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PATHWAYS TO FREEDOM: CHAPTER PREVIEW

Mexico

Political and Economic Lessons From Democratic Transitions

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Overview

Though better known for its struggles with corruption and violence, Mexico has also undergone significant political and economic transitions. Controlled for decades by the Institutional Revolutionary Party (PRI) through an authoritarian political system, the country is now a democracy. Its economy, once largely closed and dominated by oil, has become one of the world's most open, and is increasingly a global manufacturing powerhouse. Finally, years of economic change and macroeconomic stability have enabled a growing middle class.

The PRI consolidated its rule in the wake of the Mexican Revolution (1910–20) and maintained this control until the turn of the twenty-first century through the savvy use of an expansive revolutionary ideology, a patronage system, and a willingness to use repression when necessary. Economically, the party pursued an import substitution industrialization (ISI) framework of high tariffs, subsidies, economic favoritism, and widespread state ownership and management. These policies fueled strong growth and development for nearly four decades.

During the 1970s, this economic model began to founder, plagued by deficits, debt, falling oil prices, and inflation. In 1982, Mexico stopped payments on its \$80 billion in foreign debt, setting off the Latin American debt crisis. This crisis crippled the economy and threw millions into poverty, but it also pressured the government to implement serious economic changes. President Miguel de la Madrid began lowering tariffs, downsizing the government's expenditures, and reducing subsidies. His successor, Carlos Salinas, built on these steps toward economic opening, privatizing hundreds of companies, changing land ownership laws, and negotiating the North American Free Trade Agreement (NAFTA) with the United States. These reforms—combined with the 1994 peso crisis—opened Mexico's economy further, bringing substantial foreign direct investment and an exponential expansion of trade.

PRI leaders believed they could open the economy while maintaining political control, but found it difficult to do so. Although nondemocratic, the PRI had long maintained the trappings of electoral legitimacy. It held regular elections and even reformed laws to make it easier for the opposition to gain a few token seats. With fewer patronage resources to hand out in the wake of the economic crisis and subsequent reforms, the country's democratic institutions slowly began to take on real meaning.

The political opposition gained momentum in the 1980s, using the economic crisis to rally support and win their first local and state-level elections. And in 1988, former PRI politician turned opposition candidate Cuauhtemoc Cardenas made his historic bid for the presidency. While Cardenas officially lost, widely reported fraud led many to believe that he had actually bested his PRI opponent, Carlos Salinas de Gortari. The ensuing outpouring of frustration energized the political opposition and budding civil-society organizations to demand greater electoral transparency, and pushed Salinas to make electoral reforms.

In 1990, Salinas created the Federal Electoral Institute. Although initially designed to maintain PRI control, it became a fairly powerful tool for political opening. Salinas's successor, Ernesto Zedillo, further reformed the electoral system. Zedillo also reorganized the Supreme Court, believing that

the court's independence would be in the PRI's best interest if and when the party was voted out of power.

The combination of economic opening, declining state resources, institutional reforms, stronger opposition parties, and an increasingly vibrant and independent press and civil society all came together, accelerating the move toward democracy. When the PRI lost its majority in Congress in 1997 and the presidency in 2000, democracy had arrived in Mexico. Still, strengthening this democracy is a challenge that continues today.

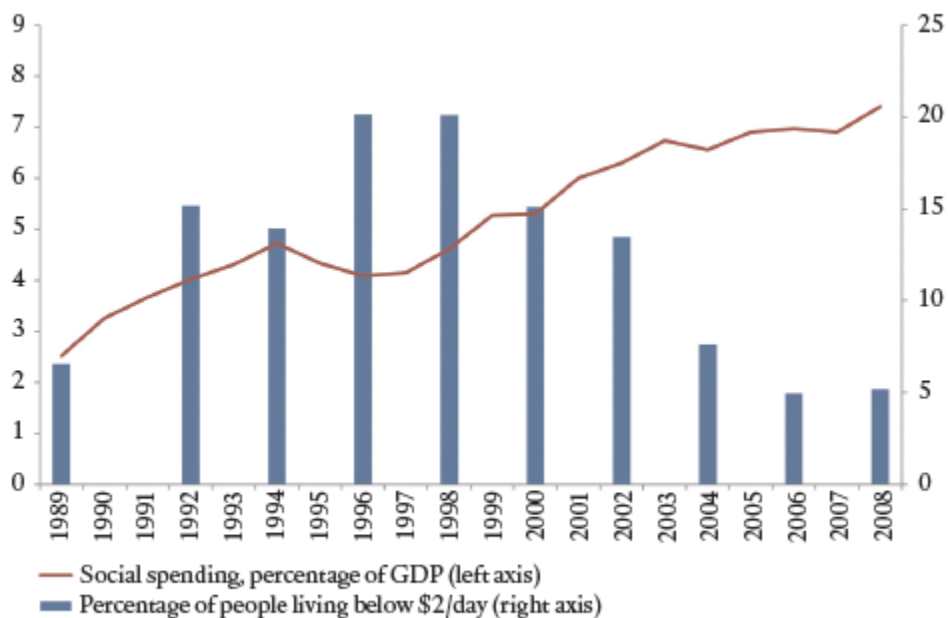
Pathways to Freedom: Political and Economic Lessons From Democratic Transitions, a new book from the Council on Foreign Relations, explores Mexico's progress and challenges in six areas of economic, political, and social development.

SOCIOECONOMIC EXCLUSION AND INCLUSION

Among Mexico's chief economic concerns is inclusiveness. Public policies during the transition years did little to alleviate longstanding economic and social disparities. After the 1995 peso crisis, an estimated 70 percent of the population lived in poverty.

Although Mexico remains very unequal, there are some signs of change. Over the last fifteen years, macroeconomic stability, real wage improvements, and targeted social spending have helped to reduce poverty and inequality and to foster a rising middle class. Programs such as Oportunidades (begun as Progresa) give monthly stipends to low-income households that keep their children healthy and in school. From three hundred thousand recipients in 1997, the program now reaches nearly six million families, about a quarter of the population. In 2002, the government started Seguro Popular, a national health insurance program designed to reach informal and unemployed workers. Citizens who enjoy these benefits tend to reward the politicians who provide them, suggesting evidence of an important democratic feedback loop.

POVERTY AND SOCIAL SPENDING IN MEXICO



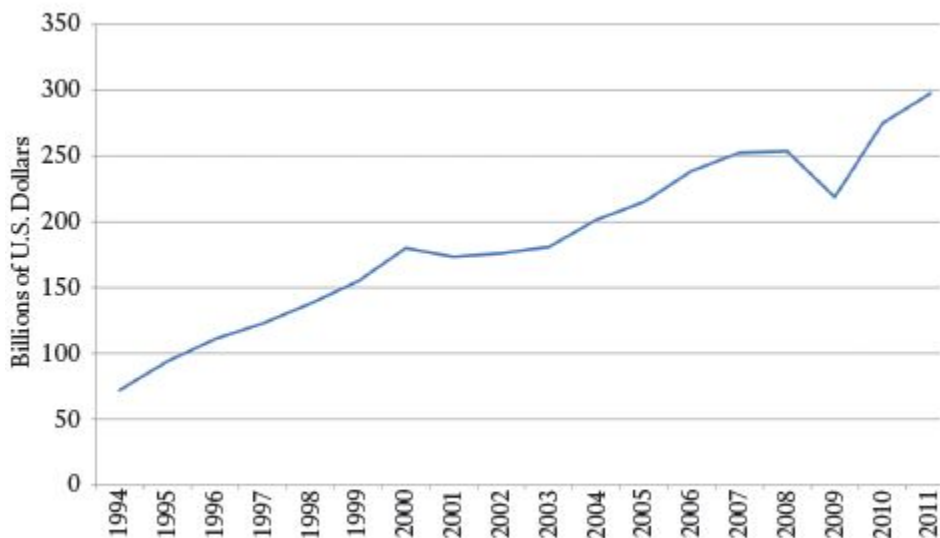
Sources: OECD (social spending data); World Bank (poverty data: purchasing power parity, 2005 international dollars).

ECONOMIC STRUCTURE AND POLICIES

After decades of booms and busts, Mexico is now known for its strong macroeconomic and fiscal fundamentals, its independent central bank, and its stable privately managed banking system. The country's public sector is smaller than that of Brazil or the United States. Oil, once the major source of trade revenue, makes up less than 20 percent of total exports (though roughly a third of the federal budget). The manufacturing sector accounts for some 80 percent of exports and 20 percent of the overall economy, spurred on by deep North American supply chains.

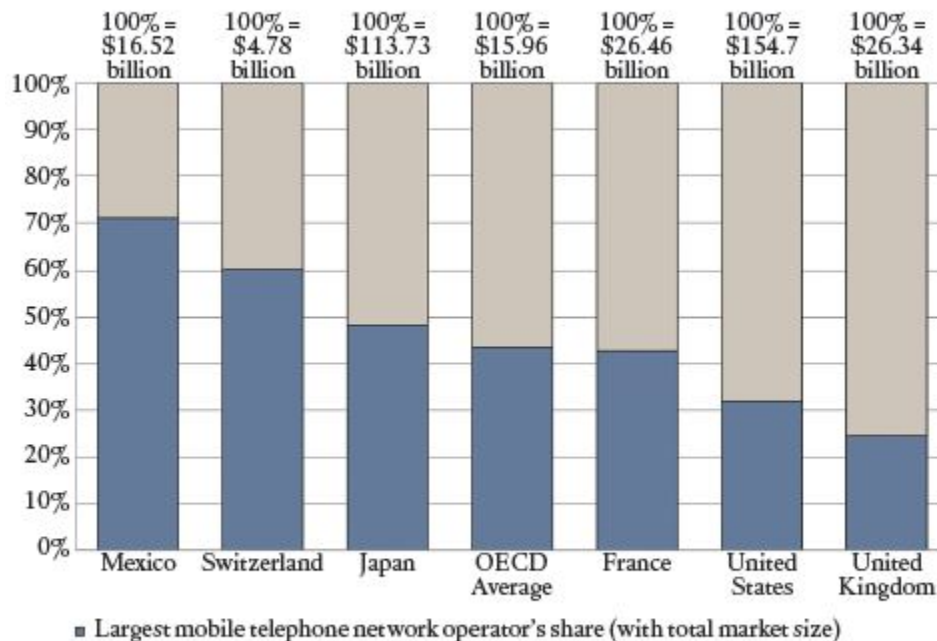
However, powerful monopolies, thin credit markets, and a large informal economy have slowed growth and overall development. In the late 1980s and 1990s the PRI quickly privatized many national industries, leaving many sectors of the economy in the hands of a few well-connected business leaders. One example is Telmex, whose economic monopoly status has made its owner, Carlos Slim, a billionaire many times over, and perhaps more importantly held back the overall economy through limited investment and high telecommunications prices in comparison to similar emerging markets. The Mexican government has begun working to strengthen regulatory agencies to take on such concentrated economic powers, but lawmakers face an uphill battle against many of these entrenched economic interests.

MEXICAN EXPORTS SINCE NAFTA



Source: World Bank

ECONOMIC CONCENTRATION IN MEXICO'S MOBILE TELEPHONE MARKET VS. OTHER OECD COUNTRIES'



Sources: Market share from *OECD Review of Telecommunication Policy and Regulation in Mexico*, revised 2012. All figures from 2009; OECD average from editors' calculations from data in the report. Market size from *OECD Communications Outlook 2011*.

CIVIL SOCIETY AND MEDIA

Mexico's civil society has grown substantially and has been critical in pushing for greater political opening. Some of its first successes came during the country's political transition as hundreds of organizations rallied behind the goal of free and fair elections. With democratization, other issues ranging from good governance to the environment to women's rights rose in prominence. The media, too, has made great strides. Once virtually a propaganda arm for the ruling party, today Mexico's newspapers, radio stations, and television networks routinely question the official line, investigating and exposing corruption and helping to hold the government accountable.

However, Mexico's civil society arguably remains a work in progress. It is fairly weak by regional standards, largely because of the PRI's legacy of incorporating popular organizations into the party structure and discouraging autonomous groups. Television coverage also continues to be an effective "duopoly." In fact, some worry that the media now controls politicians—who are afraid of bad press—rather than the reverse.

LEGAL SYSTEM AND RULE OF LAW

Security is perhaps the greatest challenge to Mexico's democracy and economy. Under Calderon's presidency, some seventy thousand Mexicans were murdered in drug-related violence. This reflects not only U.S. demand for drugs (and its supply of money and weapons to the cartels), but also Mexico's weak rule of law. According to reports, only 20 percent of homicides in 2010 resulted in a con-

viction. This widespread impunity stems in part from the weakness of the Attorney General's office. For decades, the judiciary and law enforcement were virtual arms of the PRI. Today, the culture of lawlessness and rampant corruption erodes popular trust in the authorities and complicates the government's fight against bigger threats.

Recent efforts have enlarged Mexico's federal police force and improved recruiting, vetting, training, and salaries. However, this force amounts to just 10 percent of Mexico's total police, with mostly unreformed state and local forces making up the rest. In the judicial system, constitutional changes passed by Mexico's Congress in 2008 will fundamentally transform the courts, bolstering due process and transparency when implemented. But with a 2016 deadline set for enactment, many of Mexico's individual states are lagging behind, leaving many to question whether Mexico will be able to create a more open and effective legal system.

GOVERNMENT STRUCTURE AND DIVISION OF POWER

More than a decade after the PRI's presidential defeat, Mexico routinely holds competitive elections that almost all see as free and fair. The legislative and judicial branches provide effective checks on presidential power. Democratization has also devolved more power to the states, increasing the autonomy and importance of Mexico's thirty-two governors. Roughly half of Mexico's federal revenue is sent to the states through automatic transfers, fiscally empowering local politicians vis-à-vis their national counterparts.

Mexico's democratic consolidation, though, remains incomplete. Many feel the decentralization of power actually limits democratic deepening, with less electorally competitive states becoming the last bastions of authoritarianism. Moreover, Mexico's unusual no-reelection laws also hinder democratic accountability, encouraging politicians to cater to party bosses, who will nominate them for the next post, rather than to voters.

EDUCATION AND DEMOGRAPHY

The opportunities for the average Mexican child have improved. Smaller family sizes and rising incomes allow parents to invest more in their children's futures through education, and today primary-school attendance is almost universal. The increase in the number of Mexico's private schools at all economic levels also attests to parents' ambitions and desires for their children. But real challenges remain. Mexico continues to fall behind its peers at the secondary and high-school levels and ranks poorly on international test scores. Part of the problem is the teachers' union. Built up by the PRI, it has proven better at protecting teachers' benefits than at providing quality education. The current government is working to reform the system, but it will take significant time and effort to improve dramatically.

CONCLUSION

Mexico's experience shows that transitions to democracy and open economies are not over when the government changes hands or when tariffs fall. Much more is needed to ensure that what Mexico has achieved does not erode, and that future changes further consolidate the country's institutions and expand on the democratic and economic gains of the past three decades.

Timeline

1929: National Revolutionary Party Established, Becomes Institutional Revolutionary Party

The National Revolutionary Party is formed in 1929 to bring together competing leaders from the Mexican Revolution. In 1938, the party is renamed the Mexican Revolutionary Party; in 1946, it becomes the Institutional Revolutionary Party (PRI). Throughout the rest of the century, all Mexican presidents and most elected officials belong to the PRI.

1976: Cantarell Oil Field Discovered

A massive oil field that comes to be called Cantarell is discovered offshore. Oil becomes one of Mexico's major exports, although its importance later declines (it now makes up less than 20 percent of total exports). Oil revenue continues to remain vital for the federal budget, however, accounting for nearly a third of federal funds.

1982: Mexico Sparks Latin American Debt Crisis

In the context of a global economic downturn, Mexico's mounting foreign debt obligations effectively bankrupt the government in the early 1980s. In August 1982, Mexico stops payments on its debt, setting off what becomes known as the Latin American debt crisis. Gross domestic product per capita plunges from about \$4,200 in 1981 to about \$3,000 in 1982. The debt crisis and the ensuing "lost decade" of limited economic growth throw millions of Mexicans into poverty and create political uncertainty, setting the stage for the political opposition and civil society to press for free and transparent elections.

1988: Electoral Challenge to the PRI

In 1988, an amalgamation of disaffected PRI members, leftist parties, and social organizations form a loose alliance called the National Democratic Front to challenge the PRI regime. They support Cuauhtemoc Cardenas, a former PRI politician, in a bid for the presidency. PRI candidate Carlos Salinas de Gortari wins the July 6 presidential election. However, reports of irregularities lead many to believe that Cardenas actually won. Cardenas supporters initially protest the results, but with Cardenas uneasy about confronting the PRI and the party putting the government's weight behind its candidate, the protestors retreat, leaving Salinas firmly in control.

1989: National Action Party (PAN) Wins Gubernatorial Race

The conservative PAN wins a governor's race in June. Seeking to placate (and further divide) the democratic opposition, President Salinas recognizes the PAN's victory, marking the first gubernatorial defeat in the PRI's six-decade rule. Salinas also passes a 1990 electoral reform, creating the Federal Electoral Institute to organize and manage elections. Although initially designed to maintain PRI control, and thus quite limited in its reach, this institution is trans-

formed by subsequent reforms and developments into an autonomous and fairly powerful tool for political opening.

1994: Chiapas Uprising

The PRI's neglect of citizens outside its main interest groups is countrywide, but the more isolated and indigenous south feels it most acutely. This frustration helps foment the popular discontent that culminates in the Zapatista uprising in the southern state of Chiapas in 1994.

1994: NAFTA and Peso Crisis Push Economic Opening

NAFTA, a landmark agreement that creates a free trade bloc of the United States, Mexico, and Canada, enters into force on January 1. Later in the year, Mexico experiences a peso crisis when poor economic choices, overspending, and dwindling international reserves force a devaluation of the currency and initiate a severe recession. The peso crisis, however, also pushes Mexico's economy open further, encouraging foreign investment. Over the following decade, Mexico's trade booms. These developments, along with other reforms in the 1980s and 1990s, help transform Mexico from a closed, commodity-based economy to a diversified one based on manufacturing and services.

1997: PRI Loses Majority in Congress

In the July 6 election, the PRI loses its majority in the Chamber of Deputies, the lower house of Mexico's Congress, for the first time. The shift comes from the disillusionment of many voters after the peso crisis, as well as various electoral law reforms passed by President Ernesto Zedillo of the PRI that make electoral manipulations increasingly difficult. These reforms also cemented the electoral court's independence from the executive branch, mandated public financing for all political parties, and established citizen leadership at the helm of the Federal Electoral Institute.

2000: Fox Wins Presidency, Ending PRI Control

The PRI loses control of the executive branch for the first time in seventy-one years as Vicente Fox, leader of the conservative National Action Party, wins the July 2 presidential election.

2002: Social Safety Net Expanded

Oportunidades, a social protection program originally launched as Progresas under President Zedillo in 1997, is greatly expanded under President Fox starting in 2002. It provides monthly stipends to low-income households that keep their children healthy and in school. From three hundred thousand recipients in 1997, the program has extended to nearly six million families—or about a quarter of the population. Also in 2002, the Fox government starts Seguro Popular, a national health insurance program designed to reach the country's informal and unemployed workers. By the end of 2011 the program covers some forty-four million previously uninsured Mexicans. This social spending, as well as overall economic growth, reduces poverty and inequality and bolsters Mexico's emerging middle class. Recent surveys show that less than 50 percent of the population is defined as poor today, down from a poverty rate of nearly 70 percent in the mid-1990s. GDP per capita has increased steadily from \$3,500 in 1990 to \$10,000 in 2011.

2006: Calderon Elected President, Intensifies War on Drugs

President Felipe Calderon, inaugurated in December, quickly intensifies a campaign to combat violence related to Mexico's extensive drug trade. Gruesome headlines attest to rising and spreading violence, fueled by the U.S. market for illegal drugs and an overall culture of impunity. During Calderon's term, there are some seventy thousand drug-related killings, with other crimes also escalating. Mexico's weak rule of law contributes to the problem; only four thousand out of twenty thousand homicides in 2010 result in a conviction.

2012: PRI Candidate Elected President

PRI candidate Enrique Pena Nieto handily defeats two rivals in the presidential election on July 1, ending twelve years of PAN rule and retaking the presidency for the PRI. Pena Nieto takes office in December 2012. Though some worry about the return of the PRI, the widespread recognition of competitive free and fair elections is generally seen as a sign of Mexico's deepening democracy.

Further Reading

Babb, Sarah. *Managing Mexico: Economists from Nationalism to Neoliberalism*. Princeton, NJ: Princeton University Press, 2001.

A book exploring economics as a profession in twentieth-century Mexico, as internationally trained economists grew to dominate the scene.

Eisenstadt, Todd A. *Courting Democracy in Mexico: Party Strategies and Electoral Institutions*. Cambridge: Cambridge University Press, 2004.

A book on Mexico's transition to democracy, focusing on opposition parties' use of electoral courts and other means to advance democratization.

Greene, Kenneth F. *Why Dominant Parties Lose: Mexico's Democratization in Comparative Perspective*. Cambridge: Cambridge University Press, 2007.

A book that applies a general theory of political party dominance to Mexico and the erosion of PRI control.

Haber, Stephen, Herbert S. Klein, Noel Maurer, and Kevin J. Middlebrook. *Mexico Since 1980*. Cambridge: Cambridge University Press, 2008.

A book exploring Mexico's failure to institute the rule of law and strong economic growth despite its economic and political reforms.

Lustig, Nora. *Mexico: The Remaking of an Economy*. 2nd ed. Washington, DC: Brookings Institution Press, 1998.

A book analyzing Mexico's economic performance in the 1990s, including the peso crisis, the response to the crisis, poverty, and inequality.

Magaloni, Beatriz. *Voting for Autocracy: Hegemonic Party Survival and Its Demise in Mexico*. Cambridge: Cambridge University Press, 2006.

A book on how the PRI maintained power in Mexico, focusing on its electoral facade, and on how it eventually fell.

Moreno-Brid, Juan Carlos, and Jaime Ros. *Development and Growth in the Mexican Economy: A Historical Perspective*. Oxford: Oxford University Press, 2009.

A historical book on Mexico's economic development, including its industrialization process, more recent market-oriented reforms, and current challenges.

Selee, Andrew, and Jacqueline Peschard, eds. *Mexico's Democratic Challenges: Politics, Government, and Society*. Palo Alto, CA: Stanford University Press, 2010.

A collection of essays examining Mexico's political evolution since the 2000 election and its prospects for continuing change.

Shirk, David A. *Mexico's New Politics: The PAN and Democratic Change*. Boulder, CO: Lynne Rienner Publishers, 2004.

A book focusing on the development of the National Action Party (PAN), whose presidential victory in 2000 brought an end to PRI rule.