of comparable individuals in the Mexican case. As pledges of confidentiality were made in all cases, only descriptive, non-identifying terms, will be used in referencing interviews.

Thanks are due to the Social Science and Humanities Research Council of Canada for its financial support of this project.

[1] See 'The Latinobarometro poll. An alarm call for Latin America's democrats', *The Economist*, July 28–3 August 2001, p 38.

[2] Policy networks as used in this analysis are arenas of policy development exhibiting features of personal power and wide discretionality where actors, bound together by personal trust, bring both interests and ideas to bear on policy outcome. On the adaptation of the concept of policy network to Latin America, see Judith A Teichman, *The Politics of Freeing Markets in Latin America: Chile, Argentina and Mexico*, Chapel Hill, NC: University of North Carolina Press, 2001, pp 16–18.

[3] Manuel Pastor, Jr & Carol Wise, 'The politics of second-generation reform', *Journal of Democracy*, 10(3), pp 3–48; Moisés Naim, 'Latin America: the second stage of reform', *Journal of Democracy*, 5, pp 32–48. Although different authors attribute distinct policy concerns to this stage, generally it is seen as including such policies as the privatisation of companies remaining in state hands, regulatory reforms, especially those governing monopolies, and measures to combat poverty and improve governance, including decentralisation.

[4] *Latin American Weekly Report* (London), 11 July 2000, pp 318–319. Terragno and Storani were replaced in the first cabinet shuffle in October 2000, and Fernández Meijide in early 2001.

[5] Peter Evans, 'The state as problem and solution: predation, embedded autonomy and structural change', in Stephan Haggard & Robert R Kaufman (eds), *The Politics of Economic Adjustment*, Princeton, NJ: Princeton University Press, 1992, p 164.

[6] The interview data from which this paper draws was collected in Mexico in 1991 and 1999 and in Argentina in 1995. In total there were 22 interviews with Argentine entrepreneurs and public officials

and 34 interviews with comparable individuals in the Mexican case. As pledges of confidentiality were made in all cases, only descriptive, non-identifying terms will be used in referencing interviews.

[7] Hence, between 1910 and 1940, for example, 40% of all cabinet appointments, including the most important ones of foreign relations and finance, went to members of the Rural Society, the organisation of the country's big landowners. Peter H. Smith, *Politics and Beef in Argentina*, New York: Columbia University Press, 1969, p 46. During the first Peronist administration (1946–55), the head of the General Economic Confederation (CGE, the officially recognised business peak organisation representing small and medium business), José Ber Gelbard, attended cabinet meetings and sat on the high-level President's Economic Advisory Committee, while representatives of the CGE were appointed to a variety of government boards and commissions. Paul H Lewis, *The Crisis of Argentine Capitalism*. Chapel Hill, NC: University of North Carolina Press, 1990, p 173. For much of the 1955–70 period big landed, commercial and industrial interests, members of the Coordinating Association of Free Businessmen's Institutions (ACIEL) dominated government positions, holding 18 of 22 cabinet posts under President Aramburu, 29 of 33 under Frondizi and all 37 under Guido. Jorge Niosi, *Los empresarios y el estado argentino* (*1955–1969*), Buenos Aires: Siglo XXI, 1974, p 219. With the return of Peron to power in 1973, Gelbard was appointed Economy Minister and the CGE returned to policy influence.

[8] The explicit political nature of this division and its intensity is reflected in the fact that the Argentine Industrial Union, which had refused co-operation with the Peronist government, was liquidated by the government in 1947. Big landed and business interests were behind the coup which overthrew Perón in 1955 and the new military government immediately dissolved the CGE and prohibited its former leaders from participation in any legally recognised entrepreneurial organisation.

[9] David G Erro, *Resolving the Argentine Paradox. Politics and Development, 1966–1992*, Boulder, CO: Lynne Rienner, 1993, p 187; Lewis, *The Crisis of Argentine Capitalism*, p 470.

[10] Monica Peralta Ramos, 'Economic policy and distributional conflict among business groups in Argentina. From Alfonsín to Menem 1983–1990', in Edward C Epstein (ed), *The New Democracy. The Search for a Successful Formula*, Westport, CT: Praeger, 1992, p 78 On the privileges granted government contractors, see Jorge Schvarzer, *Expansión económica del estado subsidiario 1976–1981*, Buenos Aires: Centro de Investigaciones sociales sobre el Estado y la Administración (CISEA), 1981, pp 79, 113. Financial liberalisation had produced a rapid expansion of the banking sector and a binge of borrowing on the international market, while an overvalued exchange rate hurt exports and encouraged imports.

[11] Pierre Ostiguy, *Los capitanes de la industria. Grandes empresarios, política y economía en la Argentina de los años 80*, Buenos Aires: Editorial Legasa, 1989, p 40; Peralta Ramos, *The Political Economy of Argentina. Power and Class since 1930*, Boulder, CO: Westview Press, 1992, p 111.

[12] Virtually all interviewees, both government officials and members of the private sector, attested to the opposition of the private sector, including most big business, to trade liberalisation and to the fact that officials did not consult the private sector beforehand on this issue. The explanation in the case of Argentina was the same as for Mexico: government officials claimed that to have consulted on trade liberalisation would have produced insurmountable political obstacles to reform.

[13] Interviews with member of the executive board, General Confederation of Industry (of the CGE) and member of the executive board, UIA.

[14] *Latin American Weekly Report*, 16 February 1999, p 84; and 24 August 1999, p 385.

[15] Members of the CEA are *individuals*, presidents of the country's biggest holding companies, whereas all the other important business organisations (the UIA, the Chamber of Commerce, the Rural Society) have sectoral business *organisations* as members.

[16] Interviews, two members of CEA.

[17] Big business did have one concern, however, and that was labour policy, fearing that because of labour resistance changes to the labour code allowing for greater flexibility in labour relations would be slowed or blocked.

[18] *Latin American Weekly Report*, 25 March 1997, p 152; and 'Para los empresarios, es un tema que hay que tratar con cautela', *Clarín* (Buenos Aires), 7 June 2001, at Clarín.com.

[19] *Latin America Weekly Report*, 22 October 1992, p 3; and 30 November 1999, p 558.

[20] Author interviews, four business leaders; and Peralta Ramos, 'Economic policy and distributional conflict among business groups in Argentina', p 103.

[21] Jorge Schvarzer, 'Grandes grupos-económicos en la Argentina. Formas de propiedad y lógicas de expansión', in Pablo Bustos (ed), *Más Allá de la estabilidad. Argentina en la época de la globalización y la regionalización*, Buenos Aires: Fundación Fredrick Ebert, 1995, p 142; Daniel Azpiazu & Adolfo Vispo, 'Algunos enseñanzas de las privatizaciones en Argentina', *Revista de CEPAL*, 54, 1994, p 138; Eduardo M Basualdo, 'El impacto economico y social de las privatizaciones', *Realidad Economica*, 123, 1994, p 50.

[22] Basualdo, 'El impacto economico y social de las privatizaciones', p 45.

[23] This sort of involvement, admitted to by a former top-level official in the Ministry of Economy and by two business leaders, was justified on the grounds that the technocratic team lacked the expertise to work out the details of a privatisation programme.

[24] Ruth Felder, 'El estado se baja del tren: la politica ferrovaria del gobierno menemista. La re-structuración de los ferrocarriles: particularidades y perspectivos', *Realdad Economica*, 123, 1994, p 58.

[25] The description of the privatisation process in this paragraph is taken from Roberto Pablo Saba & Luigi Manzetti, 'Privatization in Argentina: the implications for corruption', *Crime, Law and Social Change*, 25, 1997, pp 353, 355; *Latin American Weekly Report*, 1 March 1990, p 11; and from author interview, senior government official.

[26] Azpiazu & Vispo, p 142.

[27] According to an internal report of the Argentine Central Bank reported in 'Banca estatal o banca offshore', *El Cronista* (Buenos Aires), 9 January 2001, at http://cronista.com.

[28] Data in this paragraph are from *Latin American Weekly Report*, 8 July 1993, p 308; and 26 November 1992, p 2. Charges were brought against then minister of public works, Roberto Dromi in 1991, against then president of the Banco de la Nación, Aldo Dadone in 1996; against Domingo Cavallo, former and current minister of the economy in 1996. Rumours and allegations have circulated about Menem's involvement in corrupt practices, culminating in his arrest in 2001 on charges of illegal arms dealings with Croatia and Ecuador.

[29] Between 1994 and 1998 the proportion of urban families living below the poverty line in Argentina increased from 21.6% to 29.4%, while the percentage living in extreme poverty rose from 3.7% to 4%. World Bank, *Poor People in a Rich Country. A Poverty Report for Argentina*, Part I, *Overview*, Washington, DC: World Bank, 2000, p 3. By 2001 the total proportion living in extreme poverty stood at 10%. *Latin American Weekly Report*, 13 March 2001, p 123. By 2000 unemployment had risen to 15.4% from 12.8 % in 1998. It had reached a high of 17.5% in 1995. World Bank, *Poor People in a Rich Country*, p 3; *Latin American Weekly Report*, 25 July 2000, p 343.

[30] Examples of the former perspective include Frank Brandenburg, *The Making of Modern Mexico*, Englewood Cliffs, NJ: Prentice Hall, 1964; James D Cockcroft, *Class Formation, Capital Accumulation and the State*, New York: Monthly Review, 1983; and Nora Hamilton, *The Limits of State Autonomy: Post Revolutionary Mexico*, Princeton, NJ: Princeton University Press, 1982. For the latter, see Dale Story, *Industry, the State and Public Policy*, Austin, TX: University of Texas Press, 1986; Sylvia Maxfield, *Governing Capital: International Finance and Mexican Politics*, Ithaca, NY: Cornell University Press, 1990; and John FH Purcell & Susan Kaufman Purcell, 'Mexican business and public policy', in James M Malloy (ed), *Authoritarianism and Corporatism in Latin America*, Pittsburgh, PA: University of Pittsburgh Press, 1977.

[31] Roderic Camp, *Entrepreneurs and Politics in Twentieth Century Mexico*, New York: Oxford University Press, 1989; and Story, *Industry, the State and Public Policy*.

[32] Roderic Camp, *The Making of a Government*, Tucson, AZ: University of Arizona Press, 1984.

[33] Story, *Industry, the State and Public Policy*, pp 82, 94.

[34] *Ibid*, p 94. As in Argentina, this group emerged with the import substitution phase of the Depression and the Second World War.

[35] René Villareal, 'The policy of import substitution industrialization, 1929–1975', in José Luis Reyna & Richard S Weinert (eds), *Authoritarianism in Mexico*, Philadelphia, PA: Institute for the Study of Human Issues, 1977, p 71.

[36] On the the Monterrey Group, see Stephen H Haber, *Industry and Development: The Industrialization of Mexico*, Stanford, CA: Stanford University Press, 1989, p 80; and Alex M Saragoza, *The Monterrey Elite and the Mexican State*. Austin, TX: University of Texas Press, 1988.

[37] Ricardo Carrillo Arronte, 'The role of the state and the enterpreneurial sector in Mexican development', in Sylvia Maxfield & Ricardo Anzaldúa (eds), *Government and Private Sector in Contemporary Mexico*, San Diego, CA: Center for Mexican–US Studies and the University of California, 1987, p 53.

[38] Camp, *Entrepreneurs and Politics in Twentieth Century Mexico*, p 171.

[39] Ignacio Hernández Gutierrez, 'La burguesía comercial nativa y el capital extranjera', in Ramiro Reyes Esparza, Enrique Olivares Emilio Leyva & Hernández G Ignacio, *La burguesía mexicana*, Mexico City: Editorial Nuestro Tiempo, 1978, pp 190–191; Cockcroft, *Class Formation, Capital Accumulation and the State*, p 208; and Christina E Puga, 'Los empresarios y la política en México', in Salvador H. Cordero & Ricardo Tirado (eds), *Clases dominantes y estado de México*, Mexico City: UNAM, 1984, p 192. Members of Argentina's CEA, the presidents of the country's biggest conglomerates, have also played an important role in other business organisations, often dominating them. These include the Bankers Association, the Chamber of Commerce and the Argentine Industrial Union (UIA), in addition to chambers representing specific economic sectors such as petroleum.

[40] Matilda Luna, Ricardo Tirado & Francisco Valdés, 'Businessmen and politics in Mexico,

1982–1986', in Sylvia Maxfield & Ricardo Anzaldúa Montoya (eds), *Government and Private Sector in Contemporary Mexico*, San Diego: Center for US–Mexican Studies, University of California, 1987, p 18.

[41] Judith A Teichman, *Privatization and Political Change in Mexico*, Pittsburgh, PA: University of Pittsburgh Press, 1995.

[42] Matilda Luna, 'Las associaciones empresariales Mexicanas y la apertura externa', paper presented at the 17th International Congress of the Latin American Studies Association, 24–27 September 1992, Los Angeles, p 16; Remonda Bensabat Kleinberg, *Strategic Alliances and Other Deals. State Business Relations and Economic Reform in Mexico*, Durham, NC: Carolina Academic Press, 1999, pp 127–151.

[43] Data in this paragraph are from *Proceso* (Mexico City), 3 July 1995, p 39; and 5 February 1996, pp 6, 8, 15–16, 31, 188. The most notorious example of big business's campaign contributions occurred in 1993, when the country's top business leaders were each invited to pledge $25 million to the PRI's 1994 election campaign; public outcry resulted in a reduction of contributions to a third of a million each. Teichman, *Privatization and Political Change in Mexico*, p 256.

[44] On the benefits to the big conglomerates of the export programme and privatization, see Blanca Heredia, 'Contested state: the politics of trade liberalization in Mexico', unpublished PhD thesis, Columbia University, 1996, p 249; and Teichman, *Privatization and Political Change in Mexico*, p 187.

[45] Four executives/owners of petrochemical companies made this point.

[46] Argentine big business, on the other hand, could not afford to buy public companies without foreign partners (particularly important was access to foreign technology, so desperately needed by Argentina's decapitalised public companies) so they were unlikely to attempt to keep foreigners out and if they tried, were less likely to meet with success.

[47] Interviews, three senior government officials and two businessmen. However, there was a strong disagreement among top policy makers over this issue. President Salinas, Director of the Central Bank Miguel Mancera, and Finance Minister Pedro Aspe, those reformers with the closest ongoing contacts with powerful entrepreneurs, supported big business demands for the restriction of foreign investment in the banking and telecommunications sectors. On the other hand, Trade Minister Jaime Serra Puche and Budget Minister Ernesto Zedillo pushed for the immediate opening of these sectors to foreign competition and investment.

[48] Interview, businessman and two senior officials of the Federal Competition Commission. Unlike the Argentine case, however, the decision to make public companies available to conglomerate executives does not appear to have been an explicit strategy of government officials to win support from powerful members of the private sector. When asked, Mexican public officials denied that this was a motivation. Neither did Mexican businessmen see privatisation as an alliance-building mechanism.

[49] On this, see Teichman, *The Politics of Freeing Markets in Latin America*, pp 148–149.

[50] Yemile Mizrahi, 'Rebels without a cause? The politics of entrepreneurs in Chihuahua', paper presented at the 17th International Congress of the Latin American Studies Association, 24–27 September, Los Angeles 1992, p 19; *Proceso*, 8 May 1995, p 43; 30 January 1995, p 14; 9 October 1995, p 26.

[51] While between 1989 and 1994 extreme and moderate poverty fell in Mexico, it rose in the agriculture sector generally and among rural workers, especially in the south and southeast. Moreover, the 1995 crisis reversed the improvements of the earlier period, with the proportion of moderately poor rising from 29% to 39% of the population and the proportion of extremely poor from 15% to 21% between 1994 and 1996. Between 1984 and 1985 inequality increased, with the income of the top 10% of the population increasing from 36 % to 43% and that of the poorest 30% of the population declining from 8.3% to 6.7%. Nora Lustig, *Mexico: The Remaking of an Economy*, Washington, DC: Brookings Institution, 1998, pp 202–204; Miguel Székely, 'Poverty and inequality in Mexico', Interamerican Development Bank, www.iadb.org/oce/poverty_mex/.

[52] The account in this paragraph is based on *Latin American Weekly Report*, 30 March 1999, p 156; 23 May 2000, p 235; p 15; and 22 May 2001, pp 228, 230.

[53] Members included the UIA, the Argentine Construction Chamber (CAC) and the Confederation of Argentine Rural Organisations.

[54] The data in this paragraph are from 'Harán lobby con el UIA ante de la Rúa', *El Cronista* (Buenos Aires), 29 October 1999; 'El gerente tiene que ser Machinea', *El Cronista*, 23 June 2000; 'El CEA aplaude baja de impuestos', *El Cronista*, 20 September 2000, at http://cronista.com; and 'Advertencia del establishment financiero a Fernando de la Rúa', *Página 12* (Buenos Aires), 12 July 1999, at http://www.pagina12.com.ar.

[55] This paragraph is based on information from 'Reunión con cincuenta empresarios', *Clarín*, 16 April 2001; 'Empresarios, en Cancillería', *Clarín*, 4 May 2001; and 'La cena de los capitanes con el Presidente', *Clarín*, 30 May 2001, at http://Clarín.com.

[56] This also occurred in Chile in 1981. The other very important source of support for convertibility were the middle and upper classes, whose savings were in US dollars.
[57] 'El mes de la emergencia sin fin', *El Cronista*, 23 November 2002.
[58] 'Buscan ampliar el margen para negociar con bancos y privatizadas', *Clarín*, 5 January 2002.
[59] In addition to interviews with businessmen the material in this paragraph draws from *Proceso*, 5 February 1996, p 6; 18 May 1997, p 9; and *Mexico & NAFTA Report* (London), p 13; 13 June 1996, p 5.
[60] Subsequent audits showed a link between PRI campaign contributions and generosity of bank rescue operations. Andrés Manuel López Obrador, *Fobaproa: Expediente Abierto, Reseña y Archivo*, Mexico City: Editorial Grijalbo, 1999, pp 32–34.
[61] *Mexico and NAFTA Report*, 13 June 1995, p 5.
[62] *Proceso*, 26 February 1995, pp 36, 38.
[63] Teichman, *The Politics of Freeing Markets in Latin America*, pp 153–154.
[64] The information is this paragraph is from *Reforma* (Mexico City), at www.reforma.com/flashes/nacional/gabinete_fox/; 'Temen empresarios que vuelva al terrorismo fiscal con Gil Díaz', *La Jornada* (Mexico City), 23 November 2000, at http://www.jornada.unam.mx; *Latin American Weekly Report*, 20 February 2001, p 89; 'New Directors for Mexico Oil Company', *ISLA* (Information Services for Latin America), February 2001, p 74.
[65] Information on the fiscal deficit and budget reduction from 'No more sleight of hand by Mexico's finance minister', *ISLA*, March 2001, p 38; 'Two cheers for Mexico's tax reform', *ISLA*, p 39; and *Latin American Weekly Report*, 15 May 2001, p 221.
[66] Currently in Mexico fiscal revenue represents just 11.6% of GDP, far below the 20% collected in Chile and Argentina; in the USA the figure is 30% of GDP. 'Roadblocks right and left for Mexico's president', *ISLA*, 22 January 2001, p 1.
[67] *Mexico and NAFTA Report*, 1 May 2001, p 8.
[68] *Latin American Weekly Report*, 10 April 2001, p 175.
[69] 'No se indigaron los antecedentes de invitados a la gira de Fox: Sahagún', *La Jornada*, 4 August 2000.
[70] 'Fox has little to show for promises of quick action', *ISLA*, March 2001, p 21.