
Tracing the Social Processes of Change: the Political Economy of Mexico's Transformations

by

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*To Javier and Celia,
Margarita, Héctor, and Ismael,
all of whom have left their mark upon my life.*

I see trees of green, red roses too
I see them bloom for me and you
And I think to myself, what a wonderful world

I see skies of blue and clouds of white
The bright blessed day, the dark sacred night
And I think to myself, what a wonderful world

The colours of the rainbow, so pretty in the sky
Are also on the faces of people going by
I see friends shakin' hands, sayin' "How do you do?"
They're really saying "I love you"

I hear babies cryin', I watch them grow
They'll learn much more than I'll ever know
And I think to myself, what a wonderful world
Yes, I think to myself, what a wonderful world

Oh yeah

Louis Armstrong

(George Weiss / Bob Thiele)

ABSTRACT

This thesis is a theoretical exercise which relies on the Strategic Relational Approach to analyze the broad social processes of change and to deliver a critical account of the contingent contemporary transformations in Mexico. By engaging in an exercise of process-tracing, this thesis aims to examine critically key features of social change, challenging economic deterministic accounts, and ignoring social and political circumstances. Its focus is on the application of theories of change to illuminate broad trajectories of reform. By presenting a theoretically informed empirical narrative of contemporary transformations in Mexico, it is possible to enhance the insight into the particular processes of commodification, democratization and integration. Moreover, the varied and combined paces, depths and strengths of these transformations provide an excellent opportunity to understand and assess the importance of tendencies and countertendencies in play. By referring to the analytical tools of structure and agency, material and ideational elements, all within specific locations of time and space the contingency of processes of change is recognized. The restoration of agency is a crucial element for an analysis of the socially embedded processes of commodification, democratization and integration. By relying on the accounts of political economists and economic sociologists, it can be shown that the processes are deeply political and non-determinate. Therefore, alongside constraints, they also offer windows of opportunity which encompass a broader social and political spectrum and possibilities of transformation. Since different modes of governance are not necessarily incompatible with each other, the account offered here focuses on the state, the market and networking, as well as their complementary roles, which are not reducible to determinisms or inevitability of any sort.

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presentation of Chapter Three. The School of Social Science of Birmingham University helped with an overseas conference grant to attend the International Studies Association Annual Convention in March 2004, in Montreal, Canada, where an earlier version of Chapter Four was delivered.

The most important and immeasurable debt I owe is to my family. I have no words to express my gratitude for all the love that I have been extremely fortunate to receive, while it puts me in a position in which I fear I cannot pay it back as I should. In addition to the Pérez Cuadra family, the greatest source of love, strength, inspiration and support I have ever had comes from my parents Javier and Celia, my aunt Margarita, my uncle Héctor, and my brother Ismael. Even though this journey has not been a short one, their sustained keen interest in what I was doing and their encouragement were so extraordinary that it prevailed above everything. Therefore, as a culmination of such collective enterprise, this thesis is appropriately enough dedicated to them all.

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GLOSSARY OF ACRONYMS AND ABBREVIATIONS

ADE	(Agreement for immediate support of banking deposits)
ALADI	Acuerdo Latinoamericano de Integración
ALTEX	Programa de Empresas Altamente Exportadoras
APEC	Asia Pacific Economic Cooperation
BECC	Border Environmental Cooperation Commission
CACM	Central American Common Market
CAFTA	Central American Free Trade Agreement
CARICOM	Caribbean Community and Common Market
CEC	Commission on Environmental Cooperation
CFE	Comisión Federal de Electricidad
CILA	Comisión Internacional de Límites y Aguas
CNC	Confederación Nacional Campesina
CNIE	Comisión Nacional de Inversión Extranjera
COCOPA	Comisión de Concordia y Pacificación
CONACYT	Consejo Nacional de Ciencia y Tecnología
CONAI	Comisión Nacional de Intermediación
CONTIGO	(Government strategy that groups all social programmes)
CROC	Confederación Regional Obrera Campesina
CROM	Confederación Regional Obrera Mexicana
CTM	Confederación de Trabajadores de México
ECLAC	Economic Commission for Latin America and the Caribbean
EU	European Union
EZLN	Ejército Zapatista de Liberación Nacional
FDI	Foreign Direct Investment
FOBAPROA	Fondo Bancario de Protección al Ahorro
FTAA	Free Trade Area of the Americas
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IBEP	Integrated Border Environmental Plan
IBWC	International Border and Water Commission
IFE	Instituto Federal Electoral
IMF	International Monetary Fund
IPAB	Instituto de Protección al Ahorro Bancario
KWNS	Keynesian Welfare National State
MERCOSUR	Common Market of the South
NAAEC	North American Agreement on Environmental Cooperation
NADBANK	North American Development Bank
NAFTA	North America Free Trade Agreement
NIEO	New International Economic Order
OAS	Organization of American States
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries

PAN	Partido de Acción Nacional
PECE	Pacto para la Estabilidad y el Crecimiento Económico
PEMEX	Petróleos Mexicanos
PITEX	Programa de Importación Temporal para Producir Artículos de Exportación
PNR	Partido Nacional Revolucionario
PRD	Partido de la Revolución Democrática
PRI	Partido Revolucionario Institucional
PRM	Partido de la Revolución Mexicana
PROCAPTE	Programa de Capitalización Temporal
PSE	Pacto de Solidaridad Económica
SE	Secretaría de Economía
SECOFI	Secretaría de Comercio y Fomento Industrial
SEGOB	Secretaría de Gobernación
SHCP	Secretaría de Hacienda y Crédito Público
SPP	Secretaría de Programación y Presupuesto
SICE	(The OAS' Foreign Trade Information System)
SRA	Strategic Relational Approach
SWPR	Schumpeterian Workfare Post-national Regime
TELMEX	Teléfonos de México
TRIMS	Trade Related Investment Measures
TRIPS	Trade Related Aspects of Intellectual Property Rights
UDIs	Unidades de Inversión
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
USSR	Union of Soviet Socialist Republics
WB	World Bank
WTO	World Trade Organization

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INTRODUCTION

This thesis aims to provide a critical political analysis of the processes of social, political and economic change in Mexico since the late 1970s and early 1980s. It aims to illustrate the explanatory power of a philosophically consistent, theoretically informed and empirically grounded account. Examining those processes is of relevance because their incessant reproduction and transformation reshapes the intrinsically dynamic and complex conditions in which we, as individual members of a society find ourselves. It is a key claim of this thesis that we, as actors, play a central role which influences the course of events as they are played out in their historical contingency. It is therefore of the utmost importance to have a balanced, flexible and powerful analytical perspective which permits the continuous reassessment of the relationship and interactions between structures and agents.

Since the dynamic interaction between actors and the conditions which surround them brings different patterns of change and continuity, it is vital to acknowledge the contingent character of the social, political and economic systems. Their inherent unpredictability cannot be properly gauged by merely contrasting states of affairs in a static way, for this would mean having only a partial picture. Without claiming universalistic aspirations, the theoretical lenses we adopt need to be able to follow the fluidity of the actors' interactions, at both the intertwined and interwoven material and ideational levels. Being able to follow the succession of events and associated phenomena of our concern is thus a basic precondition of understanding the trends

and identifying the centrality of actors to social processes of change. Agents who exercise their relational power, as well as a capability to influence the course of events, do not exist in a vacuum. The intentionality of the actors, their selection of strategies, and the definition of their goals and agendas is informed by ideas. Intangible as they are at first glance, ideas are not disconnected from the material world, as they are followed and pursued by situated actors in context. We must seek to develop a theoretical account which is sensitive to the importance of, potential causal and constitutive role of, ideas in shaping social dynamics.

Furthermore, not only must we be capable of giving due attention to specific time and space references, we must also recognize the fluidity of processes. We must, then, adopt a historical approach. The usefulness of this resides in helping to situate not only the transformations of social activities, but also the recognition that further change is a real possibility. Therefore, it is necessary to develop a consistent theory that can inform the interaction of domestic and international contexts, and which at the same time holds a broad analytical focus which can incorporate factors of relevance to the analysis.

Bearing those considerations in mind, the selected theoretical tool is the Strategic Relational Approach (Hay, 2002c, 1996; Jessop, 2002, 1990b). The challenge of tracing the processes of social change resides in what this theory is capable of delivering. In order to display the explanatory power of this theoretical approach, this research principally emphasises its application to a specific case. In particular, it is illustrated by referring to the contemporary transformations in Mexico by means of process-tracing. The relevance of selecting this country reflects two main

considerations. The first one is that, for a number of years, Mexico, along with certain other developing countries, has not only undergone, but in some instances also has led, a series of critical transformations over a broad social, political and economic spectrum. Thus, it is of vital significance to be able to analyze and understand what the depth, reach, strength and trajectories of the processes are. Since they have not been generated spontaneously or anonymously, the restoration of agency is vital to our understanding of the social processes of change. Furthermore, the approach must follow the agencies whose activities are embedded in society.

Therefore, it is a central claim that, for Mexico, the series of economic reforms are not limited to the soundness of macroeconomic variables or institutions. The socially embedded character of economic activities evidences that they are important elements situated in a broader social and political context. Hence, the daily experiences of most of the population that confronts alleged obedience to economic symbolism inattentive of social reality must be carefully analyzed. Such a trend is identified here as a continuous process of commodification, as the analysis presented here is aware of the socially embedded character of economic activities. Another key process which deserves consideration is an authentic and inclusive process of democratization which goes beyond a merely poll exercise. This must open up further opportunities for social change by reaffirming the political character of enhancing objectives. Moreover, political as their features are, it is also argued that the processes of integration means much more than increasing trade and investment flows. Clearly, if the embeddedness of the economic activities is acknowledged, the landscape of integration reveals political and social characteristics pointing towards the potential for forging a community which might take decades to emerge.

The second reason is that the Mexican experience provides an opportunity to transcend the original Eurocentrism of the Strategic Relational Approach, as it allows us to engage in analysing social processes of change within a rather different context. Furthermore, such an opportunity is one not to be missed, as it delivers insightful perspectives which challenge conventional explanations. The informed accounts of the processes of commodification, democratization and integration, discuss not only the current state of affairs, but also unfinished tasks and challenges ahead, such as the perennial postponement in addressing the various symptoms and manifestations of inequality. Since the theoretical focus is on the broad trajectory of the reform processes, limits of space prevent a descent into mere microanalyses of specific issues. Rather, the intention is to deliver an account which contributes towards re-politicizing agendas often simply taken for granted, while highlighting the contingent nature of the processes involved.

The arguments presented in this thesis are organized in the following way. The opening chapter attempts a theoretical process-tracing exercise on the interaction between the State and the market. Special attention is placed on the way in which the historical trajectory of the State's political and economic developments has varied. The account developed is both theoretically informed and illustrated by Mexico's trajectories of reform. The current trends towards the commodification both of economic activities and the roles of the State are developing tendencies which are not exempt from countertendencies. Although social, political and economic contradictions are mediated through crises, they are sorted in two broad and distinctive ways. In the first of these, major changes involve a decisive intervention of

the State in which a new trajectory might be imposed; whereas in the second one, some minor moments of crises are solved and negotiated in the pursuit of softer transformations, by adaptation and reformist strategies. This theoretically informed account, whilst drawing on concepts developed for an understanding of State development in Europe, is illustrated by referring to the contemporary Mexican experience. While corporatism and import substitution industrialization involved processes of decommodification of economic activities, the outwardly oriented economic model meant a modification of the State's trajectory toward practices associated with processes of commodification.

Chapter Two aims to identify the factors which trigger social change, and what makes such possible, by adopting the Strategic Relational Approach. The argument opens by presenting a critical analysis of rational choice institutionalism for understanding the process of change. It is immediately followed by a section which argues that the identification of power immanent in all social relations represents the core factor for explaining the open-ended social processes of change. Furthermore, since social processes entail social changes, it is recognized that the interactions among ideational, material, structural and agential elements within time and space are crucial. For, it is argued that neither political, nor economic trends determine the outcomes of processes, because public and private functions and activities can play complementary roles of one another. It is also stressed that the internal appropriation of change contributes to the incremental, punctuated and evolutionary character of social change.

Chapter Three argues that the contemporary efforts of the Mexican government to enhance the scope of commodification are by no means unproblematic. The elevation of economic over social priorities is a strong political act that needs to be assessed and challenged. Therefore, as resistance to the politics of economic determinism plays a prominent part in the analysis, the argument begins with a critical examination of the role which some orthodox neoclassical economic ideas have played, as an ideal dimension capable of influencing specific contexts. This is followed by a discussion of the problematic emphasis of neoclassical economic orthodoxy. It precedes an examination of the World Bank's influential position, as evidenced in the ideas and concepts about the role that it promotes for the State in contemporary economic affairs. Emphasis is also placed on the institutional frameworks and how they interact with economic agents such as firms. In so doing, attention is paid to the role of crises and innovation in the economic activities embedded in broader social relations. Due to the importance of power and causal relations for understanding the processes of social change, I use the Strategic Relational Approach to analyze them in the last section.

The aim of Chapter Four is to explore some of the current economic imperatives and polarizing results in contemporary Mexico. After analyzing the influence of neoclassical orthodoxy in the re-design of that country's economic agenda, it is argued that a key problem has been the growing patterns of inequality. Since the commodification experience of the economic restructuring has been outwardly oriented, it has had limited social impact. The development of endogenous institutional links has not been emphasized as strongly as the outwardly oriented policies. It is also argued that, for a large proportion of firms, the lack of patterns of

innovation has left them unable to create and sustain innovative pushes to reinvigorate the domestic market. By taking it for granted that economic growth would be delivered more or less equitably once economic restructuring was implemented, the outcome of government programmes has fallen short of expectations. Rather, the emergence of widening inequalities and polarization suggests that markets need to be considered as embedded within broader social processes.

Making use of the Strategic Relational Approach, Chapter Five pays attention to social interactions and causal relations which enable me to trace patterns of punctuated evolution and to highlight the transformations associated with crises. Since ideal types serve to highlight key characteristics in specific phenomena, processes and actors, some features of ideal types for the State and the transition from one type to another are also discussed. In particular, attention is paid to the Keynesian Welfare National State ideal type and to the Schumpeterian Workfare Post-National Regime ideal type. For, it is contended, that, the specific features of those ideal types could be of great help in broadening the debate on economic restructuring and political reforms in countries such as Mexico. Moreover, the approach provides an insight into the endogenous features of social change and stresses the importance of networking for a strategic agenda as well. For the never-static dynamics of the processes of change, the role of situated agents in context is fundamental, as it injects and acknowledges the contingency of the conditions that surround them.

A key claim of Chapter Six is the need for re-politicizing the processes of social change in Mexico, while critically examining economic imperatives as self-induced enforcement mechanisms. Focusing on the socio-political dimensions of the process, I

undertake an analysis of the nature of Mexican authoritarianism and features of the democratization processes currently under way. It is emphasized that if the latter is to succeed, we need to be aware of the broad transformative effects which it entails. Therefore, the challenge for a more egalitarian and democratic society must be undertaken without delay. As the theoretical approach suggests, network governance could be of great help in drawing up a more democratic agenda, which may open up further possibilities of transformation.

Chapter Seven engages in a discussion about the broad international context of globalization and regionalism, seeing them as socially embedded, neither deterministic nor economically-driven, trends, which are open to political contingency. In addition, I present an analysis of the first generation of economic reforms associated with the Washington Consensus and also of the institutional emphasis of the second generation of reforms of the post Washington Consensus. It is argued that there is a missing social and political dimension of the two generations of economic reforms that emphasize, firstly, macroeconomic variables and, secondly, an institutional agenda. Though their emphases vary and complement each other, no set of reforms acknowledges the vital political character of the situated actors in context, as both generations of reforms orientate towards harmonization of policies.

Finally, the aim of Chapter Eight is to highlight key tendencies and countertendencies within which the contemporary processes of social change in Mexico can be situated. In particular, the chapter takes a closer look at the Mexico-US relationships, the emerging markets and the financial crisis of the mid 1990s, because they have been crucial in shaping current dynamics. Moreover, acknowledging the consistency in the

narrow terms in which the North America Free Trade Agreement is designed should not prevent action to tackle its omissions and deficiencies. Challenges ahead include reducing the widening gaps of inequality on the one hand and the forging of a strong sense and idea of community on the other. They are needed for deeper and more consistent integration. Lastly, it is argued that NAFTA's shallow model, should it be exported to the Americas, exposes the Free Trade Area of the Americas' smallest and weakest economies to a situation in which trade and investment might flow, whereas inequalities and polarization might worsen.

CHAPTER ONE

Re-Interpreting Historic Transformations in Mexico: an Alternative Account

INTRODUCTION

One of the most frequently recurring and important issues in the Political Economy agenda has been, and will remain, the role of the State in the economic realm, on the one hand, and the way in which economic policies and their instrumentation affect the public sphere, on the other. An enormous spectrum of different theoretical positions has already been produced.

Debates on the diminishing capabilities of the State in the face of forces such as globalization and regionalization emphasize the role of emerging actors such as multinational firms, or of economic activities. They tend to stress the growing interaction of both actors and factors, especially in economic affairs, adverse with their effect on State capacities (cf. Ohmae, 1990 and 1996; Strange, 1996). Yet, whenever the analysis comes from a more comprehensive historical perspective; the picture changes quite dramatically (Hirst and Thompson, 1999; Held, McGrew, Goldblatt, and Perraton, 1999). Making use of a critical approach, it becomes more evident that the historical trajectories of the roles and functions performed by the State can be traced. Such trajectories show patterns which a single synchronic and static analysis is unable to provide.

According to Hay, analytical strategies of the processes of political change over time can be synchronic, comparative static, and diachronic. A synchronic analysis focuses “...attention on the structure of social or political relations at a specific instant...” (2002c, 144). Comparative statics is an aggregated variant of the synchronic approach, since it “...compares and contrasts synchronic analysis conducted at different moments in time...” (2002c, 146). It focuses on various points in the development of the phenomenon under study. Finally, in diachronic analysis, the developmental path and the pace of change are treated as empirical issues, without assuming that the development of the system can be broken into different parts or stages. The emphasis for this last analytical strategy is on tracing and charting the interaction of causal tendencies.

Comparative statics approaches, which entail making a comparison at different times, or diachronic perspectives, which emphasize the process and causality of change over time, make for a better account of the complex, unpredictable and fluid ever-changing dynamics of social change than does synchronic analysis (Hay, 2002c). This is important since assessing the capacity of the State under globalization and regionalism must be process-traced over time, in effect ruling out synchronic analysis.

The Strategic Relational Approach is capable of such process-tracing. It treats as merely analytical distinctions the strategic action of the actors, on one side, and the strategically selective context within which it is formulated and upon which it impacts, on the other side. Moreover, not only does the Strategic Relational Approach recognize that structure and agency are interwoven and interact dialectically in practice, it also acknowledges the dialectical relationship between the material and

the ideational spheres. This approach is based on a realist philosophical position.¹ (Jessop, 1990b; Hay, 1996, 2000b, and 2002c).

Although the State is influenced both internally and externally to various degrees as a permeable structure and flexible agency, the leverage or incidence which some specific actors and factors possess is clearly greater than others. Equally, the actions at both domestic and international levels significantly affect outcomes. These actions are taken into account by the actors in context and trigger responses, which in turn influence decision-making processes. Thus, the structural context and the situated agent dialectically interact, on the one hand defining a strategically selective context and on the other being affected by the courses of actions chosen by strategic actors.

This study is orientated not only according to the process tracing approach, but also in line with the third wave of globalization literature. The first wave of globalization literature heralded the end of the Nation-State amidst the increasing hypermobility of capital, since globalization is an economically homogenizing driving force. The second wave analysts were sceptical about these claims and argued that the Nation-State remained intact and that national sovereignty is untouched, due to the persistence of regional and national variations. Now the third wave authors stress the existence of globalization tendencies and counter-tendencies. They focus on the contingent and convergent nature of globalization and its differentiated impacts in different contexts (cf. Hay and Marsh, 2000; Held, McGrew, Goldblatt, and Perraton, 1999).

¹ The differences between the ontological and epistemological positions of positivism and realism are

The aim of this thesis is not only to trace historical trajectories, but to identify processes and countertendencies, actors, factors, issues at stake, agendas and also characteristics of change and stability. In other words, deterministic accounts are those which see globalization as a causal variable or indeed, an end-state or inexorable process, are avoided.

Broadly speaking, the contemporary State has tended to be analyzed in socio-political, legal, or economic terms (cf. Cerny, 1990; Jessop, 1990b, and 2002; Hay, 1996; World Bank, 1997b). One of the main concerns of political and economic analysts is the role of the State and the way in which economic flows shape and are shaped by the interaction of States and markets. The emphasis on globalization has highlighted the ostensible need for the State to follow sound economic fundamentals. Neoclassical economists and the Bretton Woods organizations embrace the view that macro-economic stability relies on monetary policies of low rates of inflation and balanced current accounts, control of fiscal policies and public finances and a floating exchange rate, among other variables. The effect of specific economic inputs, however, does not guarantee specific outcomes, as the latter are not pursued in standard or identical ways. The contingent convergence of tendencies and policies correspond to the persistence of national variation (Hay, 2000a).

It is important to notice that there seems to be almost an imperceptible, if not quite absent, dialogue between political accounts and economic ideas regarding the articulation of the role of the contemporary State in Bretton Woods organizations and neoclassical economics. Yet, if policy implementation is to be successful, it is

discussed in Chapter Two of this thesis.

imperative that feedback mechanisms should be in place to link the top levels of the bureaucratic elite down to the bottom of grass roots society. There is hardly any dialogue and political accountability about the content of such policies and the populations in whose interest they are ostensibly pursued. Alternative proposals to neoclassical economic rationality are simply ignored.

One of the reasons that there is a lack of two-way communication between sociological and political ideas on one side and economic models on the other, lies in the basic founding assumptions of these disciplines and their fields of study. It is to them that I now turn. Firstly, a very brief description is given of the broad political realm which this thesis encompasses. It is followed, secondly, by a short description of the assumptions of the market economy.

The argument of this chapter is presented in the following way. Firstly, it makes explicit a broad concept of politics and power, which is complemented by the subsequent description of market economy assumptions. Once the economic and political elements are clarified, I spell out the processes of change, paying particular attention to the phenomena associated with State crises and to the punctuated evolution of the State. In order to illustrate this, two contending periodizations of the State in Mexico are analyzed, before presenting a theoretical map based on the Strategic Relational Approach, and its account of the periodizations of the trajectory of the State in Mexico. The analysis starts with the 1910 revolution, tracing crises and major changes, while the corporatist period, from the 1930s up to the 1970s, features stronger continuity. The structural change and punctuated evolution of the State becomes more evident in the imposition of a new State trajectory since the late 1970s

and early 1980s. The final section summarises both the theoretical account of the Strategic Relational Approach and the illustration of the Mexican case.

THE POLITICAL REALM

A broad understanding of politics aims to avoid minimalist and parochial debates. Politics is understood here as the common axis to all human activities permeated by cooperation and conflict and the concern about the way in which resources are used, produced, and distributed (Leftwich, 1984). Understood in this way, politics is all-encompassing. Its study, therefore, must incorporate a wide spectrum of inputs, interactions and consequences. Since human agency injects indeterminacy and contingency into all the levels of social, political and economic systems, an interdisciplinary approach and process-focused study is required. This is clearly to be preferred to a limited perspective of the operation of power by exclusively governmental agencies (Hay, 2002c).

Process tracing does not imply historical determinism. It provides a comprehensive account of the intertwined and interwoven tendencies and countertendencies of stability and change which are encountered in their everyday reproduction by social structures and agencies alike. According to some criticisms, analysing long trajectories and trends oversimplifies the extremely rich and varied spectrum of actors and factors, structures and agencies, opportunities and constraints which all interact in specific situations. To overcome this problem the analysis could be complemented by specific case studies for which more detailed analysis might be required. There is no

incompatibility at all between process tracing and diachronic analysis because they complement each other. Indeed, the terms are essentially interchangeable.

Instead of a reductionist approach to politics as confined to government, the Strategic Relational Approach prefers an encompassing understanding of politics as processes which include not only the public realm, the governmental sphere and the State, but also the private sphere, affairs beyond the reach of the government, and society broadly considered. Thus, politics is an arena for Aristotle's political animal, concerned with the distribution of societal power. Central to this thesis is the core notion of the political, which encompasses a sense of every collective social activity in all human groups, independently of their organization and categorization. In other words:

...politics comprises all the activities of co-operation and conflict, within and between societies, whereby the human species goes about organizing the use, production and distribution of human, natural and other resources (...material and non-material, that people use to further their own ends, as individuals or collectively in groups...) in the course of the production and reproduction of its biological and social life. These activities are nowhere isolated from other features of life in society, private or public. They everywhere both influence and reflect the distribution of power and patterns of decision-making, the structure of social organization, and the systems of culture and ideology in society or groups within it (Leftwich, 1984, 64-65).

It is undeniable that political phenomena cut across an incredible variety of relationships between structures and agencies. Moreover, the transformative capacity of power, which is linked to its influence, distribution and use, can be traced historically. In order to do this better, interdisciplinary approaches capable of focusing on a wide spectrum of frameworks are basic flexible analytical requisites (Held and Leftwich, 1984). Process-tracing reveals trajectories which may not be identified by synchronic and static analyses. It remains fundamental for providing a broader analytical map by which to give an account of the fluid and never static nature of social change (Hay, 2002c).

Classical and traditional static notions of the State (those of the State as a monopoly law maker, as a set of structures and institutions and as the holder of legitimate coercive practices) are unable to provide an accurate idea of the interactions and scope of the elements involved. By contrast, the Strategic Relational Approach, whereby the State is seen as a social fluid structure, does take account of these transitions. Such an approach pays attention to path-dependent strategically selective entities, where the crystallization of past strategies privileges current ones (Jessop, 1990b).

The non-material features and elements of the State are undoubtedly the most difficult to identify. In this sense, the State is composed of dynamic social structures. These are in a process of continuous evolution. For the purposes of this study, the Strategic Relational Approach is adopted and discussed in more detail in Chapter Five.² For the

² The State, as the most complex social structure, has some distinctive features, with its national community, its bounded administrative sovereign terrain and its coordinated apparatuses, among the

moment, suffice it to say that it acknowledges and incorporates the interaction of dialectical processes on the one hand, and suggests the punctuated evolution trajectory of the State on the other. Clearly, this is an approach characterised by the cumulative nature of often incremental change.³

The analysis of political structures as processes of structural change and punctuated evolution takes into account the ongoing and uneven interactions and relationships between a wide variety of agencies and structures, on the one side, and the dialectic patterns of stability and transformation on the other. The processes of structural change and punctuated evolution which the State undergoes can be characterized as a complex web of opportunities and constraints. These windows open up a mix of problems of choice and control, which are not merely an aggregation of individual choices, but ongoing processes at the domestic and at the transnational and international levels. According to Cerny, power is one of the main categories used to explain how the State works, as well as to explain its links with a broad notion of politics. In this sense, the classical Weberian notion of legitimized power is only one of the main determinants of the processes of political structural change and the punctuated evolution of the State. Furthermore, the pluralist notion of politics as a market structure, which provides a 'structured field of action' in which people and groups compete, is also another determinant of the same processes (Cerny 1990). Since power is such a crucial political variable, it is to its identification that I now turn.

most obvious (cf. Hay, 1996). Chapter Five examines, among other issues, broad social processes, change and the State.

³ In contrast to the analysis of change as phases of equilibrium interrupted by rapid and intense transformations, the concept of punctuated evolution focuses on the gradually increasing amount and

The exercise of power is not narrowly confined to military might or the use of force. Power dimensions embrace not only material and tangible realms, but also non-material and intangible ones. Furthermore, power is neither a zero-sum game among individuals, nor constrained to decision-making, agenda setting and preference-shaping (Bachrach and Baratz, 1962; Lukes, 1974). Although those are perhaps widely used approaches for analyzing government offices' inputs and outputs, its narrow scope and exclusion of the social dimension dramatically limits analysis. Such faces of power do not take into account human agency at all. Agency is important because it injects contingency into the processes, where the capabilities of some actors compel constant redefinitions of social, political and economic scenarios.

Power is socially and structurally evident; however, it is non-measurable and non-existent in a unitary sense. Social dimensions are permeated by power relations at all levels and in all directions. Foucault and Poulantzas have contributed to the analysis and understanding of power as immanent in all social relations.⁴ Although power has no specific or privileged origin, nor any a priori essence, it is reproduced and exercised in all interactions at all social levels. Consider for instance the State: the practices and reproduction of power are mediated through its own institutions and organizations in which productive and positive sides are quite evident, not only through repressive and negative practices (Jessop, 1990b).

impact of change. It recognizes that accounts of structure, agency, ideas and material factors are crucial for the analysis of change (Hay, 2002c).

⁴ However, for Foucault, the omnipresent character of power in all human agency relations assumes very different forms, and is exercised in infinite ways; it is also acknowledged as extremely fluid, mutable and contingent (Hay, 2002c). The means are diffused through consensual acceptance of

Furthermore, as social relationships and interactions continuously shape and are shaped dialectically, one of the best and most convenient routes to an analysis of power is to explore strategies. Strategies are the way in which agencies relate to each other, and also the way in which they relate to their respective contexts or structures. Their interaction reflects their choice of strategies and tactics, which, in turn, might be constrained by specific circumstances, yet enhanced by various opportunities, depending on the context shaped by previous decisions and practices (Jessop, 1990b).

According to this perspective, power can be conceptualized as ‘context shaping’ and ‘conduct shaping’.⁵ In these terms some agencies have in essence the means and ability to provide the contexts for others and the margins of their action. In other words, some actors shape the preferences of, and influence the range of options within which, other agencies, both collective and individual, formulate their strategies (Hay, 2002c, 2000b). Now that the broad understanding of politics and power has been spelled out, and since they are further to be discussed in Chapter Two, I attempt in the following section to demystify the assumptions of the market economy.

THE MARKET ECONOMY

Central to neoclassical economics is the study of the causes of wealth, human action, and the optimising of individual decisions. Widely relevant as they seem at first

stability, which in turn could be exercised primarily by repression and education, since power and knowledge directly imply one another.

⁵ Hay’s critique of Lukes focuses on analytical and normative dimensions, since the former author points not only to the analysis and identification of power within any given social and political setting, but also to the distribution and exercise of identified power (Hay, 1997b; 1999c; 2002c).

glance, the assumptions on which the market economy operates consist of a restricted set of features. Taking for granted that people are rational individuals committed to states of equilibrium is clearly problematic.⁶ The adoption of an individualistic perspective which denies the socially embedded character of human activity is misleading and unrealistic. So is the assumption that utility-maximizing behaviour is the only ‘rational’ course of action that one can take. Furthermore, by assuming that a state of equilibrium is not disrupted, the behaviour of such a gain-seeking individual is deprived of the means and capacity to interact with the conditions which surround him/her (Lawson, 1997 and 2003).⁷

There is no reason to disregard the context within which actors are situated and assume that the market economy works only for individuals. It works for collectivities as well. Both engage, albeit to different extents, in activities of production, distribution and exchange. Since a market economy can cater for different habits and different behaviours alike, the conditions of imperfect competition and asymmetric information are very common, as further discussed in Chapters Two and Three. The market economy is not the exclusive domain of utility-maximizing individuals who specifically aim for equilibrium. On the contrary, economic activities are important, constitutive elements submerged in broader social relations which constitute processes followed over time (Lawson, 1997 and 2003).

The perception of human activities as embedded in social practices challenges the contemporary consensus of politics as a market place, where the economic emphasis

⁶ The uncritical acceptance of axioms which are asocial, ahistorical and subject to modelling in neoclassical orthodox economic theory is discussed by Lawson, who also argues for a more realistic approach to the analysis of economic activities (1997 and 2003).

stresses comparative and competitive advantages. The problem with this perspective is that these lenses decontextualise and depoliticise the use, production and distribution of resources. Deterministic economic rationality has already proved extremely costly. Consider the rampant exploitation of natural resources, the dismantling of welfare protection and the misleading use of information as a commodity. By following an economic rationality centred on the motive of gain, all transactions are tuned into money transactions, where everything without exception is turned into a commodity, even resorting to the fictitious commodification which takes place in allegedly ‘self-regulating’ and ‘self-adjusting’ markets.⁸ Consequently, the unrealistic processes of the commodification of man, nature, knowledge and money need to be halted. Unfortunately, it seems that the levels of protection which Polanyi described as the second part of the ‘double movement’, parallel to the expansion of markets, are even being lowered in accordance with neoclassical economic rationale. But this rationality is unsustainable in the long run. For, the success of these practices undermines the necessary conditions for the model itself, since the fictitious commodities were never produced for sale on the market. Nonetheless, they were organized as such, and consequently the continuous expansion of the market leads to social dislocations which are in turn, met by counter-movements seeking the protection of society (Polanyi, 1957). The more neoclassical

⁷ The issue of equilibrium in relation to globalization is discussed in Chapter Seven.

⁸ The concept of commodification used here borrows from Polanyi’s commodity fiction: “...labour, land and money are essential elements of industry; they also must be organized in markets; in fact these markets form an absolutely vital part of the economic system. But labour, land and money are obviously not commodities; the postulate that anything that is bought and sold must have been produced for sale is emphatically untrue in regard to them... None of them is produced for sale. The commodity description of labour, land, and money is entirely fictitious... Nevertheless, it is with the help of this fiction that the actual markets for labour, land and money are organized; that they are being actually bought and sold on the market; their demand and supply are real magnitudes; and any measures or policies that would inhibit the formation of such markets would ipso facto endanger the self-regulation of the system...” (1957, 72-73).

economic rationality is put into practice, the more it polarizes wealth, endangers the environment and increases social dissatisfaction, benefiting only the few.⁹

According to Karl Polanyi, the assumptions on which the market economy was based are historically inconsistent. Adam Smith pointed to the capacity of man to barter and exchange one thing for another, leading to a radical change in the main motivation in society, consistent with the birth and consolidation of market society.¹⁰ From Polanyi's perspective, the principle of subsistence was replaced by the principle of gain. In contrast to contemporary discourses and practices, and using a long term historical perspective, economic activities have tended to be submerged in the social realm; they have become part of embedded social relationships, not the other way around. Therefore, the situation is not as the neoclassical economists and neoliberal discourses take for granted. The economy did not shape either political or social preferences (Polanyi, 1957). Chapter Three analyses the politics of economic determinism and discusses the importance of the philosophical stance of neoclassical economics, in contrast to the realist position which is supported in the present thesis.

According to neoclassical orthodoxy, the market economy can only function in so far as all goods and services are tradable. If this is assumed, then there is a market for everything. Man and nature are in this view considered to be available for sale. In short, they are commodified. Money comes into being from the mechanism of banking and State finance. As labour, land and money are vital parts of a market

⁹ Governmental and international programmes aiming to help poor people or specific segments of the population face a series of problems. Nonetheless, some may prove more successful than others in the short run, where their goal is to protect severely affected segments of the population and endangered species. Needless to say, there is no need to wait until catastrophes happen, for it is then too late.

economy, they are organized as commodities. To the original consideration of these three fictional commodities, knowledge and information can be added.¹¹ The flawed commodification of human activity, knowledge, nature and the tokens of purchasing power, leads to the consideration that profits can be extracted from them. In this sense wages are profits extracted from man, rent is extracted from nature and interest from money (Polanyi, 1957).

To compensate, however, for the imperfect commodification of labour, land, information, and money, a double movement emerged. The expansion of markets in the 19th century was accompanied by the urge to protect society and nature. Because the utopia of a ‘self-regulating’ market was evidenced by its social and environmental distortions, the protection of the factors of production, labour and land were the main functions of State interventionism (Polanyi, 1957).

Since the historical period analyzed by Polanyi, there have been different degrees of implementation of the flawed commodification of human activity, knowledge, the environment and money. The levels of social protection can be traced historically. Broadly speaking, the social policies of corporatist States during the mid 20th century, originally intended to take labour out of the market; whereas the dismantling of welfare in neoclassical economically oriented States, a few decades later, looked for a flexible labour force and commodified human relations. Moreover, it is the case that the same State at different periods varies its position with respect to the two poles of

¹⁰ The notion of ‘homo economicus’ as the rational economic man, which for neoclassical economics is the point of departure, came from John Stuart Mill. Thanks to Watson for making this point clearer.

¹¹ The whole idea of intellectual property rights, patents, brand names and trade marks revolves around the commodification of knowledge and information. This is hinted at by Jessop (2002), who reports Schiller’s ‘How to think about information’ as his source.

more fully comprehensive social protection and minimal welfare. Since there is a strong political character in socially embedded human activities, it cannot be argued that the selection and implementation of public policies reflect only economic criteria. Clearly, political elements are taken into consideration as well, either in an overt or a covert fashion.

It is important to note that both Polanyi's and Smith's theoretical models are parsimonious ideal types, impossible to put into practice in a 'pure' form. Influential as both of them are, the models have chosen simplicity at the cost of complexity. Smith and Polanyi, though embracing contrasting perspectives, developed highly abstract and general theories with as few variables as possible, aiming to provide broad arguments and wide generality for the sake of further explanation.

Since it is through economic and political processes that social structures face change in a dynamic way, attention should be paid to the development of tendencies which build up and make change possible, especially through crises. The analysis of these elements and factors is the aim of the following section.

STRUCTURAL CHANGE AND PUNCTUATED EVOLUTION

Crises are one of the mechanisms by which structural changes and the punctuated evolution of the State takes place. In contrast to neoclassical economics or a governmental agenda which emphasises economic variables, political stability and governance, crises open up windows of opportunity and do not merely constrain. The

characterization of crises as phases of destruction or rupture alone is at best inaccurate, at worst misleading.

Crises are key elements of the processes of change.¹² They may be used as crucial moments of institutional change to allow an adjustment or modification in the trajectory of the State. Nevertheless, they might equally be used for making small adjustments which merely ratify the trend or trajectory of the processes of structural change and punctuated evolution of the State. All crises are not the same, nor are they faced by all States in a similar situation. A range of strategies for addressing their causes may range from the total elimination of the main problem as identified, to merely discursive strategies. Moreover, there is also the possibility that crises might be misperceived and misidentified (Hay, 1996, 1999a).

The processes of structural change and punctuated evolution take place in economic, social and political interactions at all levels. Processes are composed by tendencies and countertendencies which present a dynamic of ‘punctuated evolution’ evident from its trend and trajectory. The outcome of path-dependence and the build-up of contradictions result in different windows of opportunity and constraint in which some options are preferred to others. Processes are the cascade of iterative and cumulative changes identifiable in historical or comparative perspectives. They are also the way in which current policies or practices are built, and induce or orientate

¹² For Schumpeter crises imply ‘creative destruction’ (1954). Such a notion is to be examined in more detail in Chapter Three, and is also an important referent regarding the Mexican experience in Chapter Four.

towards preferred outcomes and specific goals.¹³ In this way, the alloy of incremental changes gradually becomes the foundation for subsequent ones (Marsh et al., 1999).

As has been already discussed, and is further to be analysed in Chapter Five, the State features not only material elements, but also intangible ones, perceived as sites of ‘strategic selectivity’, which are where the social relation is crucial. In a dialectical fashion, the strategies and tactics of the State generate privileges for specific desired outcomes, inducing particular courses of action and the practices associated with them. Consider for instance the emphasis on low rates of inflation, which, according to neoclassical economists, are important for maintaining macroeconomic stability. Similarly, the processes of structural change and punctuated evolution of the State are the product and crystallization of past choices. Thus, it is a sort of non-neutral, path-dependent societal ensemble which articulates a broad range of feasible representation and intervention activities (Jessop, 1990b).

In addition to the selection of strategies to be used for the international and domestic windows of opportunity and constraint, the ever-changing redefinition and collaboration amongst social structures becomes evident in the trend and trajectory of the practices and actions of the State. For instance, at the beginning of the 21st century, the induced priorities in the economic agenda incorporate the reduction of transaction costs and the increased use of economies of scale. Nowadays the State is

¹³ Broadly speaking, the characteristics of the tendencies and countertendencies of continuity are associated with interruptions or alterations which differentiate them from an inactive stasis (Marsh et al., 1999). For the implementation of ideas, it is acknowledged that even in the face of structural and agency constraints, there are always opportunities and alternatives to select from; and, even more important, they are selectively created (cf. the thesis of ‘State overload’ and ‘ungovernability’ or out of control, unmasked and discarded in the analysis of Thatcherism in Britain; Hay, 1996). For the Mexican case, where the technocratic ruling group argue that overloaded political systems are ungovernable, see Medina Peña, 1995.

outwardly market oriented. Interestingly, after the Second World War the agenda considered as a priority the provision of welfare and pointed in a different direction. The import substitution model of industrialization implied specific and granted additional protection for economic activities and market niches, which was not exceptional by any means. A few decades ago the agenda was inwardly market oriented, where economic imperatives and discursive fashion played important roles.

The trajectories of structural change show a contemporary historical pattern which departs from corporatist practices and welfare policies, towards an increasingly liberal orientation of the economy. Since this topic is to be discussed in Chapter Five, suffice it to say that Cerny uses the categories of Welfare, Competition and the Residual State to qualify differences in the processes of historical transition from one to the other (1990, 1995, 1996a, 1997b, 2000b, and 2000c). The move, however, from Welfare State, to Competition State, and then to Residual State, has been not a smooth one free of contradictions. On the contrary, the historical trends seem to suggest that the success of some specific policies and models benefiting specific sectors and segments of society ironically undermines the base and legitimacy of the regime. In turn, this contributes decisively to promoting, influencing and in extreme circumstances triggering change. Such notions are critically examined in Chapter Five.

In sum, any specific regime associated with a given period of the punctuated evolutionary trend is transitional and leads to another historical phase. In the following sections the case of Mexico illustrates this better, since I trace the processes of change by means of a theoretical map. Prior to embarking on this analysis it is

important to consider what a pair of influential studies say about the contemporary periods of the Mexican State.

MEXICAN STATE PERIODIZATIONS

It is important to stress the fact that no chronological tracing of Mexican history is attempted in this thesis. The aim of this chapter is to develop a theoretically informed account of the evolution, adaptation, crises and transformations of the processes of structural change in the Mexican State. Amongst the numerous studies of the Mexican State which incorporate a dynamic analysis of the changes it has undergone, two in particular are worth mentioning. The first one is Luis Medina Peña's *Hacia el Nuevo Estado*, and the second is Alan Knight's 'The Modern Mexican State. Theory and Practice.' Both of them are important and influential. They cover the 20th century history of Mexico. Nonetheless, they are not exempt from being problematic, as we shall see.

The former, written by a Mexican author, focuses on the period 1920–1994. According to his analysis, this period marks the 'second' differentiated Mexican Nation-State, the previous one having been liquidated by the 1910 revolution. In his perspective, the second stage of the State precedes a more contemporary one, still in a definitional phase. This is characterized by decentralization priorities and economic concerns. According to Medina Peña, the second 'post-revolutionary State' featured the centralization of power and the strengthening of the institutional structure of the regime. Furthermore, his well documented, deep and systematic analysis argues that

laws are a necessary, but not a sufficient condition for modernizing a society. For such a task to be undertaken, the traditional authoritarian State had a role to perform. Yet, despite legal and democratic masquerades, the 'post-Revolutionary State' was unable to represent and appease all social forces. He points out that the early 1980s represented the end of the statist project, leaving behind strong economic intervention, domestically oriented programmes, public deficits and protected markets and creating a vacuum into which was injected neoclassical monetarist policies (Medina Peña, 1995). Taking into consideration the semi-cyclical account which he gives, if effective federalism and municipal autonomy are to be accomplished, it would mean a move towards the intentions of the original 1917 constituents. Additionally, this must be accompanied by political reforms which guarantee a real balance of power, where the Executive neither overtakes, nor surpasses, the Legislative and the Judiciary. More importantly, the punctuated evolution towards what he calls the 'New State' would require efficiency since markets are not self-regulating; it would complement the private sector and provide welfare, education and services where private actors were incapable of, or not interested in playing such a role. Furthermore, international agreements provide the State with a recognition of national economic interests (i.e. dispute settlement panels), strengthening the triangular diplomacy between firms and States.

Medina Peña's analysis freezes the Mexican State in its relationships and focuses on its relations at specific periods of time. The problem with the synchronic analysis on which Medina Peña embarks is that it offers no insight into the processes of change per se. The classification of the different characteristics of the Mexican State over time in a chronological and hierarchical order implies different States as steps on a

ladder. His account fails on the one hand to identify features of continuity and discontinuity, and on the other to explain the dynamics of the process of change. Continuity and discontinuity are always present in the punctuated evolution of change for both actors and the context which provides them with a strategically selected mix of opportunities to act and constraints upon action. This is also the context which allows them to modify, in turn, albeit with intended and unintended consequences, the range of feasible options in the foreseeable future.

The second of the periodizations makes use of a neo-Marxist framework of analysis in which on one axis the strength of the State ranges from weak to strong and on the other the character of the dominant class ranges between support of, and autonomy from itself. According to Knight, these axes serve to develop a figure divided into four different quadrants (2001, 182-183). Tracing the ‘relative autonomy’ of the Mexican State, Knight starts from the north-west quadrant, the ‘Agent State’, from which, following an anticlockwise trajectory, he classifies some presidential terms on the south-west quadrant labelled the ‘Nightwatchman State’.¹⁴ This one in turn precedes the third stage, ‘Stalinism’, in the south-east corner, prior to the very last segment, entitled ‘Fascism’, which can be found in the north-east quadrant. His account argues that the Mexican State trajectory has come almost full circle, as presented in Figure 1.1 below (Knight, 2001). Moreover, he also argues that there has

¹⁴ Knight adopts Tilly’s relative autonomy concept in which external and domestic protection rackets shelter the State and the people who hold official positions. According to this argument, relative autonomy gives the State independent room for manoeuvre and gives the dominant class room to pursue its own self-interest (2001).

For a theoretical critique of this concept, in addition to the distinctiveness of strategic selectivity, see Jessop (1990b).

been a historical trade-off between the strength and the stability of the State in Mexico (Knight, 1993).¹⁵

Since Knight is not concerned about the processes of change, what is needed is the use of different analytic and theoretical tools more appropriate to an analysis of the tendencies and countertendencies of change. The political economy emphasis pursued in this thesis stresses social, political and economic processes, while paying attention to power relations and flawed commodification processes. The use of political and economic variables aims to trace the processes of structural change and the punctuated evolution of the State allows the analyst to identify the strategic selectivity of the processes privileging certain courses of action over others, on the one hand, and the influence of the agents in the context to contribute to its fluid reshaping dynamics, on the other. Knight's analysis is focused on the strength of the State and its 'relative autonomy' from the dominant class.

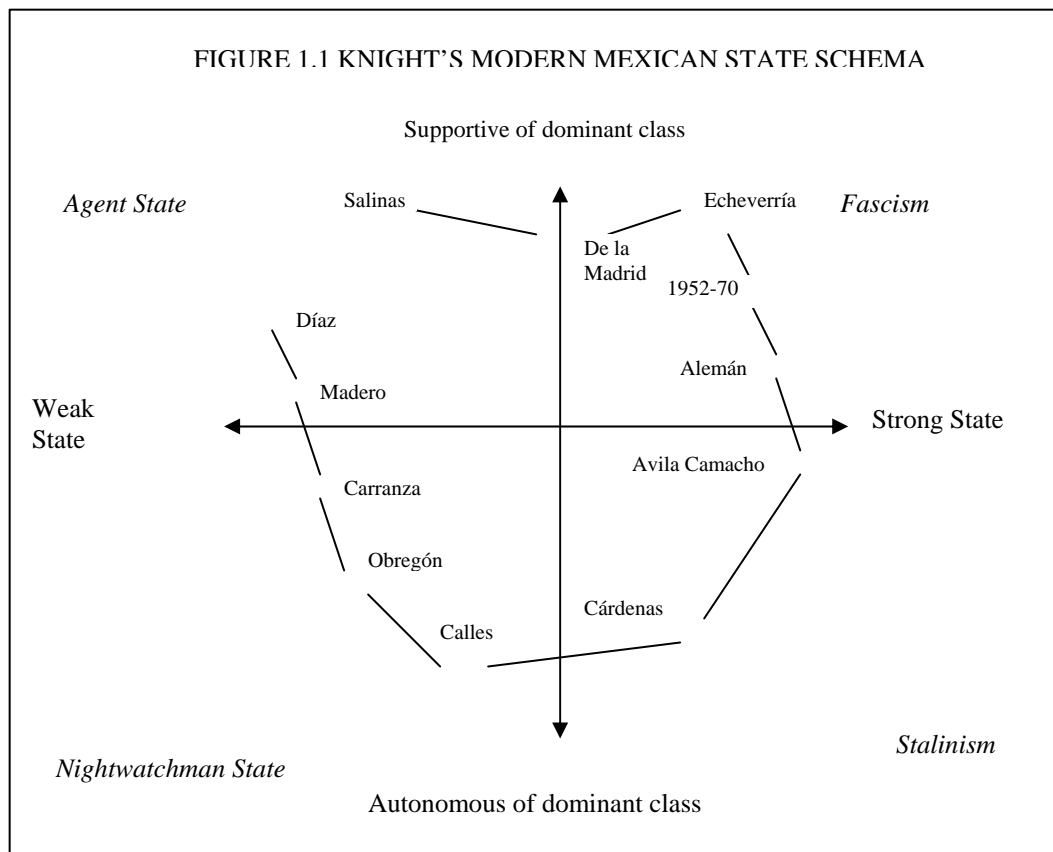
Knight's study makes use of a different theoretical perspective from the Strategic Relational Approach preferred in this thesis. It should not come as a surprise,

¹⁵ According to Knight, the political continuum and orientation of policies of historic phases in Mexico range between two different spectrums. Taking labels from its dynastic periods of colonial history, he argues that there has been a historic trade-off between the strength and stability of the State. For regimes such as the Porfiriato, the post-revolutionary regimes, and the last few of the 20th century, they represent ambitious projects in which a relatively autonomous State tends to dictate or mould social patterns by favouring active intervention in civil society. Those periods which make use of an aggressive policy towards State-building and economic development are labelled Bourbon (1993).

The other end of the spectrum is deemed to be relatively more modest and more concerned with the maintenance of the current state of affairs. Between the early 1940s and the technocrats of the 1980s, especially during the period of import substitution industrialization, and the phase of 'stabilizing development', a pro-status quo pattern which made use of various mechanisms of political subordination and wealth accumulation gained notoriety. Because of the emphasis on control, consensus and selective repression, the Mexican governments of that time are labelled Habsburgs (Knight, 1993).

Furthermore, according to this view, the transitions from one type to another are explained in structural terms. Once the viability of economic and political conditions were exhausted, the circumstances favoured a shift.

therefore, that the accounts differ in their assessments, trends, scope and periodizations, yet agree on quite broad conceptions.¹⁶ Now that the Mexican State periodizations of Knight and Medina Peña have been revised, I turn to an analytical proposition taking the Strategic Relational Approach to describe the trajectory of the State as I see it.



Source: Knight, Alan. 2001. "The Modern Mexican State: Theory and Practice", p. 182.¹⁷

TRACING THE PROCESSES OF THE STATE

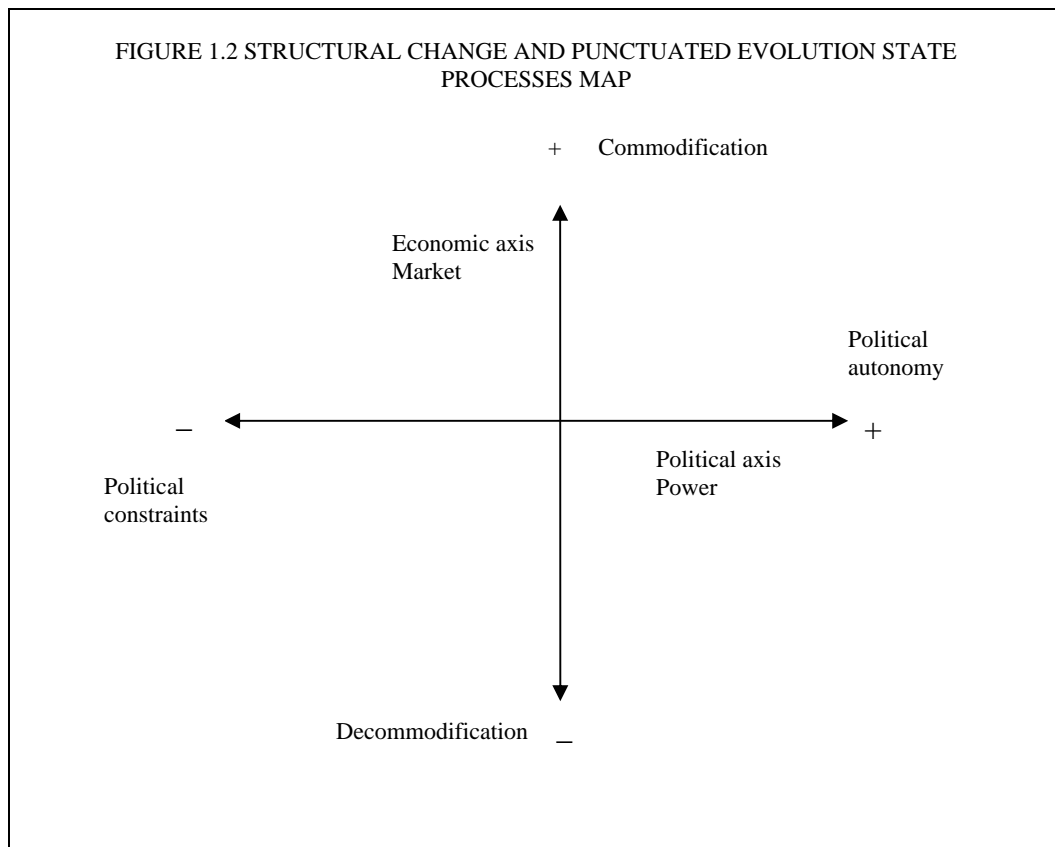
¹⁶ His scheme clarification disaggregates the historical political practices and characteristics of the Mexican State and what he means by the character of the dominant class there, and does not cover the legitimacy of the State in Mexico (Knight, 2001).

In this section, I consider the processes of structural change and punctuated evolution of the State, whose power dimension is represented in Figure 1.2 along the horizontal axis. The display of State capabilities in the exercise of power is perceived to vary during different phases of the historical process. The more evident the political realm is in the different roles and status played by the State, the further towards a positive sign it can be traced along the political axis. Conversely, the less the perception or the display of some actors' ability to shape the context in which others interact, the closer the association which can be made with the negative side of its capabilities.

In Figure 1.2, the flawed market exposure of commodities is considered along the vertical axis. A positive sign represents increased commodification; this means reduced protection from the market. At the other end of the axis, a negative sign means that these four commodities are taken out of the market, granting them an increased level of protection. In other words, they are decommodified.

The four quarters divided by the 'x' and 'y' axes aim to portray the different phases of the State's peacetime structural change and the trajectory of its punctuated evolution. As the power axis goes up, I attribute increased leverage from private actors and an emphasis on neoclassical economics and practices. As the same axis goes down, I attribute corporatist practices and institutions dominating the governmental agenda, with Keynesian policies being introduced. Leftwards on the market axis, decline in the capabilities of the State point to a minimal or utilitarian role. Rightwards on the same axis, the policies and practices of the State are stronger as the axis moves further right.

¹⁷ The names in the schema correspond to relevant presidential terms, as originally highlighted by



Several factors can trigger change in the processes of structural change and the punctuated evolution of the State. Important political and economic factors need to be taken into account. For the political factors, the range of options varies from political constraints at one end, to political autonomy at the other. The spectrum encompasses the limits of feasible available options. In a similar fashion, for the economic factors the wide variety of possible alternatives is comprised between the poles of market driven commodification, on the one side, and the politically driven decommodification, on the other. Thus, political and economic structures set the stage and conditions within which courses of action are strategically selected by the actors

in context. Having explained the analytical axes, I turn, firstly, to some features of Mexico and, secondly, to the main periods of contemporary processes of structural change and punctuated evolution in the Mexican experience.

THE MEXICAN STATE

Even though it is not my aim to supply a complete narrative of recent Mexican history, it should suffice here to briefly recall the more hectic 19th century events which threatened the nation on the domestic and foreign fronts. Mexico gained independence from Spain in 1821 after eleven years of war. Very soon it had annexed Central America and drafted two constitutions, in 1824 and 1857. The latter limited Church power and broadened individual freedoms. Mexico suffered the secession of Texas in 1834 and saw it annexed to the United States in 1845. The following year the US declared war on Mexico, subsequently defeating its southern neighbour. The 1848 Treaty of Guadalupe Hidalgo legalized the seizure of California, Nevada, Arizona, New Mexico, Utah, and part of Colorado by the United States. In 1853 the Gadsden Purchase acquired some more territory from Mexico for railroad expansion. The civil War of the Reform ratified the liberal faction in power led by Benito Juárez. They were externally challenged in 1861 by Spanish, British and French forces demanding the repayment of debts. After the first two withdrew, the army from France fulfilled the threat the year after, and by 1864 had installed a member of the Habsburg family as the second emperor of Mexico; but he was finally defeated and executed three years later. Due to historical circumstances since the struggle for independence, in particular the inheritance of a colonial centralization of power, an

independent presidency replaced the colonial viceroyship. The Presidents have displayed, accumulated and exercised this in a way which has led to the neglect of other branches of government. The legislative and the judicial institutions are weak, in transition, and not strong enough to represent a real and effective balance to the great executive powers.

The 1910 Revolution started the concentration of shaping power over context and conduct now evident in contemporary Mexican social relations. This phenomenon was catalyzed via corporatist institutions and courses of action, as I argue below. The strength of the government structures and agencies moved towards an increased exercise of power. This period can be represented as a downward movement along the political axis (see Figure 1.3 below). Whilst a contrasting phenomenon began to be observed from the last quarter of that century, a new economic and outwardly oriented agenda started to dismantle the inwardly directed one, focused on political stability and growth. The strategically selected preferences of democratization, political autonomy, decentralization and federalism, have accounted for a deconcentration and disaggregation of political power while emphasizing external market oriented economic imperatives such as the liberalization of trade and divestiture of public enterprises. These phases represent an upward movement along the 'x' axis in the same figure. They are also further to be analyzed in Chapter Six.

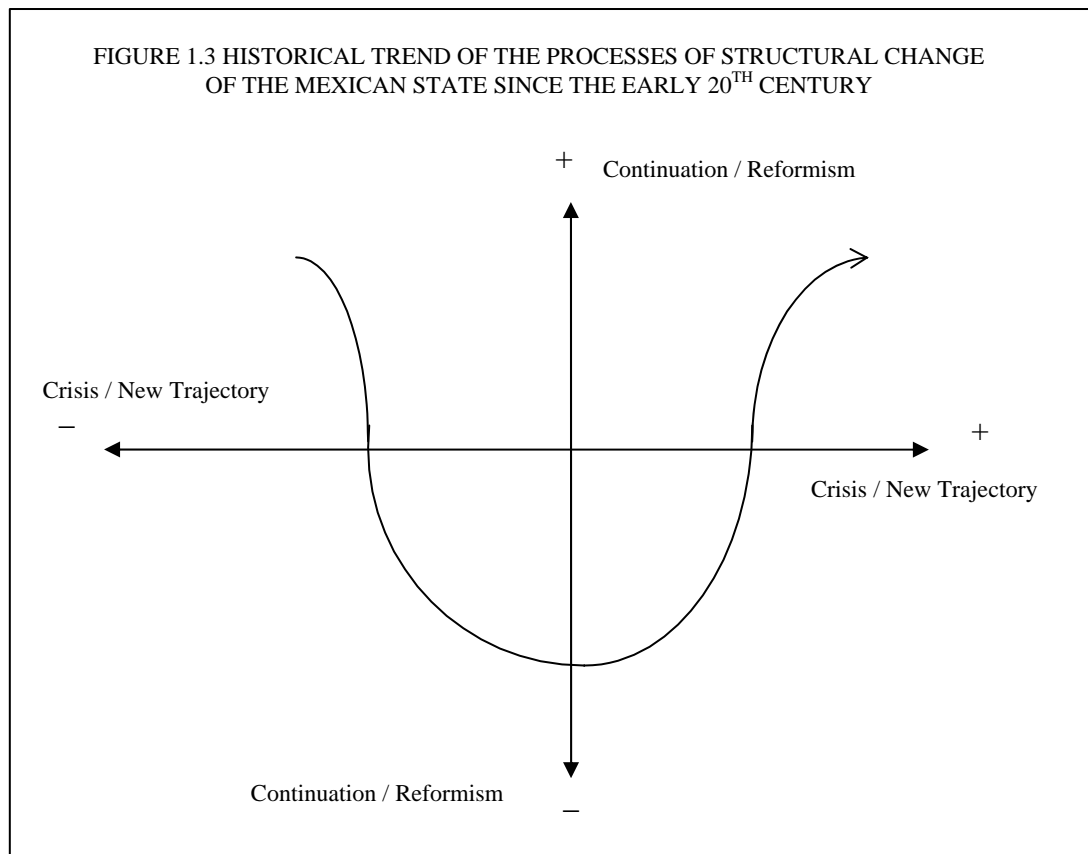
Although the United States of Mexico are, according to its 1917 Constitution, a Federal Republic, in practice the high centralization of power and decision making distinctive of the Presidency has been the main reason for categorizing it as an authoritarian political system, led by a former bureaucratic and nowadays

technocratic, elite¹⁸ (Meyer, 1977; Levy, 1990; Camp, 2003). The exercise of power by the President has been fundamental to the reforms and processes of structural change and for the path of punctuated evolution which the Mexican State has taken.¹⁹ Consider, for instance, the role and functions of the central bank whose autonomy and independence has varied over time.²⁰ Its central goal has been to attract capital inflows via investment or credit. It has achieved this in addition to the control of monetary policy, the protection of financial stability, the facilitation of payments, fiscal recollection and the control and surveillance of instruments such as the money supply, interest rates, credit controls and reserve requirements. The need to compete for international capital and investment has led to a variation, in some cases wide, in its degree of autonomy and independence from commercial banks, the executive, and the legislature (Maxfield, 1997).

¹⁸ Due to the huge political reservoir of the Mexican president, most of the academic and non-academic literature focuses on an agency-centred perspective, adopting a narrow understanding of politics, confined merely to the government agenda, institutions and policies. Some Mexican historians have analyzed the 'caudillos': strong leadership by specific personalities, who have played a crucial role throughout Mexico's historical processes and have come to symbolize the historical phases which they ruled. For biographic accounts in which Mexican presidents are portrayed ruling the country as absolute monarchs, Krauze's work best illustrates this view (1997a and 1997b).

¹⁹ The fact that it has varied through time shows that the State does not have power on its own, that it merely reflects the power exercised through social relations among agencies and structures, as Jessop asserts (1990b).

²⁰ Since the 1930s, it has been alternatively decreased and increased five times, depending on the presidential agenda and the international context. The current scenario is one of central banking autonomy and independence from the government and the presidency (Maxfield, 1997).



THE SOCIAL REVOLUTION: A MOMENT OF DECISIVE INTERVENTION

The 1910 Mexican social revolution was preceded by crucial moments of crisis. During that period there were not only different armed and violent phases, but also very important transformations of the political, economic and social systems. The very first moment of decisive intervention altered dramatically the trend of the process of structural change in Mexico. The challenge of unsatisfied demands for democratization and land redistribution triggered the armed and violent phase of the revolution. They also opened the window of opportunity to modify economic and political practices which have exploited nature and men as commodities. With the

benefit of hindsight it can be said that Mexican nationals chose at this point to move in another direction.

After the convulsions of the 19th century, a Mexican General held power and reigned as President for more than thirty years.²¹ The instrumentation of economic policies and practices which he favoured were liberal, benefiting foreign investment. The most dynamic economic sectors were extractive industries, export crops and manufacturing (Reynolds, 1970). The social revolution which erupted in 1910 allowed, in its aftermath, more social and political mobility and it also became a symbol of national unity. The chief unattended demands which triggered and fuelled the uprising were democracy and land redistribution.²² While its implementation fell short of the demands by the most radical factions, the outcome was a moderate one encompassed by two Generals from northern Mexico, who ensured political and military victory. However, it was Calles alone who became the political leader in the late 1920s and early 1930s.

The economic growth and development of the pre-revolutionary era was based on economic activities, which were inherited not only from the 19th century, but also from the period of colonial rule. The agrarian estates (haciendas) provide an example. Export crop oriented agrarian estates contributed to the economic growth in the period, along with some other outwardly oriented economic activities, such as extractive industries and manufacturing. Foreign ownership and control of leading

²¹ President Porfirio Díaz ruled the country from 1876 to 1911, except for a presidential term between 1880 and 1884.

²² Francisco I. Madero proclaimed the Plan of San Luis Potosí and called for revolt against Díaz in 1910. His 'sufragio efectivo no reelección' slogan was a cry for fair elections and a single presidential term. Emiliano Zapata's Plan of Ayala called for major land reform, defending the traditional

economic sectors, industries and service provision exploited natural resources, making use of the contribution of cheap labour, and of foreign capital and technology to expand exports to overseas markets (Reynolds, 1970). The trajectory of the processes of the State changed course as broad social relationships were altered, together with power relationships. If the role of the State, especially in economic activities, during the early 20th century was minimal, after the revolution it became more active and started to expand its involvement in economic activities. The armed conflict changed the socio-political and economic model. Less commodified practices and policies ran parallel to extremely crude confrontations among the different factions of the revolutionary movement.²³ The cost of the armed conflict was economic contraction and hundreds of thousands of people died, either directly in the battlefield or indirectly in its aftermath. During the most hectic and violent phases of the conflict, which grew to adopt political ethnic and religious features, the disruptions of the economic cycle due to the money emissions of the different factions took quite a while to recover from.

Given its features of increased levels of political and economic policies and practices, the Porfiriato could be mapped in the upper left quarter of Figure 1.3. The scarce and imperfect protection from the market granted to the fictitious commodities, on the one hand, and the weak interactions between the government structures and institutions

communal rights of the peasantry, which were threatened by rising landlord power and commercial agriculture.

²³ Some international dimensions and incidents of the revolution went beyond conventional diplomatic practices and threats. US Marines occupied Veracruz port in 1914, to put pressure on Huerta, who had been responsible for the murder of President Madero the year before. Huerta was formerly supported by US Ambassador Henry Lane Wilson, but was later distrusted by US President Woodrow Wilson. A couple of years later, after Villa briefly occupied the small US border town of Columbus, a punitive expedition sent by the same administration entered Chihuahua. This incident after some months of fruitless pursuit of Villa, put relations between Mexico and the United States on the verge of a diplomatic breakdown and armed conflict (Aguilar Camín, and Meyer, 1993).

and society, on the other, resulted in a serious political and social fracture. The 1910 military conflict is an evident feature of the moment of crisis which challenged and altered the historical trend of the Mexican State. A new orientation of policies was preferred, a new political agenda was set, and new social actors emerged not only demanding a change but provoking it themselves. The processes of social structural change and punctuated evolution started to move in a different direction, selecting more feasible alternatives to be strategically operated. The overall orientation changed to something more politically and socially inclusive, in contrast to the economic exclusion of the pre-revolutionary period. The goal was to incorporate into the system all the main actors and elements which had once been originally outside and which represented real challenges to the status quo. Some leading political actors perceived and presented the change as embracing the main agencies with corporatist and bureaucratic structures. The social relations among the actors and between them and the structures of the system started to move in a more fluid and dynamic way. Since they became institutionalized, they were also perceived to be more powerful. Moreover, labour, land and money, although not taken totally out of the market, were granted more comprehensive protection, yet with historical hindsight imperfect according to theoretical considerations. Regulatory frameworks, which were selectively enforced, proved better in the 1930s than at the turn of the century, when they were virtually inexistent. The following section focuses on the cumulative nature of the incremental changes which occurred within Mexican corporatism.

CORPORATISM: PUNCTUATED EVOLUTIONARY REFORMISM

Corporatist policies, and experiences in the Mexican trajectory of the processes of structural change can be mapped south of the horizontal axis of power.²⁴ After the main clashes among different revolutionary factions were over, the 1917 Constitution incorporated the rights of urban labour, and the right of the State to ownership of the wealth of the Mexican sub-soil. On the one hand, Article 123 meant an alliance with labour, in which the State came to control labour's demands and offer protection from the market in return for political support. This article regulates all contracts of work and working conditions within Mexican territory.²⁵ Pre-revolutionary labour demands and strikes had been systematically crushed by the government. At the same time, Article 27 represented a throw back to the Spanish colonial model which vested the ownership of the sub-soil to the Crown. It states the Nation's inalienable and essential ownership of the lands, sub-soil, waters and their wealth. Although the article has been modified and some of its original paragraphs repealed, there are explicit prescriptions to regulate the ability to acquire domain of the lands and waters of the Nation.²⁶ It also contrasts with the model in some other countries such as the US

²⁴ In contrast to the Strategic Relational Account embraced in this thesis, Knight's perspective of Mexican corporatism can be traced in three out of four quadrants of his scheme. It is important to recall that he makes use of different variables. They are, firstly, the strength of the State, and secondly, the State autonomy of the dominant class. According to his chronological perspective, the Mexican corporatism presidential terms start in the Nightwatchman State quadrant, follow through the Stalinism quadrant, and end up in the Fascism quadrant (2001).

²⁵ The sixth title of labour and social considerations of the 1917 Constitution features only Article 123. Its opening line stresses everyone's right to dignified and socially useful work. Several paragraphs are devoted to the promotion of social organization and creation of jobs conforming to law. Mexican Constitution as of 2001. (Translated by Ron Pamachena). <http://historicaltextarchive.com/mexico/constitution.html> 8th May 2002.

²⁶ Listed in the first chapter of individual guarantees of the 1917 Constitution, Article 27 explicitly reads: "...Lands and waters understood to be within the limits of the national territory belong originally to the Nation, which has had and has the right of transmitting their ownership to particular persons, thus constituting them as private property. Expropriations may only be (for the reason) of public utility, and by means of (compensation)... The Nation will at all times have the right to impose on private property the ways of use that the public interest dictates... The Nation has direct ownership of all natural resources of the continental shelf and underwater zones around islands, of minerals or substances that are in veins, layers, or masses; of beds of ore that constitute deposits naturally distinct from the components of the earth, such as minerals from which metals and alloys used in industry are derived; of beds of precious stones; of rock salt, and the salts formed directly in sea waters; the products derived from the decomposition of rocks when their exploitation requires underground work;

where the owner of the land also possesses the wealth underneath the surface. The closest which this article came to full enforcement was the 1938 nationalization of the oil companies.

During the post-revolutionary period the government considered a change in the land tenure law and redistribution of land favouring traditional communal land holders and small farmers, making the 'ejido' quite a distinctive agrarian common property feature coexisting with private estates. It is also during this historical period that the economic strategies of import substitution industrialization took off; this led the inwardly oriented sectors of the economy for some decades until the late 1970s/early 1980s.

Mexican corporatism was constructed as a distinctive political feature for the engagement and control of social groups which set up formal spaces for political mobility. Typical of authoritarianism, after the President, the Partido Revolucionario Institucional (PRI), the former ruling 'official' party, served as an incestuous politico-bureaucratic link between sectors of society and the government, as is further to be analyzed in Chapter Six.²⁷ During the first phase of the corporatist stage, social

of mineral beds, or beds of organic materials that are used as fertilizers; solid combustible materials; of petroleum and all solid, liquid or gaseous hydrocarbons, and of the space situated over the national territory, to the extent and terms fixed by international law... (T)he ownership of the Nation is inalienable and essential, and the exploitation, use, or enjoyment of these resources by individuals or by associations governed by Mexican law cannot take place except by means of concessions granted by the Federal Executive according to the rules and conditions which the laws establish..." Mexican Constitution as of 2001. (Translated by Ron Pamachena). <http://historicaltextarchive.com/mexico/constitution.html> 8th May 2002.

²⁷ Formerly Partido Nacional Revolucionario (National Revolutionary Party PNR), this was an institution created by President Calles in 1929 for political arbitrage among committees identified with the revolution. Nine years later President Cárdenas restructured the party including four different sectors, popular, military, labour and peasantry, and changed its name to Partido de la Revolución Mexicana (Mexican Revolution Party PRM). The main purposes were to dilute the power of regional leaders and to achieve sexenal autonomy without any interference from former government (Medina Peña, 1995).

demands were incorporated in the system. Labour and peasants were included: their demands for welfare and land reforms were partially met and partially transformed into corporatist elements.²⁸ During subsequent stages this strategy proved to be a very efficient way to channel their demands through quasi-governmental institutions, where the former ruling party and the bureaucracy played a central role in crucial demands such as land tenure and redistribution.²⁹ The demands raised by the sectors included in the corporatist apparatus were not fully satisfied, raising tensions and contradictions within the Mexican corporatist model. Furthermore, the social sectors experienced a dramatic decrease in their capability to influence the decision-making procedures of the government.

The creation of an ‘institutional party’ in the aftermath of the Mexican revolution, signalled not only the beginning of a transition from military to civilian presidents. It was also a crucial moment of change which served to construct a lasting model of an authoritarian political system organized with the President at its core.³⁰ Furthermore, the corporate and bureaucratic structures which characterized the historical trajectory of the State in that period focused on the development of infrastructure, for instance, roads and irrigation. In addition, the provision of public services and education aimed to satisfy basic welfare needs in the population. Nevertheless, the creation of

²⁸ Ever since their inception, organized confederations aimed to be protected and have their demands satisfied by the State. However, in practice, they have also proved crucial for political control. The most representative and significant ones are the confederations of Mexican labour CTM (Confederación de Trabajadores de México), and CROM (Confederación Regional Obrera Mexicana); peasants CNC (Confederación Nacional Campesina), and mixed CROC (Confederación Regional Obrera Campesina).

²⁹ Consider, for instance, the case of the celebrated and promoted nationalism manifested in diverse cultural ambits such as muralism; which in addition to its undeniable artistic value, served as an additional legitimate source for the presidential governments emphasizing Mexican identity and distinctiveness. The political tutelage of millions of peasants and the missional orientation of nationalistic education led by Vasconcelos could stand as additional examples (Krauze, 1997a; 1997b).

³⁰ The President was then the official Chief of State, and Head of government; plus the real, but not nominal, leader of the ‘official party’.

confederations and their inclusion in the bureaucratic and corporatist organization of the political system made a clear contrast with some other international experiences. For instance, there was a communist party in Russia before the October revolution erupted, whereas in Mexico, apart from the post-facto institutionalization of the revolutionary movement, the PRI's ideological leadership has never been its main distinctive feature.

At this time, the international context was experiencing dramatic modifications which, in turn, had strong domestic impacts. The economic depression of the late 1920s exacerbated Mexico's economic problems, since the markets for Mexican exports declined, especially in the United States, bringing income and internal demand down with them, because export oriented sectors were among the most important and dynamic of the economy. The recovery was inwardly orientated to serve the domestic economy, making use of important structural reforms: change in asset ownership, preferential taxes to domestically oriented activities, land reforms and the nationalization of industries such as railroads and petroleum. The experience of those years showed the high cost of overdependence on foreign demand, which makes an economy more vulnerable to international scenarios, such as a world depression (Reynolds, 1970).

Since the goal of political stability was added to that of economic growth, efforts to nationalize asset ownership and to redistribute the benefits from exploiting natural resources aimed to provide social equity. Over this period there were quantitative increases and qualitative improvements in education, sanitary conditions and general standards of living. Additionally, some of Cárdenas' policies were not out of tune

with US President Roosevelt's New Deal policies. Yet, this was not particularly true of the nationalization of the oil industry in 1938, because it affected firms and investment from the US. The end of this Mexican presidential term witnessed the beginning of the Second World War. The government reoriented its policies accordingly, strategically selecting its courses of action to end the demilitarization of the political system, on the one hand, and to continue with the promotion of economic industrial activities by granting concessions for building infrastructure, on the other (Camp, 2003, Medina Peña, 1995). Interestingly, due to the adverse context of international economic depression, by the mid 1930s the declining need for international creditworthiness afforded greater room for manoeuvre for domestic demands, resulting in a reduction in central bank authority (Maxfield, 1997).

Though the authoritarian and hierarchic corporatist structure was meant to prevail for the long term, the sectors not included in the corporatist apparatuses have proved increasingly influential since the 1940s. Consider, for instance, the business sectors. They process their demands through informal channels, via pressure groups.³¹ Moreover, the ideological significance of that period has been continuously reassessed. The factors and actors which were not included or incorporated in bureaucratic institutions have altered and contributed significantly to the evolutionary path of the Mexican State development.

³¹ The relationship between the Mexican State and the Church provides another example. Since no religious groups were incorporated as corporatist actors, they had to use different methods for placing their demands. The anticlerical outcome of the social revolution, a sharp separation between the Mexican State and Church, has gradually been reformed. Nowadays they officially recognize each other, whereas they did not in the past (Camp, 1997).

Water and land tenure were modified from the perception of land and sub-soil as private property in the 1857 Constitution to being the property of the nation consecrated a few decades later in 1917. Moreover, it was stated that the nation has the capacity to grant private concessions attending public interests; the 'ejido', or communal estate, was also recognized. The most important land redistribution programme was undertaken by President Lázaro Cárdenas during the late 1930s; the amount of redistributed land and the number of people benefiting compared in his regime exceeded similar attempts on the part of all former governments. Other efforts to grant some level of protection to the environment were the creation of various National Parks, the issuing of laws and regulations, and some financial support especially for the 'ejidos' or communal estates. Nevertheless, one of the problems was that neither the natural characteristics, nor the productivity potential were taken into account as the main criteria for agricultural redistribution (Carabias and Valverde, 1993).

Regarding the social dimension, with the benefit of historical hindsight it is important to acknowledge the progressive, albeit imperfect, extension and universalization of citizens' rights. Moving from the civil sphere, through the political dimension to the social realm, the citizenship paradox has ideally promoted egalitarianism in an imperfect system; legitimizing inequality in the practices, roles and status of the citizens of any Nation-State. Nevertheless, the continuously contested, renegotiated and redefined duties and obligations of individuals within civil society to the State, and vice versa, has also evolved, incorporating additional stages. The duties and obligations have changed from the first stage of individual liberty, freedom and autonomy, through a subsequent stage of political representation, to end with social

welfare and community participation.³² In this sense, the rights and duties recognized in Mexican citizenship could be regarded as the legal outcome of the needs of the economic structure and its priorities, on the one side, and collective human agency on the other. Although the experience of civil, political and social rights in practice and their recognition is still far from ideal, it provides additional evidence of the qualitative increase and exercise of context shaping power immanent in the social relations. From the social revolution of the early 20th century until the present day, the conduct of individual citizens evidence strategically selected examples of feasibility, adapting to their changing socio-political and economic circumstances. However, one of the main constraints for citizens has been the PRI's organization in sectors and the relationships of its constituency practices with the rest of the State institutions; since factional conflict and the manipulation of discourses promotes the idea that citizenship implies an autonomous threat to privileged groups from below (Serrano, 1998).

Broadly speaking, the post-revolutionary Mexican presidential terms before Cárdenas can be mapped in the bottom left quarter of the theoretical map presented in Figure 1.3. Nevertheless, it is difficult to assess the extent to which the constitutional articles and their relaxed enforcement have served to grant workers special protection from the market. The bureaucratic and corporatist arrangements provided shelter, however limited, for the commodities of nature, labour and money. Additionally, the power immanent in all social relations was solidifying and growing stronger as time went on from the beginning of the 20th century onwards. It was more evident in the relations and interactions among bureaucratic and government agencies, on the one hand, and

³² cf. Hay for an analysis and critique of citizenship in Great Britain after the Second World War

between them and the institutional structures on the other.³³ The punctuated equilibrium of the processes of structural change of the Mexican State reached their historical peak in the welfare and corporatist policies and practices in the 1930s, signalling a continuation of the punctuated evolution trend. There was no major crisis in the social, political and economic realm. Neither was a decisive intervention needed. Interestingly, the gradual increases of change could not only be reached through crisis, but were inertially accomplished without any major rupture, as I discuss in the following analysis of the continuity of Mexican corporatism.

CONTINUITY IN CORPORATIST PRACTICES

Following a ‘taking off’ phase during the 1930s, the industrialization of the Mexican economy became more evident from the 1940s onwards. From this time onwards, agricultural activities no longer commanded the economic growth of the country. The emphasis was orientated towards industrial sectors aiming to attract investment, domestic in the first stage, and foreign afterwards. Since then, the share of the agricultural sector in the economy has been decreasing steadily, despite efforts such as the green revolution. The growth of the population, especially in the urban centres, was not matched by the domestic supply of agricultural commodities, and by the mid 1970s the primary sector balance of trade turned to deficit (Carabias and Valverde, 1993). However, it was industrialization as an economic priority accompanied by political stability that made a distinctive appeal to Mexico up until the 1970s. From

(1996).

the end of the Second World War onwards, the macroeconomic performance of the Mexican economy achieved steady rates of growth above five per cent per year. It was not only far better than some other Latin American countries, but also superior to some other regions of the world. No wonder, then, that the import substitution industrialization strategy during that epoch came to be associated with outstanding economic performance. The 'stabilizing development' economic policies which fuelled Mexico's growth during those years had a political counterpart. This, in turn, acted as a political cushion absorbing social pressures. The control and containment of demands and benefits basically served the aim of slowing the pace of Mexico's political development, whilst for four decades favouring the growth of the economy. In so doing, the stabilization of social structural change was highly celebrated, both domestically and abroad (Hansen, 1971). However, the growing inability to satisfy social demands and attendant losses of legitimacy were symptoms that not everything could indefinitely be accommodated within the corporatist machinery.³⁴ For the authoritarian regime the concern for political stability involved reforms and artificial pluralism, postponing real democratic practices.

³³ They were not the only dynamic levels or dimensions. The growing and evolving private sectors of society which were not originally included in the political system started to develop in the decades to follow; they impelled further change to reap increasing benefits and rewards from diverse concessions.

³⁴ The political stability which characterized the governments made evident the impossibility of channelling pressures via corporatist mechanisms when in 1968 students were either killed or disappeared in or after a public demonstration in Tlatelolco, Mexico City. Although it was perhaps one of the most critical moments of contemporary history for society, the overt repression of the students' movement, parallel to international manifestations in Paris and Prague, signalled not only the illegitimacy of the regime, but also society's inability to pose a real challenge to the government. Some years later, after a couple of major earthquakes in 1985 killed hundreds, maybe thousands, of people in the capital, the most effective response and organization to rescue bodies and survivors was a social initiative, as the size of the problem was clearly beyond the government's capabilities. Moreover, the electoral victory in the 1988 presidential elections of a political group which had left the PRI not long before, was fraudulently given to the candidate from the then ruling party. These are among the most obvious examples of the inadequate representation of social demands and interests, as mirrored and distorted by the ruling bureaucratic and technocratic elite.

The industrialization which ensued after the Second World War was based on the economic infrastructure inherited from the pre-revolutionary period. This was not severely challenged in the aftermath of the revolution. The development of policies attractive to national investors and conducive to the productivity of investment in general provided the necessary conditions for an inwardly oriented take off. Moreover, the revolution had proved useful for a phase of economic growth based on an import substitution model. However, the industrialization project was not without its deficiencies. Interestingly, the increase in national product, and the unequal concentration of economic benefits in the wealthiest sectors of the society were not evidence of adequate economic development. It can be said that they were a sign of unevenly distributed economic growth, which is not only an economic concern, but a social and political one as well.

In the words of González Casanova,

...democracy exists to the extent that the people share the income, culture and power; anything else is democratic folklore or rhetoric” (1970, 194).
“When speaking of economic development, I implicitly or explicitly think of the process of increasing the net national product or the per capita product, and also of progress toward a more equitable distribution of the national product than in the past...When I speak of economic development, I think also in terms of raising the standard of living of the population with regard to food, health, clothing and education. Further, when speaking of economic development, I am referring to a phenomenon which is far broader than the mere growth of the national product or the

increase in the standard of living, I am referring to a moral and political problem (1970, 3).

The growth in the economy followed a historic pattern of polarization which has been severely aggravated during recent decades. The inequitable distribution of income was not only a consequence of the industrialization process, which tends to concentrate rewards; it was also due to government policies which polarized and aggravated this pattern (Hansen, 1971). This proved problematic since the country, parallel to its growing import-substitution industrialization, transformed itself from a former agrarian society to a growing urban society. The self-sufficiency strategy ran alongside a development of its economic relations with the northern neighbour. Economic growth necessitated an increased use of land, labour and natural resources. Moreover, capital formation became a priority and public investments were partially funded by private savings. This in turn enabled the government to acquire total or partial ownership of key industries. The result was a combination of economic growth and political stability following the depressed conditions of the late 1920s; a quantitative rise in overall welfare conditions became more evident during the second half of the century (Reynolds, 1970).³⁵

From the 1930s, import substitution industrialization was implemented by the selection of mainly domestic, but also foreign, private investment. This was combined with public expenditure and planning policies were allowed to evolve from a general

³⁵ In Reynolds' opinion, the increased input of manpower and materials and more efficient employment of previously existing means of production are the two impulses behind not only the improvement in Mexican welfare in particular, but the overall growth of the economy as well (1970). However, it is also important to acknowledge the ideological and attitudinal factors, both domestically

scenario of economic recession, institutional reform and political agitation to one favouring political stability and economic growth. In addition, the shift from traditional exports towards the internal market was strategically selected, aiming to avoid excessive dependence on international economic scenarios, and also attentive to domestic demands.³⁶ Amongst the privileged sectors with public funds, protection from foreign competition and low interest credit, were those of manufacturing and commercial agriculture. Some other activities, such as mining, but the petroleum industry, slowed down. Commerce and investment faced restrictions. The overall outcome of these strategies was a rise in productivity and exchange, on the one hand, and in the levels of welfare on the other. This, in turn, was reflected in qualitative changes in Mexican foreign trade, since value added commodities started to increase their share in the balance of trade (Reynolds, 1970).³⁷

Interestingly, it is during this period that two different and contrasting strategies for the role of the central bank were selected in turn. The increased need for international creditworthiness and central bank autonomy in the mid 1950s followed the presidential preference for central bank independence. However, this did not last long. In the early 1970s, central bank independence was reversed by another administration (Maxfield, 1997). The strongest tendency of the period remained southward of the power axis in Figure 1.2, granting imperfect protection from the market.

and internationally, which also played a role in the strategic selection of the courses of action to choose and implement.

³⁶ The mixture of economic policies basically had to manoeuvre among constraints and opportunities presented by labour, investors, society and foreign governments. For instance, as long as real income was on the rise, its unequal distribution was tolerated. Unsurprisingly, since this tendency has steadily exacerbated, unilateral government action became increasingly problematic.

³⁷ Though this was perceived as an economic strength, fiscal aspects showed a weaker side, as shown by the debt crisis years later during the early 1980s.

Environmental damage such as soil erosion, deforestation, pollution and diverse contamination followed the government assumption that natural resources were so abundant that the ecological cost of economic growth would not threaten the environment. But they did. Historic over-exploitation of some resources made vegetable and animal species endangered or extinct; these dearest unaccountable losses. Important regulatory reforms privileged livestock estates over agricultural and forest ones. Jungle and forest surfaces and composition were also adversely affected. Changes from agriculture to livestock as food sources, on the one hand, and technological intensification aiming to satisfy increasingly urban demands on the other, put additional pressure on natural resources. Economic growth carried a high environmental cost during this period (Carabias and Valverde, 1993).

In order to develop an adequate and integrated environmental protection strategy with the current economic policies and objectives, various elements need to be taken into account. There must, among other things, be an adequate combination of a valid legal framework and the efforts of non-governmental organizations and public institutions. Although these may be considered necessary conditions, they are never sufficient, since additional factors, such as growing social awareness about the crucial importance of environmental and natural issues must be accompanied by a strong and determined political will, plus adequate investment and economic practices, if the aim is for real sustainable development (Carabias and Valverde, 1993).

The period of economic industrialization based on an import substitution strategy, paralleled with the consolidation and exercise of corporatist policies with authoritarian practices, can be mapped in the bottom right quarter of the map

presented in Figure 1.3. Since the early 1940s, the political corporate system has been stabilised by incorporating diverse sectors into the political apparatus. At the same time, it was also the period of stabilizing development when the nationalization of important industries such as oil and electricity became the engine of economic growth. The emphasis on employment provision and inwardly oriented sectors, the growth of infrastructure, education and welfare, could be accounted for as flaws in the protection of the market. Broadly speaking, Polanyi's 'double movement' accompanied the market expansion, whilst the context and conduct shaping power immanent in all social relations also grew significantly. Although it is one thing to count the number of new pieces of legislation, and to gauge the extent of government protection, its poor or discretionary enforcement is quite another. With hindsight, the process of decommodification, in addition to a quantitative and qualitative increase, was also perceived and discursively appropriated as a social conquest. The trajectory of the processes of structural change and evolution of the State, although punctuated, did not bring any major crisis. Therefore, they could be traced as an evolutionary trend in which government policies mainly promoted political stability and economic growth. In sum, it was a period characterized by reform, continuation and adaptation, which lasted until the early 1980s, when a dramatic change imposed from the government down decisively modified the trend of the Mexican State, as we shall see below.

THE IMPOSITION OF A NEW TRAJECTORY SINCE THE 1980s

The other dramatic moment of decisive intervention in which a new direction was imposed on the trajectory of Mexico's processes of structural change took place in the early 1980s. This time, in contrast with the early 20th century, in which a move towards the imperfect exclusion of the market was selected, the transformation was in the opposite direction. Contemporary neoclassical economic efforts have been orientated towards an increased openness in the economy, implying increased commodification. The increase in the ability of some actors to shape the context and conduct of others suffered important changes. New actors achieved increasing notoriety and their interactions suffered transformations. In the economic sphere, the privatization of public enterprises and liberalization of economic sectors and economic activities orientating them towards external markets, have been strategically selected, as Chapter Four discusses. In the political sphere, the attempts at democratization and political autonomy, although historically demanded, have been delayed and narrowly delimited to electoral and institutional reforms.³⁸ The real challenge for democracy in Mexico comes not with narrow electoral exercises and the ballot box, although this is an undeniably important achievement in itself if fairly conducted, institutionally independent and respected in its outcomes. González Casanova argues that democracy must feature fair sharing of income, culture and

³⁸ The 1910 and 1911 presidential elections were indirect ones (González Casanova, 1970). Since 1917 all Mexican Presidents have been directly elected. The role and leverage of the military in the government has decreased since the beginning of the 20th century. The post-revolutionary Mexican presidents held military rank. They not only fought during the revolution of 1910, but incorporated many military men in the government. Parallel to their decreased engagement in government affairs by the 1940s, education and bureaucratic experience have become key variables for the people appointed to head posts (Camp, 2003). This is clearly evidenced by the bureaucrats affiliated to the PRI, the political organization party which ruled Mexico for seven decades. At first, members holding law qualifications and bureaucratic experience were mainly recruited from the Ministry of the Interior (Secretaría de Gobernación, SEGOB). However, by the 1980s, a network of economists who had served mainly at the former Ministry of Economic Planning (Secretaría de Programación y Presupuesto, SPP) took over the Presidential office and the main bureaucratic posts (Torres Espinoza, 1997).

power. According to this broader criterion, the democratic goal is still far from being fully realised.³⁹

One of the important modifications of the economic restructuring during the early 1980s was the increased need for international loans matched by a rise in the authority and independence of the central bank. However, unlike previous swings towards the autonomy of the central bank, during the early 1990s new legislation ratified the increase in the central bank autonomy in the direction which had been heralded a decade before. The move aimed to attract increasing volumes of portfolio investment from international markets, following the recent rise in competition for capital inflows. The official goals featured the de-politicization of the central bank governor and board appointments; the prohibition against loans to the government to finance 'populist policies'; and the securing of financial stability and the peso's purchasing power. This was linked to financial deregulation, reprivatization of commercial banks, and the opening of the finance sector to foreign competition, serving an increasing amount of short-term debt (Maxfield, 1997). Unfortunately, as Chapter Eight shows, the outcome was unexpected. After the financial and banking difficulties of the mid 1990s, a huge share of these assets is now in foreign hands.

It was not until the 1980s that a decentralized institution, the Instituto Federal Electoral (Federal Electoral Institute IFE), was specially designed to deal with electoral matters, regulation and surveillance, aiming to provide a level playing field for all and every contender (Serrano, 1998).

³⁹ Democratization and political autonomy reforms, an agenda which the government appropriated from the main opposition parties, have reduced the amount of fraud, and have provided the opportunity for the first Majors of Mexico City and the first Mexican President elected from opposition parties: the former from the Partido de la Revolución Democrática (Democratic Revolution Party PRD), and the latter from the Partido Acción Nacional (National Action Party PAN). The creation of a decentralized civil electoral institution has been one of the crucial elements for providing a level playing field for fair and open democratic competition. Another obstacle was the public funding of the political parties. The PRI has always benefited both legally and illegally from economic and non-economic resources denied to its competitors due to its anomalous status as the former 'party of the government'.

Although some of the elements of the decisive moment of intervention can be discerned before the 1980s, the strategic choice of a new series of public policies was associated discursively with the 1982 debt crisis. Conventional explanations have argued that the import substitution industrialization model and the inward orientation of the economic activities was exhausted. The limitations and contradictions of the economic policies were clear, but this is not to say there was no alternative. Nor, worse, can it justify or excuse the alienation of decision making from society. The concentration of power which the corporatist institutions and practices had steadily built up throughout contemporary Mexican history benefited society as a general trend.

The principal economic factor which triggered the debt crisis in 1982 was an excessive borrowing from abroad to finance expansionary policies. The source of the Mexican funds depended heavily on oil exports. Chapter Six describes how the problem arose when the international price of oil dropped, placing the Mexican government in a dire position to face its debt burden. The involuntary moratorium on debt payments announced by the government that year served to detonate an international debt crisis. The early 1980s' economic crisis was one of macroeconomic fiscal mismanagement. If the external conditions were that foreign sources of credit were scarce, interest rates high and terms of trade unfavourable, the domestic context was no better. The deterioration of real incomes, inflation, capital flows and international reserves represented some of the domestic constraints limiting the range of feasible available options for the government (Lustig, 1998).

The decisive intervention to tackle the debt problem was a neoclassical economic one. The foundations of this change were in the 1976 signing of an International Monetary Fund letter of intent. The agreement to correct a balance of payments imbalance six years later justified the cutting of public expenditure, lowering of inflation, controlling of the exchange rate and the promoting of domestic savings. Needless to say, the economic conditionality for the IMF's loans has historically widened its scope. In addition to the neoclassical emphasis on keeping the inflation rate under control, and the exchange rate considerations present in the first letters of intent, the latest documents contain provisions for privatizing government enterprises and modifying changes to the banking system, social security, tax reforms and the like (Rosas, 1999; Letters of intent, 1999 and 2000).

The strategically selected neoclassical model of outward orientation and economic adjustment featured careful macroeconomic management to correct chronic fiscal imbalances, external trade liberalization, market deregulation and the removal of ownership restrictions. Such policies were designed to help the economy recover quickly. However, the improvement in the macro-economy took much longer than expected. Even the control of the inflation rate could not be attained until the late 1980s.⁴⁰ Despite declining economic indicators of the 'lost decade' and strong private sector based policies, the economy did not match original expectations. International organizations and some analysts then demanded increased commodification stressing the insufficient instrumentation of the conditions of openness in the neoclassical

⁴⁰ Economic restructuring initiatives in which the Mexican economy was used as a guinea pig, such as the Brady Plan, fell short of their goals. In this plan a medium and long term debt and service reduction with commercial banks, although agreed, proved unsuccessful in promoting either output growth, or capital inflows, or reducing domestic interest rates as effectively as they were supposed to.

economic policy. The strategic selection of a prospect of higher integration with the US economy even before the North America Free Trade Agreement (NAFTA); the attractive rates of return in the stock exchange; the increased autonomy and independence of the central bank from the government; the constitutional reforms of land distribution and the increased competition against foreign goods and investors all became distinctive features of the strategic selection of Mexico's processes of structural change (Lustig, 1998).

Although Mexico faced another major economic problem in the mid 1990s due to macroeconomic financial mismanagement, instead of imposing a new trajectory on the processes of structural change of the State, this time it served to ratify the neoclassical course of action already under way. The economic difficulties of the mid 1990s were of a different nature in the early 1980s. By 1994, the fiscal deficit was under control, but the level of international reserves was considered low, with the country facing outstanding short-term levels of debt. This situation triggered liquidity concerns and a self-fulfilling crisis, since the current account deficit was financed by capital inflows. An important financial bailout led by the US government was the strategy chosen to rescue the Mexican economy (Lustig, 1998). In sum, it represented a moment of decisive intervention. However, this time, the result was to keep the economic policies on the same track as they had been beforehand, as is argued in Chapter Eight.

It is perhaps the economic crises of 1982 and 1994 which best illustrate the flawed openness of the economy. International actors and factors played a crucial role on

Interestingly, the explanation for the missed goals was that the reforms were not strong enough,

both occasions. Increases in the interest rate by the Federal Reserve of the United States have always attracted flows from international markets into the US market. Even a small but steady increase acted like a magnet for investors from all over the world, despite the fact that higher rates of return were on offer in other markets. During the early 1980s and mid 1990s, investment outflows followed a rise in confidence in the American markets. Moreover, the United States government had to contribute public funds to rescue Mexico in those years of economic crises. In 1982, they did it to bail out the American commercial banks, which had lent heavily to the Mexican government during the oil boom. In the following decade the government of the United States had to intervene again to rescue their own portfolio investors who had bought bonds and invested in the Mexican equity market. Capital inflows which were considered the best evidence of the confidence of international investors in the economic restructuring in Mexico proved of dubious virtue, since they need to be matched by large reserves to protect against the likelihood of capital flight (Bosworth, Collins and Lustig, 1997).

It is interesting to note that there were in play political countertendencies to the official economic strategy. While levels of welfare steadily declined, since wages did not increase in real terms, they were justified in terms of the need to control inflation. This has increased the prevailing rate of commodification of labour. Equally, there has been increased commodification of another of Polanyi's fictitious commodities, nature, as imperfect protection of natural resources is on the rise. Important though the commitment is to international environmental agreements, it is not very evident that nature is being protected from the market. Current reforms are not sufficient to

making foreign investors hesitate in their response (Lustig, 1998).

reverse environmental degradation. Furthermore, despite improved legislation, the protection of the environment has been fragmented and of low priority. The protection of nature from market forces has been imperfectly focused and patchily conceived, since it is not seen as relevant to the economic policies, strategies and priorities of the government (Hogenboom, 1998).

The North American Agreement on Environmental Cooperation (NAAEC) reflects a narrow approach towards environmental protection, focusing mainly on the US-Mexican border and industrial pollution.⁴¹ Moreover, there is a serious risk that Mexico will reproduce the extremely wasteful patterns of consumption of its northern neighbour, while pretending to implement stringent environmental norms. Despite the importance of achieving full harmonization between Canada, the United States and Mexico on NAFTA's labour standards side agreement, as well as its environmental standards side agreement, one of the main difficulties is still the expense of implementing such agreements. For, unless the richest members are willing to provide financial assistance to achieve compliance, the implementation of the agreement will continue to be inadequate.

The core points of the environmental side agreement of NAFTA include the prohibition against lowering standards to attract and maintain investment, and giving room to manoeuvre to each country in establishing its own controls and complying with its international commitments. Those provisions are also valid for the labour

⁴¹ NAFTA's environmental side agreement considers trilateral cooperation and effective enforcement. Supporters of the side agreement argued that 'free trade' would prove beneficial to the environment, since trade leads to growth, which in turn produces resources for environmental protection. However, the socioeconomic effects brought by trade and regional integration are very likely to come after a long time and after considerable damage has already been done to the ecology. Trade does not lead to well

side agreement. Regarding border pollution, the main concerns include the deterioration of ecosystems, the depletion of water resources, the management of solid and hazardous wastes and water and air pollution. A number of international agreements have been subscribed to and institutions have been created targeting mainly the environmental agenda concerning the US-Mexico border.⁴² The non-comprehensive approach and narrow focus of the environmental agenda has, however been heavily influenced by US concerns and priorities.⁴³

Parallel to a quantitative growth of the population and the economy, there has been a deepening of the processes of structural change of the State, and equally of society. In other words, the strategic legal and institutional context within which a selected course of action must be made has had to respond to changing demands. The formula of political stability and economic growth lacked important qualitative elements: democracy, autonomy, and development. Authentic democracy, in González Casanova's terms, needs shared, equalled, balanced power, culture and income. Economic growth and the electoral victory of a former opposition party are never a sufficient condition for claiming that democracy rules in Mexico. In a similar fashion,

conceived and implemented environmental policies (Hogenboom, 1998; Belasteguioitia and Guadarrama, 1997).

⁴² At the end of the 19th century the International Border and Water Commission (IBWC), was established alongside its Mexican counterpart (Comisión Internacional de Límites y Aguas, CILA). Both were modified five decades later. Prior to NAFTA, the Border Environmental Cooperation Agreement, better known as La Paz Agreement, and the Integrated Border Environmental Plan (IBEP), and Border XXI were introduced. NAFTA environmental institutions include the North American Development Bank (NADBANK), which helps finance environmental projects along the US-Mexico border; the Border Environmental Cooperation Commission (BECC), which assesses the technical, social and financial feasibility of NADBANK financed assistance projects; and the trinational Commission on Environmental Cooperation (CEC), established for studying issues, creating working groups and solving problems of common concern (Belausteguioitia and Guadarrama, 1997; NAFTA section 27).

⁴³ Ever since the very beginning, the proposal for the complementary accords was a reaction to the concerns of different social sectors that a free trade agreement amongst the three countries would not be reached by dumping on labour and the environment. The US Congress played an important role in ensuring that those side agreements would be included if NAFTA was to be ratified.

development means an equitable distribution not only of economic wealth, but of all of resources, consistent with the understanding of the political realm and power analysis discussed above. Democracy and development are priorities as they represent both a goal and a challenge.⁴⁴

The picture of Mexico which emerges at the beginning of the 21st century is one of increased but unequally distributed power in the social relations, along with the increasing commodification of labour, land, knowledge, and capital. Interestingly, the levelling of the electoral field aims for fair elections, the demand which triggered the Mexican revolution nearly a century ago. It also opens up a window of opportunity to broaden the social agenda, as Chapter Six further argues. The processes of structural change can be orientated towards the goal of development, though it is important to bear in mind that contexts select but never determine certain strategies and not others. It is human agency that injects indeterminacy into social, political and economic processes. Since the uneven exercise of power is mainly responsible for the continuity of a system which privileges growth, a qualitative change in the relations of power becomes necessary. This is especially so if the aim is to achieve qualitative development, not only quantitative growth. The challenge, great as it is, needs to be decisively approached and tackled since it can no longer be postponed within a context of shrinking and already weak market protection.

⁴⁴ For instance, consider the 1988 Presidential election, in which fraud denied victory to a centre left coalition, which later became a formal political party. The incestuous relationship between the former ruling party and the bureaucracy simply reported a failure in the computing system when its candidate was behind in the polls. The proclaimed winner then went on to implement a more aggressive programme of privatization of public enterprises, deregulation of markets and liberalization of economic activities than his predecessor. Furthermore, this administration negotiated and ratified the North America Free Trade Agreement with the United States and Canada and recklessly delayed, for

The processes of structural change of the Mexican State since the early 1980s can be mapped in the top right quadrant of Figure 1.3. The strategic selection of neoclassic economic policies by recent Mexican administrations has facilitated an increased process of commodification. The liberalization, privatization and deregulation strategies have altered the flawed protection from the market, which were the corporatist policies and courses of action implemented some decades before. Consider the paradox of macroeconomic growth, on the one hand, and, on the other, the deterioration in the standard of living of the biggest segment of the population and the increased concentration of wealth in the top deciles. However, it is important to note that the context and conduct shaping power immanent in all social relations have been crucial factors in the structural change and punctuated evolution of the State. The agenda of society is no longer exclusively constrained by government apparatuses and incestuous practices, although some of the social initiatives are systematically appropriated and imposed from the top down on the rest of the society.

REMARKS ON THE STRATEGIC RELATIONAL APPROACH

What makes the Strategic Relational Approach useful for process-tracing analysis, as this chapter has demonstrated, is its balanced account of the dialectical interactions between structure and agency, on the one hand, and between the material and the ideational on the other. It is also able to incorporate empirical starting points, while the non-deterministic study of open-ended processes at different levels of analysis allows an inclusive conception of politics. The Strategic Relational Approach proves

political reasons during its final year in office, adjusting economic variables and policies which

useful for analysing social, political and economic change, since contingency is one of the most difficult features to study in the Social Sciences. Furthermore, elements of national variation can be integrated into the analysis of specific case studies, and the theoretical framework of the approach is able to provide a balanced position between complexity and parsimony.

It is important to stress that historical considerations could not be left aside either for academic analysis or for decision-making purposes. The best decision-making is always the best informed one, and historically informed analysis is able to produce additional information which is missing from agency-centred and static approaches. However, comparative statics or diachronic analyses are better equipped to perform analysis of change, elevating complexity above parsimony. Furthermore, historical trends and trajectories are altered, reinvented, modified and established anew every day. Since the dynamics of social interaction evolve continuously through windows of opportunity and constraint, crises and reforms, the academic study of the social, political and economic disciplines does likewise. No static, fixed, or preconceived understanding should limit our perception of how the world is or should be. The capacity to reinvent oneself is very authentically human. Thus, the social realm is always never-ending, as it is always in the making, since human agency opens up the multiplicity of factors which constantly interact in the complex, fluid and never static social, political and economic realms (Hay, 2002c).

It is also interesting to note that the map proposed here could be useful for tracing not only the trajectories or trends of the State but of any social structure. Additionally, its

triggered the financial crisis by the end of 1994.

use is not restricted to contemporary analysis only, but it could also represent an important analytical tool for both theoretical considerations and specific case studies.

The trajectories of the contemporary State as processes of action and structural change and punctuated evolution tend to show a 'U shaped' pattern, in this case. The pattern could be generalized for peacetime States that have experienced a similar punctuated evolution from liberal economic policies in an initial phase, through a Welfare State or Corporatist stage, to end up with a neo-liberal approach. Along the political axis, the moments in which the political power of the State significantly increases or decreases, reaching either its zenith or nadir, tend to be associated with moments of drastic change or crisis. It is during moments of crisis that new directions have been imposed on the trajectories of the State. The eruption of crises and subsequent governmental decisive interventions on what the role and status of the State is and ought to be, signal both an end of one epoch and a beginning of a new one. The crises might or might not be violent. What it is necessary to stress is the impact of the transformation. The emphasis of the discourses is on the need and justification for a radical shift.

However, along the economic axis, the eruption of crises at peak moments, in which the process of commodification of economic activities reaches either a highest or a lowest point, tend to be mediated mainly through strategies of adaptation or reformism. There might be modifications in the pace or direction of the trajectory. Nonetheless, the landing is perceived to be relatively smooth and contained between the margins of a certain trend. The breaking point, if any, is not as dramatic as that for a crisis along the political axis. This is not to say that the process is exempt from all

contradictions. On the contrary, the contradictions which remain unaddressed become factors which may among others trigger a stronger and more radical transformation later. Unsurprisingly, the main official concern is for political and economic stability and the domestic and international discourses are adjusted accordingly.

TABLE 1.1 PUNCTUATED EVOLUTION OF THE STATE			
DIMENSION	CHANGE	OUTCOME	ORIENTATION
Political Power of the State	Imposition of new direction	Violent / Non violent	(-) Corporatism / Welfare (-) Socio – political preferences (-) Authoritarianism and political constraints -----
	Decisive intervention	Transformation	(+) Utilitarian role of the State (+) Market preferences (+) Democratization and political autonomy
Economic Market	Ratification of former trajectory	Concern for Stability	(-) Decommodification (-) Corporatist agencies (-) Welfare policies (-) Increased protection from markets -----
		Reformism / Adaptation	(+) Commodification (+) Private actors (+) Neo-classical economics (+) Decreased protection from markets

THE ECONOMIC AXIS OF THE MARKET

Whenever the trajectory of structural change and the punctuated evolution processes of the State crosses or departs from the market axis, the outcome is better characterized as a reformist, soft change. The factors, agencies and structures in play opt for stability and the adaptation of policies and strategies. The crisis is more or less

contained within certain parameters to avoid spillover or contagion which might trigger a more radical transformation.

On the one hand, close to the negative end of the market axis, it is mainly corporatist agencies which mediate, participate and become involved in the different phases through which the crisis evolves. As the welfare policies can be mapped along the 'y' axis, the four main commodities, which are either taken out of the market or somehow protected from it, do not suffer radical transformation. Furthermore, the general processes of structural change and punctuated evolution of the State remain basically unaltered, although their specific trajectory may be subject to change.

On the other hand, at the positive end of the vertical axis, the participation of non-governmental agencies, firms and private actors becomes increasingly evident. The neoclassical practices, coupled with the emphasis on sound macroeconomic variables and the concern for keeping inflation under control, are used for justifying the reduction of governmental intervention in economic affairs. The imperfect and incomplete commodification of knowledge, land, money and labour in most cases involves the dismantling of welfare fundamentals, and the elimination of subsidies is also prioritized to eradicate the eruption of further crises. In some cases, the factors which trigger the crisis are described as low paced or flawed liberalization and deregulation practices. This, for instance, was the official evaluation of the Mexican financial crisis of the mid 1990s. Thus, the prescribed solution for the economic crisis approaching, crossing or leaving the 'y' axis, reinforces, ratifies, or reassumes the overall trajectory of the structural change and punctuated evolution processes of the State.

THE POLITICAL AXIS OF POWER

A quite different outcome emerges whenever the trajectory of the State leaves, gets close to, or crosses the political axis. Crises which impact upon the power dimension of the State are much more likely to effect a radical and transformative outcome. A structural transformation of the historical trend can be traced as a dramatic turn revealing decisive interventions and institutional changes. The transformations are more evident and the crisis cannot be contained easily. In some cases, the transformative effects of hard changes embrace a societal dimension, both from bottom up and the top down and the agenda and practice of politics become inclusive.

A trajectory of the processes of structural change and punctuated evolution of the State which moves towards the positive end of the horizontal axis is associated with the strong exercise of power. This does not imply a material dimension only, but an invisible and non-measurable one as well. Whenever decision-makers, most probably but not exclusively governmental, cross the horizontal axis of political power; the preferences and decisions towards the processes of commodification entail a transformation in the political regime. Benefiting from an increasingly authoritarian system, the corporatist practices and welfare policies are gradually or dramatically reshaped, aiming at institutionalizing market preferences, thus leaving behind social concerns. These changes in the structural contexts and in the situated agents and in their agendas are clearly crises which need to be addressed sooner or later, since they

cannot be postponed indefinitely. Decisive intervention alters the political course and route of the State from a welfare project to a liberal one.

On the other side of the spectrum, the negative end of the 'x' axis represents weak State power relations and capabilities which constrain actors. The trajectory of the process of structural transformation from commodified money, information, land and labour towards a more inclusive political, social and economic model represents another sort of crisis. The transformation, although quite different from the pro-liberal one, is nevertheless dramatic in its own way due to the fact that it remedies the lack of, reduced or flawed protection of commodities, granting them shelter against the market. The eruption of some crises may become quite evident as a bottom-up initiative, which may or may not be violent. Increasing numbers of social actors take part in the transformation as it incorporates a broader agenda and wider ranges of preferences.

THE HISTORIC TRANSFORMATIONS IN MEXICO

The non-material dimensions and elements of the State proved crucial for the processes of change. The never static dynamic of the dialectical interaction between structures and agencies has continuously adapted and transformed itself. After the revolution there was a tendency through which the institutions and apparatuses of the State were extended. Corporatist practices and modes were modified and influenced by the context and agencies of the time. Decades later, by the end of the last century, the orientation of economic, political and social policies had changed direction. The

rolling back of the State meant a structural transformation which has been going on ever since. It is in this context that the promotion of a flexible labour force is adjusted and follows economic imperatives and rationality (Hay, 1996; Jessop, 1990b).⁴⁵ The processes and dynamics of social change have made use of reinforcing strategies for both corporatism and neoclassical models. Thus, the Mexican State is constantly reshaped in all dimensions, evolving in a punctuated fashion. Moments of continuity interweave with change and restructuring and, in so doing, they consolidate new regimes, favouring new actors and ideational factors and reshaping the context which they are embedded in. This dynamic mix evolves endlessly, featuring a cumulative and incremental adaptation and change of both structures and agencies, on the one hand, and material and ideational dimensions, on the other. The contingent and open ended nature of the social and political processes and dynamics shapes the perception and information which the strategic actors use for selecting their courses of action. This, in turn, triggers intended and unintended consequences from which the actors learn and modify the context they inhabit (Hay, 2002c).

Once Mexican macro-economic indicators were on the rise, they created a paradox. It was a matter of continuity and change then for import substitution industrialization, as it is now for the outwardly oriented economy. The issue became not only to continue the promotion of growth, but to change and put into practice mechanisms for economic redistribution. With the benefit of hindsight it can be said that the power immanent in social relations increased, broadening the context in which actors conduct their actions. Additionally, it brought a very important change in social

⁴⁵ In other words, the Schumpeterian Workfare Postnational Regime according to Jessop is a transitory phase which replaces the Keynesian Welfare National State (2002). Chapter Five, below, critically examines this proposition.

conditions, as they took off from a low civil society concentration of power, and high presidential concentration of power, to a potentially more balanced scenario of political autonomy. The early 20th century social revolution and the punctuated evolution of social relations brought significant changes, which permitted social participation in economically productive activities to grow. Basically, the unattended agenda ignored participation in economic activities, which have not been adequately matched on two fronts. Firstly, the inequalities in the redistribution of economic benefits have not only been systematically ignored, but, worse, they widened and worsened through government policy. Though different government programmes have been implemented during recent presidential terms, they have not corrected the problems. Palliative strategies reduce pain, but are unable to deal with the causes of the problem. Secondly, broader social participation in economic activities has not been equalized in the political arena. The typically authoritarian incestuous relationship between the former ruling political party and the rest of the government apparatus was one of the factors impeding and controlling the rise of broader political participation. What used to be a tool for corporatist practices and the control of society proved no longer useful as demands could not be adequately satisfied by such a mechanism during subsequent years. What is still needed is a citizenship approach, fostering civil, political and social individual citizens' rights and duties vis-à-vis the State and free of corporatist and authoritarian bias.

Economic factors such as the fall in private and public investment, the rise of interest rates and the elimination of subsidies are elements which account for the crisis in the conception, use and protection of nature and its resources. The liberal self-regulating economic imperative of the market, which grants scant protection, if any at all, is

incapable of providing a counter-balance through specific palliative governmental programmes, the creation of institutions and the ratifying of international agreements. Although environmental concerns have evolved from a narrow health hazard concept to 'greener policies', they do not substantially challenge the increased commodification of nature. The normative dimensions of some regulations have not been adequately translated into an executive dimension, though this is undoubtedly required not only for growth, but for sustainable development.

The transformation of the early 1980s, unlike the social revolution of the earlier 20th century, was not a bottom up revolution, but a peaceful transformation, imposed from government offices down. The technocratic choice of a limited or restricted State intervention in economic activities imposed a new legal and institutional framework to further reduce the level of protection --imperfect though it was-- granted to the fictitious commodities. Basically the main characteristics of the import substitution industrialization, which was initiated in the 1930s, have been decisively and steadily altered and they are now completely reversed. Although the distinctive features of Mexican corporatism have weakened, they have not disappeared, and some of them are still present. Decision-making is still quite centralized, due to a legacy of authoritarianism and despite humble efforts, the accountability of senior public officials is still far from adequate or effective. The emphasis on regulation has changed towards liberalization with constitutional alterations being the main goal.⁴⁶

The public ownership of enterprises has been dismantled by massive privatization

⁴⁶ Core constitutional modifications seem to be not as straightforward as they used to be as regards minor modifications in previous presidential terms. The composition of political parties in the Congress has not given any absolute majority to any party since 1997. Therefore, both the President and the political parties somehow need to negotiate in order to reach agreements and to cooperate with

programmes, benefiting not only domestic but also foreign investors. Finally, the protection of the domestic market has been systematically under attack, privileging an outward orientation of economic activities and export promotion.

their counterparts if they are interested in getting laws passed. There are very few precedents for this situation.

CHAPTER TWO

The Social Processes of Change

INTRODUCTION

As demonstrated so far, the developmental trajectory of the State can be traced along political and economic axes. Consequently, the dynamic nature of the relationship of social structures and agencies is unquestionable. What this thesis aims to make evident is the strong political element in every step, decision, election, choice or inaction. Recalling that politics encompasses both the public and the private spheres, the intensity of power immanent in all social relations, on the one hand, and the degree of commodification of economic activities, on the other, have proved useful for tracing a general, albeit imprecise, picture of the tendencies and countertendencies in play. It is now necessary to have a closer look at some of the crucial elements involved in these processes. Thus, some simple, but at the same time important and uncomfortable, questions urgently need to be answered: What triggers social change? How does social change happen? What are the factors which make changes evident?

Although neither a definitive, nor a conclusive answer to the question of what triggers change is attempted here, an attempt is made to spell out some of the theoretical and empirical issues which must characterise the debate. The process-tracing of change

needs to be carefully conducted, making use of the Strategic Relational Approach.¹ Suffice here to say broad distinctive features are taken into account; however, it is important to stress that it is not the aim of this chapter to provide a detailed typology of the features of social change. On the contrary, only a few broad characteristics are considered in so far as they may best capture the general tendencies and countertendencies of social processes.

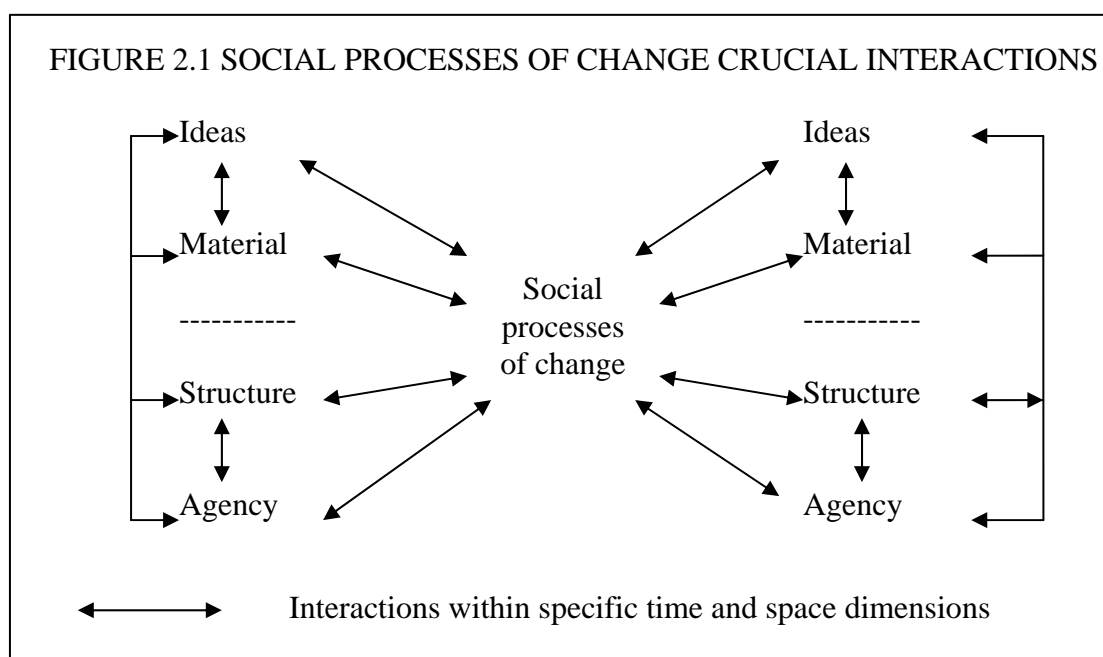
The features of change which are analyzed here include two dimensions of change which complement each other. Some mainstream literature has dealt with the material dimensions of change, whereas the ideational dimension has risen in importance during the last few years (cf. Blyth, 1997; Hall, 1989; Hay, 2000b and 2002c; Wendt, 1992 and 1999). Moreover, material and ideational transformations can range from being adaptive and slow-paced to incremental and more radical and rapid change. The reformist motion cannot be identified as easily as the crisis moments when in the perception of observers the pace and succession of change accelerates. Another aspect to consider is how social, political and economic factors interplay and impact upon each other. It is the constant repetition of relevant actions and omissions which helps to forge path-dependent dynamics. For the repetition of both active and passive courses of action contribute towards setting, in the medium and long term, how costly

¹ The ontological and epistemological positions which this thesis subscribes to are realist. Suffice it to say that the core features of these hold firstly, that there is a distinction between the existence of the world out there and our knowledge of it; secondly, that unobservable structures can be acknowledged; thirdly, that even though the social phenomena and processes exist, produce, and affect outcomes by themselves, they need to be recognised as independent of the perception or discursive construction of the observers; and finally, that the understanding which structures is crucial, despite the facilitation of a certain set of preferences over others. The reason that structures do not determine outcomes is because agencies themselves, always bring contingency and uncertainty into the social processes (cf. Lawson, 1997 and 2003; Hay, 2002c; Marsh et al. 1999). However, this is not the same thing as to say that the Strategic Relational Approach employed in this thesis is the only theoretical tool capable of making those distinctions. Since there is a need to identify the politics of economic determinism, those issues are some of the main points to be discussed in Chapter Three.

would it be to opt for other alternatives. In other words, as economists assert, transaction costs prove crucial. In addition to these features, their origins, either domestic or external, are undoubtedly worth considering, for they can be acknowledged as opportunities or constraints for agenda-setting, decision-making, preference and context shaping in the eyes of the actors in context.

As a starting point for considering the above questions, it is crucial to make clear from the outset the features of the Strategic Relational Approach adopted here. This allows us to identify windows of opportunity and constraint which could open up or cancel out alternative courses of action, both active and passive. The strategic selectivity already introduced in the opening chapter affects both the structures and the agencies, due to the fact that the context does not determine the outcomes and nor do the agencies always realise their goals. A famous passage, often cited, from Marx's *Eighteenth Brumaire of Louis Bonaparte* reads '...men make their own history, but not of their own free will; not under circumstances they themselves have chosen...' (cited in Hay, 2002c, 117). This influential statement is neatly divided in two parts. Apart from the structural limits of action evidenced in the second half of the sentence, the first highlights the vital role which actors have in shaping and influencing the course of events. The limits to this capacity are also acknowledged, since unintended consequences run parallel to the intended goals. Nevertheless, the crucial aspect is, without any doubt, the potential and capacity of the agents for transforming the context they live in. The dialectical interaction between structures and agencies never leaves either unaltered. Their interaction modifies each element. Just as members of civil society react to government policies, so the government reacts, when social sectors manifest interest or concern in specific issues.

Nonetheless, it is important to acknowledge that the degree of change is never uniform as it varies in each specific situation. Therefore, the impact of the transformations is uneven, since the capability and resources remain unequally distributed in any dialectical interaction or relationship.



Throughout this work the conception of social, political and economic change is perceived to embrace the social system itself as a sequence of interrelated changes. It is the succession of various stages over time and the aggregated result of various components within the spectrum of potential change. The ever-changing nature of social dynamics varies over time and is also case-specific, multidimensional and multilevel (Sztompka, 1993). A broad range of possibilities and scenarios takes place within the spatio-temporal dimensions, where the material and the ideational spheres interact with each other and also with a vast range of structures and agencies. Adopting the Strategic Relational Approach helps us to identify the vital elements that

take part in the punctuated evolution apparent to us.² For a graphical representation of the analytical distinctiveness of this approach, in particular, the material and ideational elements which, are made by situated agents in strategically selective contexts within specific spacio-temporal locations, see Figure 2.1 above. It is to this perspective in more detail that I now turn.

THE CORE FACTOR OF CHANGE

The analysis of change has been approached from different angles. One of the most widely used, although it is not exempt from controversy, is institutionalism. According to this view, institutions provide the rules of any given society. Their main purpose is to reduce the margins of uncertainty and to clearly define and delimit the boundaries of individuals' choices (North, 1990a). Before proceeding it is important to stress the fact that institutionalism has been used as a generic label for embracing analytical approaches with important common characteristics, but also with some fundamental differences.³ While for some analysts the sharing of common analytical ground could be used as a platform for supplementing and reinforcing the approaches (Hall and Taylor, 1996),⁴ for certain others, although some collaboration might seem

² Regarding the Mexican case, special attention is given in Chapters Four, Six and Eight of this thesis.

³ For useful surveys of the subject see Cammack, 1992; Hall and Taylor, 1996; Hay and Wincott, 1998; Peters, 1999; and Pierson, 1993. Even though the various analytical spectrums of institutionalism have been classified with broad features in mind, it is inevitable that the depth of the classification criteria and the focus of the survey highlight different issues. Unsurprisingly, consensual views alert us to the fact that it is valid to consider institutionalism as a generic approach; yet this claim is attenuated in view of the range of various theorico-methodological positions, strengths and limitations between them.

⁴ Arbitrary as any classification might be, there seems to be some consensus about the importance of the relationship between institutions and behaviour, on one side, and how institutions originate and change on the other (Hall and Taylor, 1996). According to these authors three great subdivisions of institutionalism are the historical, the rational choice, and the sociological. Nonetheless, to argue that

desirable at first glance, its prospects are more limited under closer scrutiny due to unavoidably incompatible premises (Hay and Wincott, 1998).⁵

In particular, one of the fundamental deficiencies of institutionalism is the inadequate attention granted to the analytical distinction between structure and agency. This is a crucial issue which this chapter aims to clarify. Furthermore, the ontological distinctiveness of rational choice institutionalism, sociological institutionalism and historical institutionalism make any 'crude synthesis' of them all impossible (Hay and Wincott, 1998).

The acknowledgment that policies are meant to work as producers of specific resources and incentives, impacts upon governmental spheres and non-governmental ones too. The dialectical interaction between structures and agencies, and between the material and the ideational spheres, provides both general and specific feedback, which in turn make their way, albeit modified through the processes, towards the transformation of State capacities. For instance, Chapter Four and Six below, discuss the fact that orthodox economists who served as government officials prioritized

rational choice institutionalism is as good as its peers is not to say it is the best way of addressing the issue of social change, as will be shown below.

⁵ Aware of the caveat that generalizations could lead to conflation among different schools of institutionalism, it can be cautiously claimed that shared features of the different institutionalist approaches are the consensus on institutions as both formal and informal structural features of society, and some concern for stability over time as well. Additionally, the perception that institutions should impose some limits to any agential behaviour is crucial, as it requires the sharing of some common values and meanings for the actors constrained by the institutions. However, differences amongst institutional theories that should not be overlooked are the lack of a consensual definition of what an institution is; the sources of preferences of the theories, either exogenous or endogenous; whether change is perceived as a part of a static scheme or a disruption of stability; and finally the way in which interactions between individuals and institutions shape each other's behaviour (Peters, 1999). Sharing a common ground of institutions as products of human agency, on the one hand, and the structure of rules and incentives as a 'choice of the designers' which limits the room for manoeuvre and shapes the behaviour of the agencies, on the other, a detailed classification lists six different bands in the institutionalism rainbow: normative, rational choice, historical, empirical, international, and societal (Peters, 1999).

economic reforms in Mexico over democratic transformations, in the name of stability.

The suggestion that specific incentives derived from policies induce individuals to take actions makes those particular policy developments path-dependent. That is, the claim that certain patterns of inertia make the only feasible option for individuals a very narrow range of choice, is a quite evident, although by no means exclusive, characteristic of rational choice institutionalism. Lock-in policy effects are supposed to render previously viable alternatives implausible, followed by a somehow passive acceptance of previous decisions and courses of action (Pierson, 1993).⁶ The logic of the inevitability of unfettered market compulsion as defended by hyperglobalists is an example (Ohmae, 1990 and 1996; Held, McGrew, Goldblatt and Perraton, 1999; Hay and Marsh, 2000). Since this argument has been used to justify the unavoidability of the priorities of such market-oriented economic strategies as liberalization, privatization and deregulation, it is to a closer scrutiny of one of institutionalism that I now turn.

Just as different analytical focuses are pursued under the banner of institutionalism, rational choice institutionalism, also labelled neoclassical institutionalism, is not a uniform perspective in its own right (Gilpin, 2001). There are different exponents and research agendas grouped under the rational choice institutionalist label. Nevertheless, some consensus arises over the concepts of bounded rationality, and the utility maximizing actor realizes his goals more effectively through institutional

⁶ Even though Pierson's work is considered representative of historical institutionalism, his notion of lock-in policy effects has strong similarities to rational choice institutionalism (1993). It also exemplifies how close analytical and theoretical notions could be within the institutionalist approaches.

action. However, it does not take long for the goal seeking individual to realise that institutions constrain, enable and shape his/her behaviour (Peters, 1999).⁷ Despite discrepancies, one of the most important agreements amongst institutionalists concerns what institutions are. For them, institutions are sets of rules, either formal or informal, which serve to establish a stable structure within which human interactions take place facilitating 'rational' conduct. The importance of institutions stems from a mix of incentives and transaction costs. Some transaction costs may be increased, and some others decreased, in order to favour certain aims and courses of action. It is in this sense that the evolution of a society through time is shaped by institutional change. Institutions are, then, "...the rules of the game in a society or, more formally... the humanly devised constraints that shape human interaction..." (North, 1990a, 3). The influential work of the Nobel laureate and author of *Institutions, Institutional Change and Economic Performance*, seeks to explain how institutions create structural incentives which influence and shape the direction of change, incrementally modifying the institutional framework in a path-dependent way. In other words, North's view is a structurally directed or induced top-down analysis of institutional change, in which the institutional framework is a precondition for the performance of an economy. According to his argument, it follows that the addition of a large number of economies makes possible mass markets (1990a).⁸

⁷ It is not difficult to find common assumptions such as rules and sets of incentives as the institutional departure point; nor is it hard to find shared problems such as coordination and control of the public bureaucracy for rational choice institutionalism, either. Moreover, according to this view, the role which incentives and constraints play determines institutions themselves. In this perspective, the emergence of institutions follows a structural functionalist logic leaving aside agencies in the explanation (Peters, 1999).

⁸ The property rights regime developed within the system is considered to be a fundamental set of market rules. Furthermore, it is acknowledged that government is the best situated agency to make and enforce those rules which propel the function of the market (North, 1990a; Peters, 1999).

It is clear that changes in the ideational sphere are qualitatively important, as this thesis aims to show. Consider, for instance, the implementation of agreements towards a democratic transition, or alternatively, how a reorientation of the economic model, policies and strategies is implemented. Suffice it here to say that specific governmental policies can deliver tangible benefits to citizens. Medical care, welfare and education services, to mention only a few, may result in significant material benefits for many people. This gives some economic sectors impetus, both in terms of economic gains and losses, growth and a reduction in the provision of material goods and of the infrastructure they need to use. Since there is no unique direction of change, the material elements and factors interact and influence one another, hence both need to be considered.

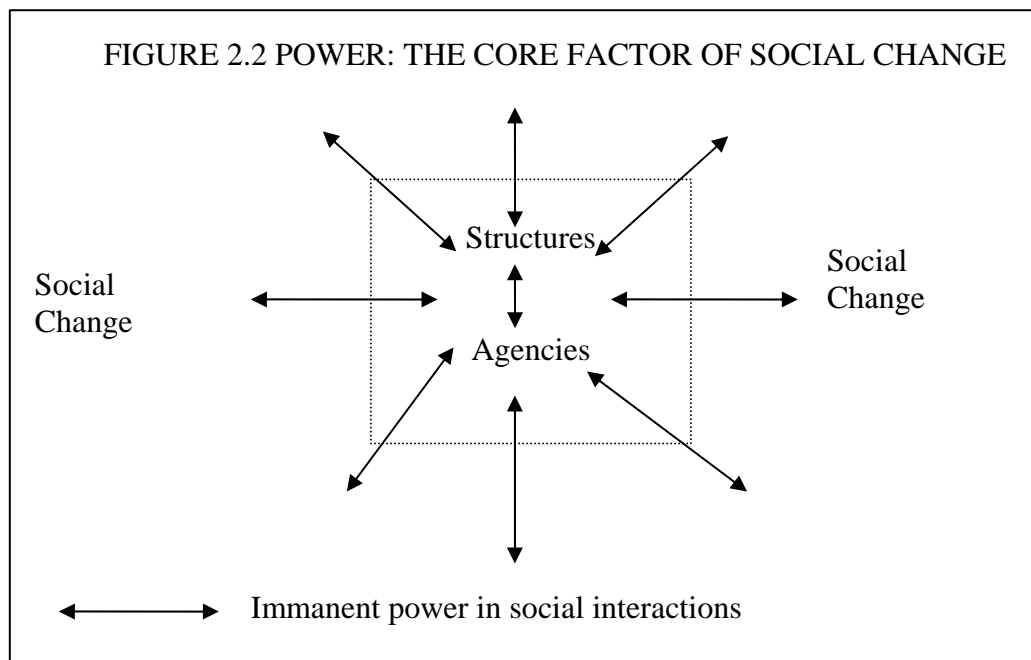
Even though rational choice institutionalism recognizes that the rules of the game are creations of human agency, and builds on the foundation of their choices, gives too little weight to the fact that agents are able to trigger social change. Rational choice institutionalism in general, and North's argument in particular, transfigure the agential starting point of that approach, by appealing to a deterministic structural logic in the end. Furthermore, North proceeds without even conceding that the choices which individuals make modify the contexts which they are in. The farthest this rational choice institutional perspective goes is to suggest that organizations can induce change (North, 1990a, 73-82). In his view, organizations bind groups of individuals by some common purpose to achieve specified objectives. Thus, political, economic, social and educational organizations operate in a fluid dynamic of evolution influenced by the institutional framework (1990a). Still, this is not the same thing as saying that actors, either individual or collective, could be a factor of change

themselves. Since power is embedded in all social relations, agencies in context find themselves able to modify and influence the structure in which they are situated. In other words, power is not exclusively hierarchic and structurally determined all the way down from the top (Foucault, 1976, 1977 and 1979). Each situation is case specific and dependant on a multitude of factors; nevertheless, each and every agent, both individual and collective, has the potential to influence, promote and achieve changes at different levels of the structure. Yet, it is of utmost importance to acknowledge that all resources are differentially distributed.

There are some important omissions in the rational choice institutionalist analysis and conceptualization of change. A striking weakness, especially in North's work, is the lack of explicit mention of power and the way in which it influences social structures and agents. For according to Foucault, power is the core factor of social change immanent in all social relations. This is schematically shown in Figure 2.2 below. Even though, for North, there is an implicit acknowledgement of authority and power, it is never spelled out in his famous book. The economic discourse of institutions as rules in a society which function to decrease uncertainty and to define and limit the set of choices of individuals is clear, as is his model of treating social interactions as costs.⁹ What it is not clear at all, since there is no explicit mention of it in his analysis, is the role which authorities play, in particular, and the exercise of power more generally in his analysis. Since institutions are treated as the rules of the game, crucially supplying the fact that power issues and dimensions are taken for granted must be examined, debated and challenged. For institutionalism, rules are given for

⁹ Measurement and the costliness of enforcement are components of transaction costs. Hence, in turn, in addition to transformation costs, they equal production costs. Whenever it is expensive to transact

individuals to follow and delimit their feasible choices; although those sets of rules do not cancel out alternative courses of action. Furthermore, collective and individual agents could identify some rules as incompatible with some of their preferences. Hence, actors could exercise their freedom to choose, either by selecting something from the menu, or not selecting anything at all. In case no option matches their preferences, clearly their demands still need to be satisfied, either through this specific channel or through some alternative ones. In this sense, Chapter Five highlights the relevance of a mode of governance through networks.



Since one of the clear ways in which structural power can be exercised is through the production and reproduction of knowledge, this in turn, at least in some academic and government circles, has emphasized a concern for stability. This is why it does not come as a surprise that some mainstream theories are oriented towards the preservation of the status quo. Dominant forms of ideas and knowledge work as an instrument for maintaining dominance (Gill, 1997). Nonetheless, it is important to

the institutional rules of the game they matter, as they become crucial factors in the performance of

recall that agents are never powerless, because power is embedded in all social relations (Foucault, 1976 and 1977). Moreover, for Foucault power has no privileged origin and no a priori essence. It is articulated with discourses and institutions, at the same time as it is integrated into different strategies. According to this view, power has been characterized as a conjunctural producer of knowledge in all social relations. Power and knowledge directly imply one another (Jessop, 1990b; Hay, 2002c). In this sense, actors, both individual and collective, have in their own hands the means and ability to influence their courses of action to affect particular outcomes.

It is important to bear in mind that a range of different agencies and factors take part in the decision-making processes, the definition of the agenda, and the shaping of the preferences and contexts (Lukes, 1974). Not only is the enforcement of rules clearly a matter of power, but the agenda and the context they are in tell us much about whose interests and which actors they are privileging. Rational choice institutionalism goes beyond some of the simplistic assumptions of orthodox neoclassical economics and perceives the world as a multiple equilibrium market (North, 1990a). Nonetheless, incomplete information and poor feedback, on the one hand, and uncertain outcomes and changing preferences over time, on the other, are also situations which elude simplistic models. It is in this sense that a complex mixture of informal norms, rules and formal constraints and their enforcement characteristics, together strategically select in preparation for the set choice, although never determining the outcomes.

It is interesting to recall that for rational choice institutionalism, change can be reduced to a marginal adjustment in the institutional framework, where the

economies (North, 1990a and 1990b).

adjustments in relative prices and tastes alter norms and ideologies.¹⁰ According to this explanation, change is the outcome of innumerable short-term decisions made by political and economic entrepreneurs shaping the performance of the institutional framework. The way in which those decisions affect the rules of the game could be both direct and indirect, incrementally making long-term changes more evident. Since the focus of this thesis is on the peaceful processes of change, relevant external shocks such as war are not under scrutiny here. In this sense, institutional change is one of the two ways in which economies and societies evolve. The other is technological change, which could be assigned in turn as a material sphere. For rational choice institutionalists the incremental pace of change works to recontract and to capture potential gains, shaping the depth and extent of the alterations or reforms. In this neoclassical economics-oriented explanation of rational choice institutionalism, institutional change appears as the underlying concern for the set of hierarchic constraints associated with stability. In a manner consistent with this view, the cost of change increases each time according to the strength of the interactions, whenever either a minor reform or a radical transformation is attempted (North 1990a). Hence, path dependence favours repeated courses of action and inaction.

SOCIAL PROCESSES ENTAIL SOCIAL CHANGES

In my view, institutional change cannot, and must not be, translated as equivalent to a transformation of the State. For the State is a social process always in the making with

¹⁰ For some very strict and rigid rational choice institutional frameworks, change is completely alien to their explanations, and appears to happen only when institutions have fallen into obsolescence (Peters, 1999).

patterns of punctuated evolution and therefore, its analysis must not be reduced to a simple institutional set of rules (see Chapters One and Five). The reforms of institutions can however, be accounted as one of the elements of the social processes; they might be a necessary, but never a sufficient, condition for a fundamental change or reorientation of the State. There are degrees of institutional change which could vary from almost insignificant to major ones. Since institutions account only for a portion of the non-material elements of the State, a transformation of one of its parts, or even some of them do not account for the whole of the social body, especially for all of its ideational and material elements.

As it will be evidenced in the following chapters of this thesis, elements of change can be addressed in terms of their material and ideational dimensions, and in terms of their structural and agential aspects. Yet, the facilitation of some courses of action does not guarantee that any expected outcome will occur as intended. There are always unintended consequences, because perfect control of all the variables is impossible in the real world.

In spite of the similarities in the temporality patterns of social processes, history evolves in a punctuated fashion, never repeating itself. On the contrary, the contingency of the social interactions and the indeterminacy of the factors at play, always leaves the door open for uncontrollable elements. Taking a closer look at the discovery of different social processes, their similar characteristics over time are always quite revealing of the elements, factors, tendencies and countertendencies at play. The detail of the features reveals dissimilarities which must not be overlooked.

It is important to stress that the very contingency which agents bring to the social processes also represent an important social trigger of change. This agency promoted change accounts for elements of variation and indeterminacy impossible to find in structural accounts and explanations of change. Moreover, changes move in different, sometimes contradictory directions. Multidirectional patterns of punctuated evolution cover a more comprehensive spectrum, which, depending on power factors, could help determine the depth of the transformation along the political and economic axes, as discussed in the previous chapter. Some changes may result in effects which are superficial and shallow, whereas some others as might turn out to be deep and fundamental transformations.

Even though they are not always easy to identify, the processes of social change are facilitated and constrained by very different sorts of power related factors, i.e., institutions, individuals, regulators, specific actions, deliberate omissions, information, ideas, governments, firms, etc.; all play a role in the ever evolving processes of social change. They are case specific and could be exercised both directly and indirectly within specific contexts. Additionally, they may embrace the whole gamut of material and non material elements and of agency and non-agency factors. For instance, the implementation of any specific economic programme brings its own economic goal and political target. Consider the promotion of the divestiture of public enterprises which has provided resources to economically constrained governments, which are at the same time seeking less direct official involvement in economic activities.

Acknowledging history matters, especially for explaining long-term economic change; rational choice institutionalist authors claim that it is possible to assess economic performances. Because path-dependent interactions decisively contribute to shaping structure-agency and material-ideational interactions at different levels, it comes as no surprise that the longer the time periods under scrutiny, the more evident patterns of change become. Rational choice institutionalism and historical materialism are very different theoretical approaches and their emphasis, concepts, and focus do not match. The prescriptions of rational choice institutionalism depart widely from those of historical materialism (North, 1990a). Some exponents of rational choice institutionalism, aiming for efficiency, clearly tend to favour stability, therefore exhibiting a pro-status quo deterministic and structuralist logic (Hay, 2002c).

It is vital to stress the analysis of power as the core factor of change, as this acknowledges the fact that social processes entail social change. Before proceeding with an analysis of the economic and political nature of change, it is important to briefly discuss some important considerations regarding the market axis introduced in the previous chapter of this thesis.

THE MOVE TOWARDS THE COMMODIFICATION OF ECONOMIC ACTIVITIES

Recalling the market axis, or ‘y’ axis introduced in Chapter One, I want to discuss here the seminal idea from which the analytical map borrows, as it will prove useful throughout this thesis. Due to the fact there is no perfect synchronicity between the

economic and political agendas, it comes as no surprise that the expansion of markets is matched, albeit at a different pace, by the expansion of social controls. Polanyi identified the 'double movement' as a social response and attempt to control the social polarization and adverse effects of markets in the 19th century (1957). The theoretical validity of his argument has led some authors to make analogies between the contemporary emphasis on the privatization, deregulation and liberalization of economic activities with the European experience of the one hundred years peace. The democratic deficit which characterizes the implementation of today's economic agenda is disquieting, because it imposes a vertical and unaccountable set of authorities who promote an indiscriminate and unsustainable socialization of costs and a privatization of benefits, as will be shown in Chapter Four.¹¹ Opposed to this trend, the reconstitution of authentic civil and political society is perceived to spread from the grass roots to all social strata, not confining it to the economic sphere of production only, but also including and directing efforts towards the economic sphere of consumption. The argument stresses that if the contemporary orientation of society is to be transformed, the consumption model will define the character of future society (Gill, 1997).

In the opening chapter, power and market axes were used to trace the trajectory of the State as a social process. The historic trend has shown a pattern which has varied in political and economic emphasis over time. Interestingly, the contemporary tendencies in Mexico point towards the increasing commodification of economic

¹¹ Instruments for surveillance and manipulation prove efficient for political control and economic stability. The contemporary emphasis on markets as the axis of both public and private activities, the goal of efficiency, and the profit oriented processes of commodification, have the embedded power imprint themselves. The use of ideas, information and knowledge made by actors triggers intended and

activities. Economic and financial priorities top the international and domestic agendas, as shown in Chapters Four and Eight. However, it is important to recall that the emphasis on the expansion of the markets is never disconnected from a ‘double movement’ which reconsiders granting social protection in return. Even though it is evident that the dialectical interaction of the market and society is not perfectly synchronized, it is important to underline that both tendencies and countertendencies are never separate from each other, although they follow different dialectical tempos.

Having discussed that power is the core factor of social change, I now turn to develop an account of the contemporary orientation of economic priorities. The next section carries out an analysis of what the economic role of the State ought to be. In so doing, the Strategic Relational Approach will prove useful for examining and studying the material and ideational elements, along with the structural and agential ones and their mutual interactions.

ECONOMIC AND POLITICAL NATURE

Since the 1970s, there has been a sustained emphasis on neoclassical economic orthodoxy. It has become commonplace to negate alternative scenarios, such as the New International Economic Order (NIEO), back in the 1970s;¹² whilst the burden of

unintended consequences, depending on the immediate context in which they are situated and their spatio-temporal locations.

¹² The NIEO proposal by the developing nations Group of 77 considered the economic rights and duties of the States. Not only was this normative initiative never implemented, but the demands for a more equitable economic order which urgently needed attention have been systematically ignored. Furthermore, the amount of international aid from the developed economies to the developing ones has shrunk without reaching the agreed goals, leaving Israel as one of the most benefited US aid recipients. This provides strong evidence of other criteria than economic need in the selection.

the oil crisis, and the abandonment of the dollar's convertibility to gold, are all milestones of the post Second World War era. There is a growing recognition that not only market failures, but also government failures have some fairly important common denominators, such as imperfect information on one side, and incomplete markets on the other (Stiglitz, 1989 and 1998b).¹³ The recognition of the importance of these two limitations, along with the ahistorical character of some economic models and approaches, has contributed to challenge static, deterministic and structuralist analysis (Gilpin, 2001; Stiglitz, 1991).

Regarding the State and market interactions and complementarity, the efficient allocation of resources is closely associated with redistributive policies for adequate welfare provision. In economists' jargon, it should be a Pareto efficient scenario. This scenario refers to a situation in which some individuals can be made better off, without making even one actor worse off. Nevertheless, these Pareto optimal situations are in most cases affected by failures on both the public side and on the market one, the most frequently recurrent being imperfect information and incomplete markets.¹⁴ Stating that only under exceptional circumstances are the market and the public sector efficient is not the same as saying that this is impossible to achieve,

Instead, trade flows rather than economic aid was supposed to be a more viable solution to the developing problems. Instead, what the least developed countries have been experiencing is a set of pervasive steady and worsening economic constraints which dramatically underline a catastrophic and determinist outlook. In most of these cases the social cost is outrageously high, not only affecting millions of people, especially the most vulnerable ones, but depriving them of even the most basic and fundamental living and sanitary conditions.

¹³ According to Stiglitz, the way in which governments should get involved in economic activities dictates their role as complements to the market. Undertaking actions which make markets work better and correcting market failures, especially for appropriate regulation, social protection and welfare, are entwined and complement the activities of the private sector (Stiglitz, 1998a).

¹⁴ Some quite important public and private failures to which the economy is subject comprise externalities, monopolies, inequities, rent-seeking and lack of competition, among others (Stiglitz, 1989, 1994, 1998a and 1998b).

especially as regards the redistribution of goods and services (Stiglitz, 1989 and 1998b).¹⁵

More common situations are those in which the State plays a role in correcting market failures; and also the other way round, where the markets, via increased competition to raise incentives, attenuate public failures. The raising of revenues by the State imposes constraints on the treatment of different individuals (i.e. employment and expenditures), and issues such as property rights (Stiglitz, 1989 and 1998b).

Since the State as a social process cannot be reduced or conflated with the government, the economic features of the State comprise its universal organization membership and its powers of compulsion. The latter is evidently exercised to tax citizens, to prescribe certain activities to individuals such as currency emission, to grant monopolies i.e. patents, to punish those who break the law and to implement redistributive policies for the population. Furthermore, the State's attendant fiduciary responsibilities have consequences for employment and expenditure policy, whereas they are limited, for instance, on property rights (Stiglitz, 1989).

These economic features, along with comparatively lower transaction costs due to its central and strategic social, economic and political location, place the State in a very special position second to no other social structure. Although there is a perception that the direct role of the government in the production of goods and services should

¹⁵ The mismatch between theory and practice has philosophical roots, as will be mainly discussed in Chapter Three, but also throughout this thesis. The neglect of a realist, social ontology must not be overlooked. For the inconsistency in methods, social theory and methodology has much to do with the unrealistic assumptions and axioms of rational individuality committed to a state of equilibrium (Lawson, 1997, and 2003). Thus, owed to a positivist stance, the neoclassical orthodoxy concern for

be limited, is not to say that any form of intervention should be discarded. The government could be, and indeed is, directly and indirectly involved in the allocation and redistribution of goods and services (Stiglitz, 1989). Furthermore, as will be discussed in Chapter Five, networking cannot only complement production, distribution and the exchange of goods and services, but can also help in reaching more equitable scenarios.

One of the suggested ways in which markets and governments could act in a complementary fashion proposes the latter should provide incentive mechanisms to the former.¹⁶ It is important to bear in mind that the governmental reallocation of investment and expenditure, if properly done, does not affect aggregate efficiency. Yet, the decline in direct involvement from the government in productive activities does not mean the government does not have a role to play. On the contrary, the government participates as a central actor by different means. Examples are the provision of regulations, subsidies and public services, as they all are present, albeit to a different extent, throughout the world. This facilitator role should pay special attention to restricting influence in areas of special interest, enhancing openness and competition, and encouraging the private provision of public goods in a representative and accountable way. In short, regarding governance, the need for the public good of better information and less secrecy is crucial for securing a more inclusive consensual participation in decision-making procedures (Stiglitz, 1998b).

asocial, ahistorical, mathematic modelling constrains in a deterministic fashion the open ended and contingent input of the situated actors in context.

¹⁶ This is a key theme of rational choice institutionalism as well, the argument of which refers to the public sector and the private sector.

Interestingly, contradicting the perception that financial markets should be the more liberalized ones, there are pervasive government interventions quite often in developed and developing markets alike, such as central bank interventions to avoid national currency devaluations. Amongst the most important market failures, the role which imperfect information and incomplete markets play decisively alters the context in which agencies act. Since in the absence of government intervention markets are not Pareto efficient, the financial markets' allocation of resources is likely to have a series of adverse socio-economic consequences. The role which information plays, due to its public good features and benefits, in monitoring the solvency and management of institutions, proves crucial for the efficient allocation of goods and services. Additional market failures are externalities (of monitoring, selection and lending), imperfect competition, missing and incomplete markets and market inefficiencies and disruptions (Stiglitz, 1994). Although the government resolves market failures imperfectly, its actions both through institutions and directly in the capital market help the provision of social objectives. In this sense, government interventions aim at improving the financial markets, on the one hand, and strengthening itself to play the role of facilitator, on the other.¹⁷ Thus, the creation and regulation of financial institutions and the directing of credit are available strategies for fulfilling the goals of attaining macroeconomic stability, strengthening the solvency of institutions and enhancing growth prospects (Stiglitz, 1994).

¹⁷ Public regulatory policy takes place in a controversial locus and makes use of a broad spectrum of different methods. They range from indirect control mechanisms such as incentives and restraints, to the setting of regulatory and prudential standards, to designing and enforcing regulations, to improving the efficiency with which capital is allocated, to directing credit, and to putting into practice competition policies (Stiglitz, 1994).

It is also important to note the fact that even though neoclassical economic theories, models and approaches tend to be ahistorical, there seems to be a broad cyclical pattern of periodic shifts in the relative importance assigned to the government's economic role in such models. With the benefit of historical hindsight it has been observed that trends of disillusionment with the failure of the public sector to deliver turn into countertrends of disenchantment with the failure of the private sector to produce, allocate and redistribute goods and services (Stiglitz, 1989).¹⁸ This dissatisfaction might turn into a countertendency which would gain momentum and strength, and in some cases could become a strong tendency. Therefore, the political and economic cycles are closely interlinked with the social processes of punctuated evolution and do not operate independently from each other. In this respect, a non-hierarchical form of governance, as typified by a network, enhances the socially embedded character of economic activities. Hence, network governance could help as an alternative and complementary resource to address the failures of States and markets (Jessop, 2002).

The profit rationale from the private sector contrasts with the public sector's multiplicity of objectives. The latter can be economic (for instance, employment concerns), and also non-economic (for instance, national security provision). These objectives also change, for political will and support for them does not remain the same. However, the recognition that efficient market allocation cannot take place without government intervention stresses that the State has a role to play on the economic affairs. It does not need necessarily to be directly involved in the

¹⁸ Stiglitz recalls Hirschman's argument about how pro-private sentiments turn into pro-government ones due to unsatisfied demands and unfulfilled expectations, in a rough pro-cyclical pattern. He also

production of all goods and services, but it does need to be alert whenever markets fail to meet social needs (Stiglitz, 1989, 1998b).

In this sense, there is an identification of market and public failures, on one side, and the recognition that social needs have to be properly met, on the other. Hence, there is room for manoeuvre and the viability of networking practices, as will be analysed in Chapter Five. The implicit recognition follows that the expansion of markets is accompanied, though not perfectly paralleled by, an expansion of social protection. What Polanyi termed a 'double movement' is a (more or less widespread) common denominator.¹⁹ He stressed the fact that it is the society, not the economy, which guarantees international order, because neither a national, nor an international system can depend on utopic 'self-adjusting' markets. Unfortunately, this social dimension is critically missing in many contemporary political and economic trends, as the contemporary orientation of market society is based on self-interest and profit seeking. Since markets are neither 'self-regulating', nor 'self-adjusting', buffer mechanisms capable of providing some protection to society are evidently required. In the 19th century, the market expansion propelled by the industrial revolution was met by counter-movements checking this expansion. These aimed to address social dislocations and are exemplified by the development of the Welfare State in Europe and some corporatist practices in developing countries in Latin America and also in other parts of the world. Since the protection of society is not compatible with the

considers good public management as a public good, because everybody can benefit whenever it is properly done (1989).

¹⁹ The 19th century institutions which played a crucial role in the one hundred years' peace period of 1815 to 1914 are first, the balance of power system; second, the international gold standard; third, the neither 'self-adjusting', nor 'self-regulating' market; and fourth, the liberal state. In Polanyi's perspective the core elements of the period are the laws governing the market economy. For not only is the economic organization held responsible for the peace dividends of that period, but also the

assumption of a ‘self-regulating’ market, use has been made of different mechanisms, such as protective legislation, restrictive associations and other instruments of intervention aimed at the conservation of man, nature and the productive organization. This principle of social protection was confronted as a response to the principle of economic liberalism, in which the use of laissez-faire ideas and free trade practices was the product of deliberate State action (Polanyi, 1957). If the State facilitates the construction of markets there is neither a theoretical contradiction, nor a zero-sum game between market structures and the role of the State.²⁰

Disruptive market strains, such as decreased levels of employment, production and earnings, along with social tensions, pressure on economic and trade exchanges and the international context, need to be rectified by political means. Here the State is best placed to take a decisive role (Polanyi, 1957).²¹ The facilitative role which the State is perceived to play in the provision of goods and services on the one hand, and the satisfaction of social needs, on the other, have been over-simplified, dramatically reduced and distorted by international organizations such as the International Monetary Fund (IMF), World Trade Organization (WTO), and the World Bank (WB). The Washington Consensus of United States’ economic officials and international organizations, to be examined in Chapter Seven, emphasizes the agenda of liberalization, deregulation and privatization. By focusing on few macro-economic

international finance and banking system, ‘haute finance’ in his own terms, is perceived as the main link in the European economic and political organization before the First World War (1957).

²⁰ A growing body of literature has pointed out the way in which the State is often a driver of globalization processes (Hay, 2002c; Hay and Marsh, 2000, Gilpin 2001).

²¹ The failure of the market utopia, which is at the heart of the economic transformation of the present era, initiated from the zone of the market, reached the political sphere and spread to the whole of society. The dissolution of the gold standard, the last of the four economic institutions to survive, released the stress within the nations. The United States with its independent and strong domestic market and currency was more independent from world trade than all other countries, and this allowed it to treat the gold standard mostly as a matter of domestic politics (Polanyi, 1957).

stability indicators for the formulation of a set of policy recommendations, it leaves aside vital elements such as competition and education (Stiglitz, 1998a). Furthermore, it also fails to acknowledge that unorthodox, successful domestic initiatives prove agencies' capability to actively influence and modify the context in which they stand. Although the post Washington Consensus emphasizes an institutional turn, it does not acknowledge the significance of agents as not only followers but also designers and practitioners of institutions, as is also discussed in Chapter Seven. Suffice it here to say that institutions are tools which actors make use of, not the other way around.

It has become commonplace to assert that States are no longer the main actors taking part in economic transactions and the provision of goods and services (Ohmae, 1990 and 1996). Private actors, such as some interest groups, are now powerful enough to set the agenda in multilateral rounds of trade negotiations. The General Agreement of Tariffs and Trade (GATT) has historically prioritised special interests from developed economies in its rounds of multilateral negotiations; rather than implementing a more comprehensive approach towards the most competitive sectors or interests of developing nations. Even though there has been a significant lowering of tariff barriers to trade, the rise of non-tariff barriers, such as anti-dumping and countervailing duties or voluntary export restraints, is still highly significant. For arguably trade is more sensitive to small variations in tariff and non-tariff barriers. Even beyond the rise of non-tariff barriers, new trade barriers such as technological advances in genetic engineering in countries where there are strong subsidies for agricultural sectors are pervasive and remain largely untouched by international regulations. For a very significant group of the developing nations, market access to

the most developed economies has been on the negotiation table for quite a long time with little or no result at all.²²

From a different standpoint, it is undeniable that private organizations such as credit rating agencies play a crucial role in current financial transactions (IMF, 1999). Standard & Poor's and Moody's are amongst the most important and influential rating agencies. Because those agencies supply investment grades for the public debt of emerging markets, they decisively influence the patterns and directions of capital flows, signalling how markets perform and how risky investing is in different places according to their criteria (IMF, 1999). The greater the degrees of risk in an emerging market, the more it is forced to offer greater rates of return to attract capital inflows.

Still, the disclosure of reliable and timely public information by some emerging markets has not prevented them being affected by both capital inflows and capital outflows. Nowadays, information about a government's accounts is not enough. In addition to the public figures, there has been an increase in the amount of private capital flows to both public and private borrowers. The disclosure of information about private flows is treated confidentially and presented incompletely and in a technical way which makes open and public scrutiny more difficult. Still, it is important to stress that private accountability is also important as some financial

²² The liberalization of trade has been a necessary, but not a sufficient condition for most of the developing countries to reap the benefits of development. Quantitative accounts of growth cannot be evaluated on the same grounds as improvements in the quality of life. Nowadays, at the turn of the 21st century, the international trade agenda goes beyond the borders of the WTO member States and into the domestic regulation arena. However, an important point should not be missed. No matter how long the development agenda is delayed, it entails much more than macroeconomic variables. Clearly it is not only about the provision of basic needs, it is also about providing opportunities and means for improving the quality of life. Therefore, development goals go well beyond the narrow neoclassical economic orthodoxy criteria of getting the 'fundamentals' of inflation, money supply growth, interest

collapses have had important social repercussions. Moral hazard, or the perception of investors that either the government or international organizations will not allow a run on the economy, is conducive to speculation, as recurrent financial crises in emerging markets such as Russia and South East Asia clearly show. Within a framework of inadequate regulation and surveillance this can prove catastrophic. In most cases, as it is discussed in Chapter Eight, the rescue of the economy is paid for, directly or indirectly by the society, as evidenced by the crises in the different emerging markets since the 1990s, i.e. in Mexico and Argentina; benefiting private profits and speculation on one side and socializing the costs on the other. Thus, this makes evident the need for private accountability to ensure timely, accurate and reliable information disclosure.

Having emphasized some important economic and political issues of social change, it is now important to move to another crucial analytical dimension. The focus of the following section is on the tangible and intangible dimensions of social change. Without claiming that it is an exclusive power to highlight unobservables, with the structure and agency analytical referent, the Strategic Relational Approach also stresses the way in which material conditions and circumstances are intertwined and interwoven with ideational factors. This concern regarding the processes of social change is the theme of the following section.

MATERIAL – IDEATIONAL DYNAMICS

rates, and budget and trade deficits right. Indeed, more instruments are needed to achieve more

It is important to make clear that the theoretical structure and agency distinction, on one side, and the material and the ideational distinction on the other, though intertwined and interwoven in practice, can be separated for analytical purposes. To a different degree all schools of thought in social science have either an explicit or an implicit position on the role of ideas and material factors in their explanations. Either they prioritise one over the other, or, adopting a more dialectical perspective, they give equal weight to the role of ideas and material factors (cf. Hay, 2002c).

However, the recognition of the interplay between these factors is by no means new. For instance, Gramsci's seminal conception of hegemony highlighted the role of ideas and cultural processes; it provided an explanation of the indirect, albeit consensual exercise of power and opened up avenues of research (cf. Gill, 1993). Even though there has been a preliminary discussion above about ideational elements and institutions, I need now to turn to an assessment of these fundamental analytical dimensions. In so doing, less explicit mention of the rules of the game is undertaken, while the stress is now on ideas as intangible preconditions and their causal and constitutive role in the production of outcomes (Watson, 2000).²³ In this sense, flows of knowledge and ideas could have various consequences; however, the explicit use and implicit aims of knowledge and ideas vary in important ways.²⁴

comprehensive and fairer goals in WTO multilateral trade negotiations (Stiglitz, 2000).

²³ In Keynes' famous words: "...the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist..." (1964, 383).

²⁴ For instance, critical knowledge is useful for demonstrating how core elements of the ideational sphere arise out of and serve to sustain dominant power; while mainstream structural knowledge is concerned with stability (Gill, 1993 and 1997).

The literature of international relations and institutionalism with their different concerns and perspectives, have varied in how valuable they consider the ideational dimension to be. The inclusion of ideas has broadened the analytical horizon of the disciplines. Consider 'paradigm shifts' in economic policy already identified with different degrees of impact on the bureaucracy, the political agenda and society. When referring to 'paradigm shifts', Hall makes a classification of their importance. Whilst third order change implies radical modifications not only in the setting of policy, but also in the aims and instruments employed to guide policy which is associated with a shift in governing paradigms, first and second order changes are viewed as social learning adjustment policies which do not challenge the terms of a given policy paradigm at all (Hall, 1993).²⁵ Nevertheless, the feasibility of those shifts depends on the combination of various economic, political and administrative factors (Hall, 1989); for which international relations and institutionalism offer different emphases.

The dialectical interactions between the intangible dimensions of ideas and the tangible dimensions of the material sphere have recently gained increased prominence in international relations literature since the rise of constructivism. The claim that structures and political realities can be socially constructed and the exploration of the issues of identity, rank among the priorities of this theoretical perspective (Checkel, 1998).

²⁵ In this sense, the example provided by the rise of monetarism as a challenger to the Keynesian policies in the late 1970s and early 1980s, could also be considered valid not only for developed countries, but also for the experiences of developing ones (Hall, 1993).

Within the political science literature in general, and international relations authors in particular, Wendt's work is considered to be an example of 'thin constructivism' because even though it recognises the dialectical relationship between the ideational sphere and the material one; it gives greater priority to the latter factors than to the former. A 'thicker' constructivist position emphasizes more the role of ideas over the material world, or to put it more simply, is more 'ideas all the way down' (Wendt, 1999). Interestingly, constructivists have contributed to stretch the debate on the role of ideas within international relations, an academic discipline which in the last few decades has systematically either omitted or given a low priority to the contributions which ideas can make in analysing the international arena.

Wendt engages in a debate over the material or social nature of structures, criticizing realism, the mainstream theory of International Relations, for its incapacity to address structural change. He claims that, in addition to material phenomena, ideas, beliefs and expectations shape the international structure. In addition, he suggests that the identities and interests of the States are constructed by the international system itself. According to this point of view, anarchy cannot be a structure since 'it is nothing', and has no logic apart from the process, because it is merely conceived as a constitutive element. In Wendt's famous words it is just 'what States make of it' (1992 and 1999).

Moreover, in his view the interaction of States is responsible for the reproduction and transformation of the international system. Wendt argues that it is ideas and their distribution within the social structure which determine not only the meaning and

content of power, but the strategies to pursue interests and the interests themselves.²⁶ Following his argument, culture tends to reproduce itself, becoming a non-deterministic self-fulfilling prophecy. Thus, the material-ideational distribution of the content and meaning of power and interests presupposes the discursive formation of ideas, knowledge, culture and beliefs (Wendt, 1999, 92-138).

Even though Wendt considers the State to be socially constructed, he also acknowledges the corporate agency constituted by social and internal structures. In his perspective, the properties of the State which he refers to include its institutional and legal order, its society, its territory, its organization with sovereignty claiming a monopoly on the legitimate use of force; however he does not go any further than this (Wendt, 1999). The significance of the State is discussed in more detail in Chapter Five of the present thesis.

The role of ideas and discourse should not be overlooked. The importance of this intangible dimension proves crucial because ideas can have an independent causal and constitutive role in the production of political, economic and social outcomes. For instance, they are evidenced by the economic and political agendas i.e., liberalization, deregulation, privatization and democratization. Any agent, acting on his or her perceptions of the real world, contributes to trigger the creation of realities which they are meant to reflect. For instance, Watson's analysis focuses on the discourse of globalization. He devotes special attention to the deconstruction of outcomes on the one hand, and accounts, on the other; and makes clear that the tendencies associated with the phenomena of globalization allegedly work 'as self-induced external

²⁶ Actors' interests imply not only what the actors want and their motivations. Interests are also crucial

enforcement mechanisms' (2000). Simply stated, although the use of rethoric does not match reality, government perceptions influence subsequent political outcomes.

This is of crucial importance, since the current trend of governance moves towards the depoliticization of not only the most evident decision-making procedures, such as the counting of votes and representation of the population, but the implementation of otherwise unpopular and clearly unpalatable political and economic tasks, such as the reduction of welfare provisions or tax cuts. This takes for granted that a logic of inevitability is clearly equivalent to an exercise of power. Shaping not only public preferences but the context in which public and private courses of action are selected is complemented by a conscious political strategy of restricting the spectrum of feasible choices. Furthermore, the lack of accountability enjoyed by external constraints favours the reproduction of the status quo and provides a structural deterministic aura which neglects the role of the agency in shaping and influencing the course of events, as will be shown in Chapter Three. Clearly this is not the case, because socially constructed processes depend on ideational and material inputs, whose interaction results in contingent and never identical material and ideational outcomes.

The way in which ideas function as self-fulfilling prophecies is nothing new, though it is only recently that it has attracted attention from political analysts. Consider for instance the way *laissez-faire* and free trade were promoted and allowed by the State to take their course. The political promotion of the market economy could only take place within a socially constructed market society in more or less a similar fashion in

elements of identity and complement who and what actors are (Wendt 1999).

the 19th century as it does nowadays. The daily reinforcement of these assumptions takes a strong path-dependent channel, which increases the transaction costs of changing or reversing a given course of action. This is not to say, however, that change is impossible and that the modification or abandonment of any assumption cannot take place. On the contrary, alternative ideas can also become self-fulfilling prophecies and can therefore trigger change; but this could not happen to them all. The vital aspect to bear in mind is that ideas are a necessary, but never a sufficient condition for triggering or obtaining social change. The material conditions and factors complement any initiative. Just as the *laissez-faire* ideational push was helped by deliberate State action, the social construction of regimes and institutions requires consistency and coordination between the goal to be reached and the strategies for reaching it. Consider, for instance, the implementation of economic restructuring and trade liberalization in Mexico since the 1980s, which will be analyzed in Chapter Four.

Two important intangible elements are then the ideas which actors hold and agencies' perceptions of the material contexts. Both of them are crucial for the selection of feasible courses of action, and they are also appropriated through discourses; which, in turn, influence and are influenced by subsequent ideas and perceptions. Unsurprisingly, both structures and agents play a decisive role in the reproduction of ideas and perceptions.

On the one hand, structures tend to favour specific courses of action, by providing either incentives or signals, or else by omitting alternative routes. To say that the context in which the actors situate themselves privileges some specific courses of

action is not to argue for structural determinism. Since the decisions which individuals make cannot be isolated from their context and from the perceptions of what surrounds them, the shaping of preferences and contexts within which courses of action are selected is a clear and evident act of power (Lukes, 1974).

However, contrary to the prevalent assumptions in mainstream international relations and orthodox neoclassical economics; neither a self-interested rational unitary actor, nor a symmetrically informed individual, matches theory with practice.²⁷ Information asymmetries have been recognised as quite a common problem and to have negative effects on the selection which a collective or individual agency makes (cf. Akerlof, 1970; Rothschild and Stiglitz, 1976; and Spence 1973).²⁸

The interaction between strategically selective contexts and situated agents with ideas and perceptions produces clear ideational and material outputs. Due to some intended and unintended consequences, both outputs are in turn partially transformed inputs of a subsequent output. The ideas which agents hold and their perceptions of the strategically selective contexts help them read where they stand. It does not come as a surprise that due to the lack of complete information, actors need to interpret the contexts in which they find themselves. In this sense, agencies make assumptions about the world which surrounds them to decide which courses of action to take, if any, or whether to do nothing at all. Therefore, ideas and beliefs, though immaterial,

²⁷ Some game theory analysis of cooperation makes use of static models. Iterated games imply the notion of repetition of the same material and ideational elements. Such an unrealistic simplification of the dynamics of social change does not take into account the interactions between the situated agents, either collective or individual, the structures, and the way in which they influence each other. Even worse, neither leaves room for, nor incorporates contingency in the social processes. In sum, the result is a short-sighted, static and deterministic analysis.

²⁸ For instance, models of analysis on the emergence of social institutions to counteract the effects of non-reliable and incomplete information have proved quite influential in economics.

are both real and have real effects with a mix of ideational and material consequences (Hay, 2002c and 2000b). Thus, ideas, beliefs and perceptions do have an independent, causal and constitutive role in the production of outcomes. Consequently, they trigger without determining the behaviours and practices of actors. These, in turn, take part in the cumulative and incremental processes of social change, through the exercise of power embedded in all social relations by agencies.

The perception and interpretation of the way in which actors see themselves in context is crucial for selecting strategies or courses of action. Evidence clearly shows that the implementation of policy changes and governmental priorities is often preceded by ideological shifts on the part of people who hold key decision-making posts (Hall, 1989 and 1993). Furthermore, not only are structures selective but they are never determinate in directing certain strategies over others. Yet, they operate in a similar way to discourses. The selection of certain preferences does not imply the unquestioned adoption of certain discourses through which it might be appropriated. Thus, ideas and discourses are key components and promoters of the processes of social change with a significant material impact (Hay, 2002c, 2000b, and 1996).

INTERNAL AND EXTERNAL ORIGINS

Even though the incentives for change may come from different sources, it is the actors themselves who make them relevant to change, whenever they reproduce specific passive or active behaviour contributing to forge path-dependent courses of action or inaction. As has already been indicated, the dialectical interaction between

structure and agency is mediated through ideas and perceptions. The ideas and perceptions which agents use help them to construct socially their context, altering the structures and influencing other agencies in this relationship. It is important to recall that power exercised by the agency is a crucial factor of change. Following Foucault, I argue that power is present in every social interaction.

There are many different mechanisms of social change which can be induced or promoted. The sources of these initiatives might be either external to the social group or structure, or they might be internal, or in some cases even a combination of both. Some agencies may be more proactive or simply are in a better position, or have more resources to shape the agenda and get their preferences prioritised over others. Yet, this is not to say that the rest are powerless, because power is never a zero-sum game, in which the gain of one player represents the loss to his/her counterpart.

International organizations such as the IMF, the WB, the WTO, and the United Nations (UN) itself, have expanded their original limits. Since the post World War II years these organizations have exercised considerable leverage not only over international regimes, but also in inducing domestic changes for political procedures and economic restructuring; such as the ones which the 'economies in transition' are facing since the fall of the Iron Curtain which signalled the end of the Cold War, or the conditionality attached to economic restructuring in Latin American countries since the 1980s. Additionally, domestic pressure groups and bureaucrats networking can also be identified within the boundaries of the State and many of them could extend their contacts beyond the borders; as is the case for non-governmental organizations and a wide variety of different networks. Hence, networking makes

evident alternative routes for the promotion of change, as sometimes they have brought specific concerns into the governmental agenda at different levels. Since networking can re-orientate, enhance, strengthen, and deepen the process of change, it is to be discussed below (Chapter Five).

Social change needs to be processed endogenously both at the structural and at the agent level as well. War might dramatically modify the conditions for both the winners and the losers of the armed conflict, but it is not until the outcome of the confrontation has been internally digested and endogenously appropriated by the civil society that it can be accounted as an element of incremental, or sometimes abrupt, cumulative change. War is clearly a vital transformation factor in the processes of social change (Hay, 1996). It is also the crudest exercise of power. Whatever the aims of deploying warfare and exercising military muscle might be, a power factor supporting and promoting the use of violence can always be found. Since the destruction and reconstruction which military confrontation brings cannot be overlooked, war significantly shapes and transforms social processes, leaving its mark upon them. Not only is the use of violence one of the most dramatic ways in which change can be brutally imposed, but it also represents one of the most profitable businesses in the world, as the United States economy with its military-industrial complex makes evident. Still, it is necessary at this point to make explicit that this thesis does not explore processes of social change as a result of war or military confrontation. Rather, the emphasis of this thesis is on non-violent punctuated evolutionary change. The mix of different mechanisms of coercion and consent clearly benefits some agents because neither governmental policies nor strategies are

completely neutral. There is always some interest or preference privileged over others.

Social change necessarily must have an internal momentum and initiative, and also needs to be processed internally. It needs to become part of most, if not all the actors involved in the processes, otherwise it is only an alien element in the social pattern. Social change is also quite permeable and open to innumerable influences nevertheless, there are just a few which prove decisively important. Transformations can be induced or promoted from the structural context or from within the agency. The initiators or promoters of radical change could be located either at the top of the governmental or social structure or down among the grass roots. Crucial in the implementation of changes are ideas, beliefs and perceptions, on which the actors stand and which make them act, selecting their preferences within a range of options.

In most cases, unidirectional trends or the convergence of policies, courses of action and decisions is not the only identifiable tendency. There are always countertendencies in play which, depending on the context, provide contingency and uncertainty for social processes, albeit to a different degree and depending on each one's specific circumstances.²⁹ A dialectical understanding of interactions is helpful

²⁹ Consider for instance the indigenous peasant uprising in Chiapas, a Southern state of Mexico, in 1994. The Ejército Zapatista de Liberación Nacional (EZLN) symbolically erupted into the political and military arena the very first day that the North America Free Trade Agreement (NAFTA), came into force. Since then, undoubtedly the most important and dramatic influence it has exercised has been the exemplary evidence that the promotion of social change lies in the actions and omissions of the actors themselves. Controversial as their demands and methods are, they also remind us that no matter how tight exclusionary governmental policies, in this case, or structural constraints more generally are, the agency can either contribute to determinism by inaction, or alternatively, forge and promote a more appealing context to live in. Demands in the negotiation table have not been satisfied by the government, but still cannot be ignored altogether. Subcomandante Marcos, the most visible Zapatista leader, has also promoted its cause beyond the Mexican borders quite successfully. This has been done by incorporating additional dimensions to the conflict, attracting international attention, and altering

for portraying a broader, more comprehensive and detailed picture of the succession of events, and for process-tracing analysis.

Not only is the Strategic Relational Approach adopted here capable of tracing the features of processes; it is also well equipped to follow the strategic and discursive selectivity which mediates and influences social groups.³⁰ Furthermore, and even more importantly, this theoretical approach analyses how the various elements leave distinctive imprints in such processes. What it is important to underline is the fact that, regardless of the original push or move to promote change, it always needs to be endogenously digested. Since the internally appropriated change modifies the agents' conditions and circumstances, it comes as no surprise that uncertainty, unpredictability and uneasiness are incorporated into the tendencies and countertendencies in play in the processes. The likelihood of unintended consequences arises due to tangible and intangible influences both for the strategically selective context and for the strategic actor. The intangible influences include institutions, interests, ideas and perceptions; which in turn modify the original input at different levels. The outcome might, or might not, retain all of the original characteristics. What is certain is that the outcome of the processes is seldom the intended one, due to the power present in all social interactions. Since no agent is powerless, each interaction made has an impact on some counterpart, albeit to a different extent. Accepting each interaction is case specific; the degree to which

the government's original intention to simply crush the EZLN. Nowadays it is recognized as a political and social collective actor in its own right, able to exercise social power in its interactions.

³⁰ Strategic selectivity refers to the contextual selection of some preferred means towards the achievement of a specific set of goals. Furthermore, outcomes are structurally underdetermined for the strategic actor, since it is he/she who brings indeterminacy to the fulfilment of those goals (Hay, 1996 and 2002c).

relationships are modified might alter the original aim. For example, opposition movements to some governmental policies or plans may spread and grow through social interactions, making use of diverse methods, channels and forums. In this sense, the tendencies and countertendencies of the social interactions in play bring an uneasy, uncertain and unpredictable mix which makes social phenomena extremely difficult to reproduce. Since attention needs to be paid in the distinctive evolutionary features of social changes in process, I focus my argument on it in the following section.

THE EXTENT OF INCREMENTAL PUNCTUATED EVOLUTIONARY CHANGE

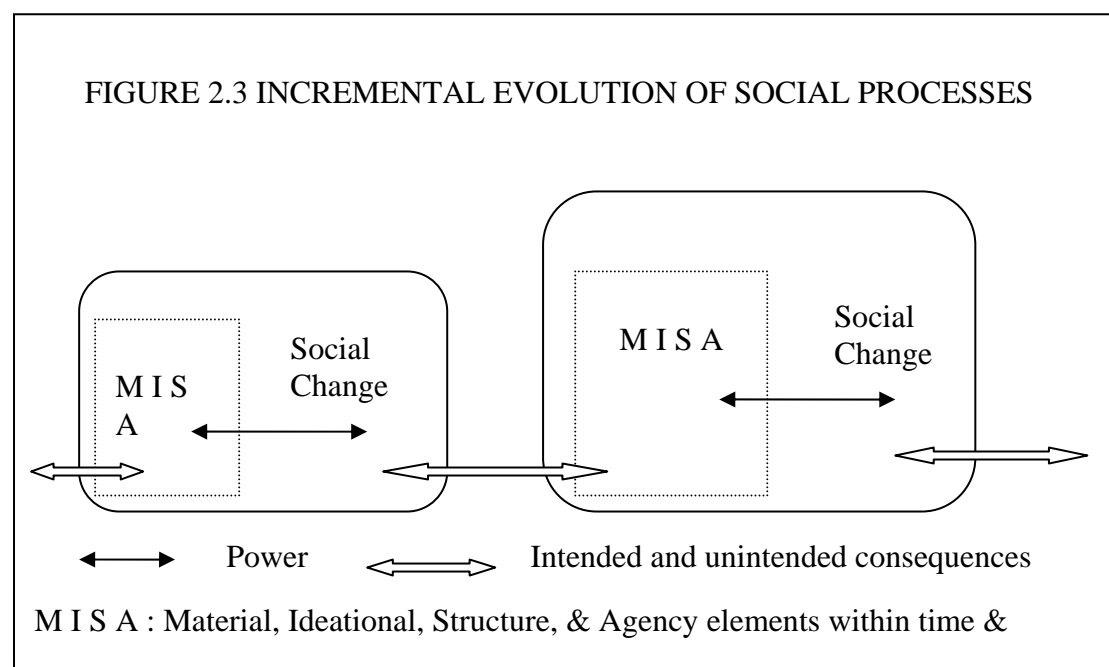
One of the best ways to identify the transformative, adaptive and incremental character of changes in social processes is with the help of hindsight. Historical processes reveal trajectories otherwise impossible to perceive by means of static analyses. Crucial to the analysis of the tendencies and countertendencies of the processes are both the ideational and the material preconditions in which some of the causes and original motives could be identified; for history matters as much as the rest of the factors which the analyst identifies or selects. The Strategic Relational Approach is characterized by a strong historical perspective, in which an adequate balance between theoretically informed and empirically grounded analysis must be pursued.

In a similar way, the context within which situated agents interact tends to favour a selection of ideas, perceptions, understanding, narratives and discourses. This discursive selectivity, in turn, informs the actor to best formulate his/her strategies (Hay, 2002c).

However, as has previously been emphasized, processes of social change do not move in a linear way. Unlike neoclassical economically oriented influences, equilibrium is very seldom if ever achieved in social processes. Moreover, iterative yet cumulative change is characteristic of interrupted evolution at different intervals by various phenomena and factors. Due to the fact that different agencies pursue contrasting agendas, it should not come as a surprise that forces seem to pull in contradictory directions all the time, and these reflect the immanent power exercised in social interactions. Nonetheless, these countertending patterns act dialectically and relationally as constituent elements of a more aggregated trend. Such scenarios are incompatible with the concerns for stability and equilibrium; although these in turn are perceived to be vital for economic and institutional restructuring efforts all over the world. Consider for instance, the rise of public officials highly trained in economics to decision-making positions in official circles, who have implemented economic restructuring in Mexico since the 1980s, as will be discussed in Chapter Four.

One point, however, should not be overlooked. The depth of social changes leaves traces at different levels. The fact that the analysis hitherto has concentrated on the macro level does not mean that the meso and the micro dimensions are ignored. This is simply an analytical distinction similar to others already mentioned, because all these levels are not segmented and clearly delimited in the daily interactions in the world out there. For the purposes of the current analysis the macro level of analysis is more appropriate; however, it is important to say that the other two dimensions are also incorporated in this work. For instance, political reforms, which are a small part of a broader democratization process, account for the recognition of every citizen's

right to vote, elect, or abstain in choosing whomever he considers to best match his ideas and interests. Or it could be the case that no specific governmental programme is put into practice straight away. Rather it is mediated, influenced and modified by the different agencies involved, which sometimes dramatically alter the intended outcome. This brings indeterminacy and unintended consequences into play. The continuous interactions of situated actors in context present patterns of incremental evolution which characterize social processes, as represented symbolically in Figure 2.3 below.



The social processes of punctuated evolution are never uniform or identical. On the contrary, their features and patterns are always evolving and could hardly be exhaustively listed. Nevertheless, it is possible to make a crude distinction between soft reformist and adaptive changes. This is similar to the distinction made by Hall between first and second order changes, on the one hand; and more transformative interactions, known as third order changes, on the other (1993). Since these

theoretical distinctions have already been spelled out above, suffice it to say that throughout this work more emphasis is put on the transformative patterns of change which are more evident at the macro level. Reformist and adaptive changes, minor as compared to third order changes, can be better studied at the meso and micro levels of analysis.

Moreover, the present study does not deal with those latter dimensions in detail. An important caveat is needed at this point. Acknowledging that social interactions incrementally account for change, it is not the aim of the present study to X-ray microscopic interactions. Rather, it lays emphasis on more general patterns in a more balanced account of both the strategic and discursive selectivity which actors face in their interactions. As should be clear from the above, changes in ideas and emphasis on their implementation prove vital for the establishment or orientation of a subsequent institutional evolution trajectory. In this sense, it is not rare that some discourses emphasize external constraints for displacing responsibility whenever unpopular reforms are faced. Moreover, it is important to bear in mind that the case particularities at all levels increase the difficulty of making policies converge and the practices, standards and institutions harmonize.

Although it has been argued that the extent of social change remains open-ended, it is vital to stress that not every single input translates into an outcome. Since not all inputs automatically produce outputs, there might be some which might have no immediate direct effect at all. The explanation lies in the fact that there is no such thing as an automatic unidirectional linear mechanism in social interactions. Rather, it

is more the iterated and cumulative cascade of first order and second order changes, which makes important adaptations or third order changes more likely and evident.

Three broad processes are to be discussed in more detail in this thesis. They are the processes of commodification, democratization and integration. Furthermore, the fluid nature of the dialectical interactions between structural, agential, ideational, and material elements, although they are never free of contradictions, serve to maintain a momentum that seems sometimes either to accelerate or to slow down. Even though the eruption of crises or the perception of stability and equilibrium might seem consensual sometimes, it does not necessarily mean that the punctuated evolution of the social processes is exempt from countertendencies, as the next chapter argues.

CONCLUSIONS

The work presented in this chapter has been a theoretical enterprise aiming to provide an answer for the questions formulated at its outset. They are: What triggers social change? How does it happen? and, What are the factors which make changes evident? I have attempted to make explicit the immanent nature of power in all social relations. This is the core factor triggering change. Since it could be exercised by structural and agential sides, there is room for contingency and indeterminacy in the punctuated evolution of every social process of change. Furthermore, it has also been clearly stated that in order to keep these processes going it is necessary that change should be internally appropriated and incorporated into the social dynamics. The dialectical transformation of the original inputs into incremental outputs with intended and

unintended consequences are, in turn, the raw materials for some other subsequent interactions, i.e., social, political, and economic change neither starts, nor stops; it is ongoing.

Not only is the methodological emphasis on individualism on which neoclassical economic orthodoxy and rational choice models are founded not applicable to all human behaviour; it also neglects the existence of any collective agency such as the government, or even a State. This limitation, along with the problematic assumption that individuals always act rationally, making use of complete information in perfectly competitive markets free of uncertainty, is clearly inaccurate; however, there have been important attempts to escape these assumptions. Clearly, the understanding of social processes must not be reduced to narrow economic determinism. On the contrary, a comprehensive multidisciplinary approach to politics, such as the Strategic Relational Approach defended here, allows us to trace the social processes of change and to identify power as a core factor which would otherwise be invisible. But this is not the same as claiming that its theoretical lenses are the only ones capable of identifying intangible factors.

It has also been argued that one merit of institutionalism is its incorporation of intangible elements such as rules into the analyses of political, economic and social sciences in general. Moreover, to acknowledge the difficulty of reforming or replacing embedded institutions clearly shows that such a task is beyond and cannot be reduced to merely instrumental self-interest (Hay, 2002c). Despite this, the acknowledgement that institutions as the rules of the game, and that history matters is significant, since courses of action pursued in the past describe path-dependent

patterns which have influence, even if not decisively, determining the outcome for a contextualised agency.

It should be clear now that rational choice institutionalism is unable to provide adequate insight into the incremental and punctuated evolutionary patterns of social change which are the main concern of this thesis.³¹ Since rules, legislation and regulations, as institutional rules of the game, are intangible elements, they play a major role, if not in directly shaping, at least in orientating or inducing the preferences and the contexts of the mental constructs of agencies to which they are targeted. These intangible elements work as the strategic and discursive mechanisms, which the actor in context takes into account for the formulation of strategy according to the strategically selective context he is situated in. Still, the perceptions, interpretations and social constructions of the world which the individual and collective actors are part of, proves vital, though it does not necessarily determine the choices which they make.

Nevertheless, the extent to which ideas contribute to alter or modify the material factors are just one part of the two way interaction process between ideas and tangible elements. It is complemented by the impact which structures and agents make in the ideational sphere.

³¹ Institutionalism is not appropriate for the understanding of long-term social change, due to two important circumstances. The first one is the predatory rule from governors who try to extract as much revenue as they can from the population. Linked to this, the second one relates to the path-dependency of institutions. Though their persistence is not permanent at all, institutions tend to favour stability and the status quo (Cammack, 1992).

Consider the role of the State in the production of goods and services. Within a context of imperfect information and incomplete markets, the contemporary retrenchment of productive activities by government bodies follows a wave of increased commodification of economic activities. The privatization of industries is based on an economic efficiency argument, on one side, and on a rent extraction justification on the other. The temptation to extract as much rent from producers as possible is matched with the arguments of the comparative advantage holders to undertake the tasks of production (Stiglitz, 1989, 1998b).

Since multiple factors and elements interact in all dimensions of the economic, political and social process, unpredictable and variable outcomes should not surprise anybody. Intended and unintended consequences are the results of ever-changing and fluid structural, agential, material and ideational factors, as the Strategic Relational Approach reveals.

Even though structures are selective, they never determine social outcomes, for it is the actors who tend to select their preferred strategies within their own context. Outcomes are structurally undetermined and dependent on the selected strategies of either action or inaction by the agencies. In this sense, any chosen strategy is rooted in ideas, beliefs, information, interests and perceptions. Immaterial as all of them are, they have a real impact on the material dimensions of the social processes. They also act as triggers for the strategies and selected courses of action, both passive and active.

In using the Strategic Relational Approach, different degrees of transformation, reform and adaptation could be identified as evidence of social change. Due to the overarching richness of the social processes and the exercise of power inherent in all social interactions, the elements which account for continuity and discontinuity can be identified. However, the sum of the parts might not equal the whole of the social processes of change. Moreover, the exercise of power inherent in all social interactions is the vital factor in the processes of social change. Nevertheless, it is important to mention that there are some qualitative differences between the actors. Even though all agencies are capable of displaying features of power immanent in their social relations, there are some actors who are in a better position to assert their priorities or preferences over others. Nevertheless, this asymmetry does not neglect or cancel in any way the capacity and potential for other agents to challenge, modify, alter, or even radically transform the contexts and conditions in which they find themselves.

CHAPTER THREE

The Politics of Economic Determinism:

Identifying the Causal Relations of Commodification

PREFACE

It has become commonplace amongst some government officials, business circles, and even academics, to say that social processes are driven by market forces, and that no serious challenge can be posed to those anonymous, yet extremely powerful tendencies. Resistance becomes futile, since we are told that no alternatives exist, and bandwagoning becomes inevitable.¹ However, those economic imperatives, important as they are, do not work independently of, or isolated from, the context in which they become operative. They are embedded in broader social relations and interact with other economic and social agencies and structures. This, in turn, dynamically reshapes the features of the social processes.

The problematic emphasis of policy-makers on commodification lies in the denial of its political character and on the neglect of its socially embedded features. Exclusively economic imperatives are unable to provide an integrated account of the processes of social change and of the complementary role which States and markets

¹ The phenomena and discourses associated with the first wave of globalization are classic examples of this position. The portrait is one of a homogenising economic force for convergence which brings about irreversible changes. Hay, and Marsh 2000; Held, McGrew, Goldblatt, and Perraton, 1999. See also, Dicken, 1998; Held and McGrew, 2000; Hirst and Thompson, 1999; Ohmae, 1996 and 1990; Rodrik, 1997; Scholte, 2000; Strange, 1996; and Weiss, 1998.

play in the economic arena. It is important to recall that, in order to bring analytical clarity to this research, commodification has been associated with the vertical axis of the theoretical map presented in the first chapter. In addition, core issues of the processes of social change have been discussed. These have paid particular attention on one side to the crucial part which power plays, and to the capability of an agency, on the other, to actively influence, and be influenced by the dynamics of the processes. All these notions are undoubtedly a fundamental departure point for challenging deterministic explanations and economic reductionism in social, political and economic analysis.

The crucial historical moments of the Mexican revolution and of the early 1980s crisis made use of mechanisms of change, and also opened up windows of opportunity that did not merely constrain acts of purposeful human agency.² It becomes necessary at this point to recall the main theoretical findings of the Strategic Relational Approach in relation to the structural change and punctuated evolution of the State. A detailed representation of those changes was presented in the first chapter. They are

² It is necessary to recall that Chapter One of this thesis, by making use of the Strategic Relational Approach, drew a theoretical map for tracing the punctuated evolutionary trends of the State's development in Mexico along two different axes. The horizontal or political axis, as I called it, provided a spectrum for differentiating a range of positions from hard political constraints to flexible political autonomy. The 'y' or market axis, as it was labelled in that chapter, was used for tracing the various degrees between pure economic openness at one end, to total market protection at the other. No mutual interdependence between the market and the political axes is claimed. They are analytical tools useful for tracing the trajectory of the social processes, as already explained in the opening chapter. The map presented in Figure 1.2 of Chapter One, when applied to the Mexican experience from before the 1910 revolution to the present day, showed a broad trajectory of the processes of structural change of the Mexican State which touched the four different quadrants and crossed the two axes. Figure 1.3 shows how different political and economic concerns have impacted upon the agenda of the Mexican State since the turn of the 20th century. Moreover, it also showed that, regarding the processes of social change, the economic priorities of the State have varied and they have tended to be more associated with patterns of continuation and reformism. By contrast, the identification of moments of crisis and the imposition of more significant changes in the trajectory of the State was traced along the political axis. According to this perspective, not only did the Mexican revolution of the early 20th century represent a crisis, but so also did the macroeconomic mismanagement of the 1980s due to the imposition of a new set of economic, social and political priorities. The latter is to be analyzed in greater depth in Chapter Six.

also summarized in Table 1.1 of the opening chapter. The economic dimension axis of analysis referred to the degree of openness or market protection. Based on Polanyi's idea that the protection of the factors of production, labour and land were the main functions of State interventionism in economic activities, decommodification means increased protection from the market, while commodification is just the opposite, decreased economic protection.³ The concept of 'double movement' is useful for representing the expansion of markets as accompanied by the protection of society and nature. However it should not be assumed that this is an automatic process (Polanyi, 1957).

Adopting the Strategic Relational Approach suggests that the evolution of the State tends to favour the ratification of former trajectories. Insofar as there is a tendency, it is not towards radical change. Rather, policy adaptation and reformism characterize social and political changes, which are in turn reflected in a concern for stability either for economic fundamentals or for political consensus. On the one hand, decommodification practices tend to be associated with patterns of increased protection from markets. Here, for instance, corporatist agencies play a leading role when the implementation of welfare policies is put into practice. On the other hand, the emphasis on commodification gives more room for private actors, and tends to be associated with dismantling labour's protection from the market. This latter

³ The concept of commodification used here borrows from Polanyi's commodity fiction (1957). According to him, the commodity description of labour, land and money is entirely fictitious. Since his influential analysis has already been discussed in Chapter One, suffice it to say that such a perspective has opened up important research avenues. For instance, Esping-Andersen (1990) and Cerny (1990) also use this landmark study of the social implications of the market economy to inform their studies. Furthermore, the process of commodification is not limited to the three commodities originally suggested by Polany. It has also been suggested that information faces a similar process of commodification. Therefore, knowledge can be added to the list of fictitious commodities too.

orientation of governmental affairs is justified in terms of neoclassical economic orthodoxy and the efficiency of market rules.

Nonetheless, processes of social change are highly political, because actors play a crucial role in shaping and influencing the course of events. However, this is not widely acknowledged. For instance, according to the neoclassical economic orthodoxy, government failures not only affect optimal economic performance but also increase transaction costs. Therefore, economists trained in this school of thought advocate structural reforms and a minimal State. However, the abandonment of productive and distributive activities to the market is by no means unproblematic. Markets are not failure-free, and this is precisely the reason for government to play an active role, especially when problems of incomplete markets, inefficiencies, imperfect information and market disruptions arise. The aim of an efficient market allocation of resources requires the government to play an active role in the provision of welfare and redistributive policies. By contrast, increased market competition raises incentives and mitigates public failures, as already discussed in Chapter Two (Stiglitz, 1989, 1998a, 1999b, 2002).

In addition to material and structural elements, such as those mentioned above, the Strategic Relational Approach also pays attention to the ideational and agency factors implicated in the evolution of social processes. In this chapter, I look at some of the neoclassical economic ideas and concepts and their influence upon actors' conduct, prior to the discussion of the problematic emphasis on commodification by policy-makers. Next I discuss the so called 'market friendly' position of the State defended by the World Bank, which is found to be structurally and economically deterministic.

This is important, because the World Bank has been one of the main architects of the economic restructuring in Mexico that has been enforced since the early 1980s. Additionally, in exploring some of the causal mechanisms in the process of social and political change, I analyze the relations between the institutional framework and economic agents such as firms. I then move on to discuss how the Schumpeterian notion of ‘creative destruction’ highlights crises and innovations as fundamental elements which help us in tracing the processes of social change. The final part of this chapter stresses that the relational character of the exercise of power makes use of causal relations, such as the ones suggested here, to continuously build the ever-changing social dynamics and processes.

At this point, a caveat needs to be introduced. It is important to make clear from the outset of this chapter that the theoretical exploration and emphasis on the political economy of determinism and the identification of some of the causal relations of the processes of social change aims to link several of the arguments of this thesis. The next chapter pays more attention to detailing and illustrating the Mexican commodification experience. Therefore, the argument in Chapter Four should not be regarded as disconnected from the claims made here. On the contrary, the theoretically informed narrative of the Strategic Relational Approach depends on this chapter’s analysis in order to further explore the polarizing results of the ostensible economic imperatives imposed upon Mexico in the last quarter of the 20th century. As such, this chapter sets the scene for the discussion in the following chapter. The following section is devoted to the ideational counterpart of the material dimension.

INFLUENCE OF THE NEOCLASSICAL ECONOMIC ORTHODOXY

It has been argued that the causal and constitutive role of ideas in the production of specific material and ideational outcomes is crucial for triggering, without determining, the behaviour and practices of actors. This was discussed in the previous chapter regarding the material and ideational dimension of social processes of change. However, I take this opportunity to recall the interaction between ideas and material factors, where the former play a casual and constitutive role in the production of material and ideational outcomes (Watson 2000, and 2001b). Moreover, there is a growing recognition among scholars of International Political Economy that the elements of ideas are crucial in the social construction of the tangible and intangible contexts and realities in which agencies are situated. In addition, the role of ideas in reducing uncertainty also significantly contributes towards making institutional change possible (Blyth, 2002).

For instance, Blyth presents a sequential set of hypotheses for understanding institutional change under conditions of uncertainty. He presents them in the following order: first, ideas reduce uncertainty during periods of economic crisis; second, once uncertainty is reduced, ideas make collective action and coalition building possible; third, ideas can be used as weapons in the struggle over existing institutions; fourth, after legitimising institutions, ideas function as institutional prints; and fifth, following the institutional construction, ideas make institutional stability possible (2002).

According to him, ideas and interests are not mutually exclusive analytic categories. This is important, since he regards institutional change as an endogenous process which faces a unique situation of uncertainty reducible neither to risk nor to complexity. It is under this unique situation of uncertainty associated with economic crises that agents are unable to anticipate possible outcomes and also to identify their interests in such a situation (Blyth, 2002).

However, important as Blyth's view of endogenous process is, two main problems with his account of institutional change are worth mentioning. The first regards the conditions which trigger changes in institutions. The uniqueness of uncertainty associated with economic crises, he argues, works as an external shock which sets incentives for agents to reconsider the utility of their institutions. But this sort of external incentive, according to my perspective, cannot be held as the only causal explanation for institutional change. Changes can also be small, incremental, and evolutionary, yet deliver the conditions for the endogenous process which allow for change in the institutions. By emphasizing unique situations which resemble chaos, Blyth stresses the punctuation of the process, albeit at the price of paying less attention to the equally important incremental and evolutionary character of change. The second problem with his perspective lies in his sequentially arranged hypothesis. Since these ordered regularities are among the major topics discussed below in this chapter, there is no need for further elaboration here. Suffice it to say that the Strategic Relational Approach places more emphasis on causal relations than on sequential patterns. The fluid social dynamics alert us to the existence of often overlapping tendencies and counter-tendencies which would be unaccounted for if we followed a rigid schematized account.

Economic imperatives are socially and discursively constructed by making use of external imposition of limits on what is perceived within the parameters of feasibility. This suggests that it should come as no surprise that such imperatives favour the orientation of certain preferred courses of action and outcomes over others, transforming and mediating external inputs into domestic political priorities (Hay and Rosamond, 2002).⁴

It is important to make clear at the beginning that ideas are not the only driving force behind political and economic outcomes. Nevertheless, it is equally important to stress that their impact and leverage needs to be analyzed within contextual circumstances specific to certain points of time and space. At the beginning of the 21st century there seems to be an inert and uncritical acceptance by neoclassical economists of ideas and assumptions which have substantial material impacts and social consequences.⁵ Some of them are undoubtedly clear exercises of power relations in a way which not only influences governmental and private agendas, but also leads to the shaping of preferences, which in turn influence the context in which agencies are situated. For instance, the rationality of economic actors, perfect competition and symmetric information are recalled in government and private sector circles despite overwhelming evidence of the inaccuracy and inconsistency of such

⁴ It is in this sense that the use of discourse and ideas serves to legitimate a range of policies and initiatives which might otherwise be unpalatable and would therefore have faced stronger opposition had there been different circumstances. The recourse of appealing to external constraints has been effectively used for displacing responsibility from accountable and responsible bodies to diffuse structures or unaccountable agencies, such as international priorities and global trends (Hay and Rosamond, 2002).

⁵ Associated with Gramsci's explanation and concept of hegemony, the acceptance of a dominant ideology might suffer a twist and turn into beliefs that are appropriated, made their own, taken for granted and rendered simple common sense. Nevertheless, it is important to be aware of this conflation

assumptions (Stiglitz, 1991). Nevertheless, they are sometimes justified in terms of parsimony which, in turn, implies that the theorist does not regard the assumptions as specific so much as useful. Something similar happens with the omission of social determinants and institutional differences in the abstract neoclassical economic models which have replicated the market homogeneity and policy convergence that the globalization hypothesis takes for granted (Watson, 2003b). In order to be insulated from contradictory evidence, some contemporary policies of welfare retrenchment appeal to ideological justifications, and in so doing they acquire a discursive power of their own.⁶

The importance of ideas, and specifically of the assumptions with which economists work has been discussed by the Nobel laureate Milton Friedman in his essay on *The Methodology of Positive Economics*. There, he argues that positive science as “...a body of systematized knowledge concerning what is...” is different from normative science which focuses on the discussion of criteria of what ought to be.⁷ The former is presented as independent of any ethical position, capable of developing predictions about phenomena not yet observed by means of using a set of hypotheses, whereas normative science is said to be always dependent on a positive science (Friedman, 1953).

and to clearly draw the conclusion that ideologies do not in and of themselves constitute a form of common sense (Van Dijk, 1998).

⁶ Within economists' circles the General Equilibrium approach has been appropriated and faced a metamorphosis in which the analytical construct has been used as a framework with an ideological emphasis for the prescription of preferred political actions. For this mathematical neoclassical economics approach is a methodological contribution which takes perfect competition as a precondition for its reconstruction of a pure exchange economy. Despite the caveat that equilibrium is only achieved within the model and cannot be taken out of it, owing to the fact that it is only a constitutive property of the model itself, the prescribed advice has been systematically ignored beyond the academic community and has already spread in less technical and more discursive forms. Therefore, it is necessary to bear in mind that since the General Equilibrium approach is founded on inapplicable assertions, its assumptions should not be treated as realistic ones (Watson, 2003b).

⁷ Friedman's argument is based on John Neville Keynes' *The Scope and Method of Political Economy*.

In this essay, Friedman considers assumptions as short-hand descriptions or presentations of a body of theory which are helpful for testing, the hypothesis by their implications, yet not directly. Although he makes it clear that assumptions offer some convenient means for specifying the conditions under which a theory is expected to be valid, this position is stretched to the limit of arguing how irrelevant it is whether assumptions are descriptively realistic or not. For him, theoretical assumptions are valid if they are used and accepted in a continuous way, and as long as the hypotheses hold for the phenomena they aim to explain (Friedman, 1953). This standpoint on a positive philosophical position needs to be examined in further detail.

The problem of mismatch between theory and practice arises whenever the assumptions of positive economics, which are theoretically presented in a closed system, are then taken out of the context in which they are operative. In the real world it often happens that descriptively unrealistic assumptions are put into practice in open systems. Needless to say, those operations do not at all match the useful approximations in a closed system which Friedman claims. Furthermore, the impact which makes carries intended and unintended consequences. The insulation of the positivist ontological position collides with the practical prescriptions for real and concrete situations which derive from their initial philosophical and analytical standpoint. The implementation of neoclassical policy advice confronts open systems in reality, which poses a formidable challenge for them to succeed. This explains the important efforts undertaken by some economists such as Stiglitz, either relaxing unrealistic assumptions such as complete markets and perfect information, or the new group of theories which aim, amongst other things, to compensate for the inadequacy

of neoclassical economics in the analysis of economic change, the lack of attention paid to institutions and the disregard of the role played by governments in coordinating economic activities (Gilpin, 2001).⁸ Moreover, the positivist ontological position defended by Friedman and some other economists has been embraced by international financial organizations whose leverage has been very strong and has had specific consequences in different countries, as the next chapter shows. But before turning to those issues it is important to clarify the differences between the ontological position adopted by neoclassical economics and the critical realist ontological stance of the Strategic Relational Approach adopted here.

THE IMPORTANCE OF ONTOLOGY AND EPISTEMOLOGY: DIFFERENCES BETWEEN POSITIVISM AND REALISM

Hay has claimed that there is a directional dependence between ontology, epistemology and methodology (2002c). The former two are philosophical positions, relating the world and knowledge respectively, which cannot be reduced to empirical examples. The latter follows the former two and functions as an analytical strategy and research guide. All theoretical approaches make specific claims and assumptions, either in an implicit or an explicit way, about what is out there to know about the world. I want to show that positivism and realism have contrasting perceptions of the nature of the social and political world.⁹

⁸ The group of theories considered include the theory of endogenous growth, the new economic geography and the strategic trade theory (Gilpin, 2001).

⁹ Although there are other ontological positions, the purpose of my analysis and nature of this research requires us to concentrate only on positivism and realism. Informed explanations of the different positions in social science can be found in Blaikie's *Approaches to Social Enquiry* (1993). Regarding the scope and methods of economics, see Lawson's *Economics and Reality* (1997).

Ontology, as the science or study of being, refers to the claims and assumptions that are made about the world and, more specifically for our purposes, about the nature of social reality. Epistemology is a study of theories of knowledge, which departs from the original (ontological) claims and assumptions, focusing on the ways to gain knowledge. By contrast methodology can be described as the research design, because it tells us how the research proceeds (Blaikie, 1993, 6-7).

Bearing these philosophical distinctions in mind, the ontology of positivism assumes the world to be made of ordered observable events which resemble atoms. It takes into account only observable phenomena, claiming perfect correspondence with reality. According to this position, universal propositions or constant conjunctions can be claimed in its search for the external causes of human behaviour. Positivism does not recognize the existence of unobservable structures at all, because it perceives there to be no dichotomy between appearance and reality. Therefore, it takes the world as real, and considers that there cannot be any mediation by any senses, perceptions, or socially constructed phenomena. The directional dependence of positivism's ontological stance leaves an imprint in its theory of knowledge, allowing its epistemology to affirm that empirical regularities can be given equal status to scientific laws.¹⁰ By making use of induction, the observations of specific events are taken as starting points for building generalizations which end up as general propositions. These, in turn, are then claimed to provide neutral explanations of the

¹⁰ For instance, rational choice theory makes strong assumptions about the rationality of individuals, aiming to generate testable and predictive hypotheses. Far from being a universal theory of social behaviour, excessive claims place it dangerously close to the edge of becoming a self-fulfilling prophecy. Reassessing those totalising claims might help and be a useful service to social science analysts (Hay, 2003a).

observed phenomena (Blaikie, 1993; Lawson, 1997, and 2003). In other words, the use of direct observations to generate, test and falsify hypotheses about the interactions between the social phenomena is vital for this position, because it is a condition of statements being made about social, political and economic phenomena (Marsh et al., 1999).

In contrast, realist ontology makes distinctions between observations of experiences, events either observed or unobserved, and the processes which generate them. It takes the world as independent of observers, and assumes that as a result of the separation between reality and appearance, social relations are products of material, albeit unobservable, structures of relations. The directional dependence of the realist ontological position makes its epistemology focus merely on the tendencies of events, which makes a sharp contrast with the regularities of positivism. Starting with the observation of often different and contrasting tendencies, realism proposes models and mechanisms to explain the observed phenomena (Blaikie, 1993; Lawson, 1997, and 2003).

Regarding the position on which the Strategic Relational Approach stands, the realist ontology makes four primary statements about the nature of the world. Firstly, it contends that there is a clear and neat distinction between the world and all of its parts and components on the one side, and our knowledge about it on the other. In this case, the economic relations of production, distribution and exchange are independent of our knowledge about them and the rest of the world. Secondly, the observation of some structures might not be possible to achieve in a direct way, because their existence has to be inferred. Power interactions are immanent in all social relations,

especially at the structural levels of preference and context shaping (Sayer, 1992, and 2000; Lawson, 1997, and 2003). Thirdly, the relationship among different elements can be analysed to provide insight into specific cause-effect mechanisms, albeit not necessarily law-like regularities. Objects and social relations are acknowledged to have causal powers and liabilities capable of generating events, where powers might be explained independently of them. Finally, the realist ontological directional dependence leaves a mark on its theory of knowledge, as it argues that structures neither generate nor determine outcomes. Rather, structures offer windows of opportunity and constraints which provide some room for the agencies to manoeuvre. The fact that some of the alternatives appear more feasible to realise does not necessarily mean that there is only one possible course of action, previously given or externally decided and unavoidable (Lawson, 1997, and 2003; Marsh et al., 1999; Sayer, 1992, and 2000).

Following a directional dependence from the ontology of realism, the Strategic Relational Approach features a realist epistemological stance. From the latter, it views knowledge of any kind as a social practice gained mainly through activity and interaction, which is situated in specific contexts and never develops in a vacuum. Since its fallibility and its theory-laden character of observation must be admitted, the plea to adopt a critical approach should come as no surprise. Furthermore, since the production of knowledge is a social practice, the explanation and understanding of social phenomena engages the analysts in critical evaluations of society and of our understanding of our own place within society. Therefore, the formulation of informed critiques cannot be avoided (Marsh et al., 1999; Sayer, 1992 and 2000).

Realism is a philosophy of and for the social sciences which draws a distinction between transitive and intransitive dimensions of knowledge (Sayer, 2000).¹¹ On the one hand, the intransitive dimension comprises objects of science, such as social phenomena or political events. On the other hand, the transitive domain pays attention to theory and discourses, which in turn could also be treated as objects of study themselves. Furthermore, acknowledging that social sciences resemble open systems where social, political and economic phenomena exhibit different degrees of complexity, it is the identification and assessment of connections, rather than of formal associations or regularities, which proves crucial. In so doing, making use of a critical method not merely describes observable, but also unobservable, phenomena, examining necessary and contingent relations, as well as warranted and unwarranted associations (Sayer, 1992; Lawson, 1997 and 2003). Therefore, the examination of relationships between structures, mechanisms and events is vital for analysing the processes of change; this adds to the importance of paying special attention to the problems of conceptualization and abstraction, as is attempted in this thesis. For realism, the recognition that social processes are situated within specific spatio-temporal contexts should not be overlooked, as the need for geographical and historical specificity might help to overcome interpretive understandings, and move towards causal explanations, rather than formal regularities of social phenomena (Sayer, 2000; Lawson, 1997 and 2003).

Crucial ontological distinctions between positive economics on the one hand and the realism of the Strategic Relational Approach on the other, are the distinctions between structure and agency, and the material and ideational factors (Hay 2002c). The latter

¹¹ The work of Roy Bhaskar presents and supports the Critical Realist arguments, especially A Realist

theoretical perspective, adopted in this study, has, as should now be clear, realist epistemological and ontological positions as it pays attention to powers, relations and institutional logics (Jessop, 1990b). The dialectical relationship between structure and agency has already been discussed in the previous chapters. Suffice it to say that situated agents interpret their structural situations and specific contexts regardless of where they are standing. The decisions and courses of action could affect and modify the context within which the agency is situated, making it impossible to remain unaltered. Additionally, it is argued here that, consistent with the realist ontological position, material and ideational features, observable and unobservable elements, all play a role in the dialectical relations of the social processes, although this happens to different degrees because it has various consequences and impacts within specific spatio-temporal locations. Therefore, intangible factors such as perceptions, discourse, ideology and assumptions are elements which influence the course of actions and the decisions which agencies make when situated in specific circumstances. They are extremely difficult to quantify and measure accurately. However, this is not to say that their existence should be neglected and nor should their causal and constitutive role in social processes. Following Adam Smith's assumption that man has a propensity 'to barter, trade, and exchange one thing for another', the science of economics in its neoclassical form evolved into the study of 'self-adjusting' and 'self-regulating' mechanisms supposedly disembedded from all social relations. By so doing it is ignored the fact that the economic system does not run like all social phenomena, on exclusively economic motives.¹²

Theory of Science (1975), and *The Possibility of Naturalism* (1979).

It is therefore misleading to follow the reductionist and deterministic neoclassical argument that agencies, either individual or collective, such as States and corporations, are unable to resist, or even to influence, the dictates of impersonal economic forces. As discussed in the preceding chapter, the use of power is immanent in all social relations and is able to influence the context and the desirability of certain preferences over others. It provides agents with a transformation capacity to favour their aims and objectives, which might either be tangible or intangible.¹³ The way in which each capability is used is case-specific and varies in each time and space situation. It is contended here that markets are embedded in larger social and political systems, where different actors and institutions interact with each other and promote their own agendas. No wonder national governments are among the most important and influential actors not only in the economic realm, but also in broader social and political systems, because markets are inherently political. Thus, as the locus of human interaction, markets are a constitutive part of a broader and more complex, dynamic and ever changing whole, where the social reality cannot and must not be reduced purely to arenas of supply and demand.

Nonetheless, the neoclassical approach to markets often presents the recurrent ‘*ceteris paribus*’ caveats, which refer to the consideration that all things being equal in the models makes them work in a static equilibrium scenario. In such scenarios there are

¹² Although Adam Smith had a theory of innate rationality which contained ideas about mutual sympathy, rather than personifying the characteristics of ‘*homo oeconomicus*’, it was Mill and Bentham who developed the latter concept. Thanks to Matt Watson for clarification of this point.

¹³ The pursuit of preferences or self-interest is characteristic of the economic rationality associated with neoclassical economics, and more generally of positivism. Since the Strategic Relational Approach is based on a realist ontology and critical realist epistemology, it offers a different account, adopting a method of articulation in its identification of powers immanent in social relations and the causal relations of agencies. Therefore, actors are not perceived as merely rational unitary utility maximizers, but as informed agents situated in contexts. Moreover, this theoretical perspective searches for

no incentives to change any existing situations. Moreover, it places the analysis in a closed system insulated from any contact with a real world situation. Such unrealistic assumptions have considerable impact on the implementation of economic recommendations which many different countries have adopted following the prescriptions of the Bretton Woods institutions. However, before analyzing the World Bank's position on the role of the State, it is necessary to analyse contemporary economic imperatives in the next section.

THE PROBLEMATIC EMPHASIS ON COMMODIFICATION

Political interests and economic activities have always been crucial for the processes of social change. The degree of influence of power relations and the way in which the market is approached also shapes the social processes themselves. Even though economics and political science have been targeting their constituencies from different angles and perspectives, they are not incompatible at all. On the contrary, multidisciplinary approaches can provide insight and substantially enrich the analysis of social phenomena.

Economic activities are social activities per se as Polanyi and Schumpeter, among many other scholars, have shown.¹⁴ For instance, Robert Gilpin has acknowledged

contingent necessities, presenting the analysis from abstract to concrete and from simple to complex (Jessop, 1990b).

¹⁴ For economics, political science, international relations, sociology, and the social sciences in general, it has been argued, have all the common denominator of Social Theory. This is not the same as saying that there are no clear differences among all of the social sciences, as has already been discussed. Disciplinary distinctions tend to emphasize theoretical orientations, analytical focus, specific approaches and methods, while the general agenda of the social sciences clearly shows much

that “...despite the growing importance of the market, historical experience indicates that the purpose of economic activities is ultimately determined not only by the markets and the prescriptions of technical economics, but also (either explicitly or implicitly) by the norms, values and interests of the social and political systems in which economic activities are embedded...” (2001, 12).

Therefore, neither markets nor economic activities should be stripped of their social, historical and contextual customs. Restricting attention to a few ‘fundamental’ macroeconomic variables omits the social, political and historical aspects which every actors’ action or transaction carries within itself.¹⁵ Thus, it is not surprising to find a growing recognition that the goal of sustainable development cannot be achieved without changing current economic policy means and instruments (Stiglitz, 1998a).

The problematic emphasis of policy-makers on commodification starts from the assumption that economics in general and neoclassical orthodoxy in particular, provides the leading perspectives for the study of social and political phenomena. As has already been shown in previous chapters, there are severe problems and inconsistencies with the imposition of economic determinism and structuralist explanations.¹⁶ There is no such thing as a market governed exclusively by objective laws and universal principles. Not only is there no incompatibility between market

common ground for all of the disciplines. This should not surprise any specialist, as all social sciences refer to and develop from common sources of Social Theory (cf. Cuadra, 2001; and Lemert, 1999).

¹⁵ The emphasis on the parsimony of the theoretical models stresses their predictive capacity and level of abstraction, although it faces a trade-off between their predictive capacity, concreteness and plausibility (Hay, 2002c).

¹⁶ It is not being claimed in this thesis that economic analysis automatically leads to determinism; rather, that economic analysis alone is no substitute for historical, political and sociological analysis, which situates the phenomena and the actors in specific contexts, crucial for informing their interactions (Lawson, 1997 and 2003).

activities and the role of the State, indeed the creation of the former was in itself a political act embedded in the social relation.

Neoclassical economic theory, in so far as it conduces to a false distinction between States and markets, shows clear signs of inconsistency and fallibility. Consider, for instance, one of the main arguments for orientating domestic markets to external competition. It has been argued that greater rates of growth should follow the opening of an economy, due to increases in efficiency in economic activities. However, Rodrik provides compelling evidence that openness does not guarantee economic growth, since there is no straightforward association between trade barrier levels and the long-term growth of Gross Domestic Product (GDP).¹⁷ It is the investment and macroeconomic policies that remain key in the promotion of economic growth, because the maintenance of macro-economic stability, on the one side, and the investment of an important share of GDP in the provision of welfare and adequate public services on the other, provide adequate conditions for performing economic activities (Rodrik, 1999).

More plausibly, regardless of the degree of openness of the economy, it is economic growth which works as a magnet for the attraction of trade and investment flows. The Bretton Woods institutions' prescriptions for the divestiture of public enterprises in developing countries seized the opportunity to impose detailed neoclassical economic prescriptions, as will be shown in Chapter Four. Unfortunately, some of the

¹⁷ No indicator of policy towards trade and capital inflows correlates significantly with per capita GDP. Average tariff levels, non-tariff coverage ratios and indexes of capital account liberalization all show a weak correlation between openness and economic growth. Most importantly, the link is contingent on the presence of complementary policies and institutions (Rodrik, 1999).

prescriptions have gone far beyond prudential limits, either on the basis of theoretical support or empirical demonstrations (Rodrik, 1999; and Stiglitz, 1998a).

It is no secret that the orientation of economic policies represents a highly political decision. Since there is overwhelming evidence that market discipline empowers financial markets over other constituencies (Ohmae, 1990 and 1996; Strange, 1996), the degree of commodification of economic activities is not exempt from difficulties. It is under these circumstances that democratic governance proves increasingly difficult. Unsatisfied social conditions and demands, especially if they are not attended by externally induced disciplines and strategies, may produce unexpected and undesirable social results. Since it is domestic voters who elect their own national governments, the latter must be held accountable to the former. However, the neoclassical economic orthodoxy and discourse point to the increasing importance of foreign investors, fund managers and members of the economic oligarchy for domestic policy makers, taking the responsibility and accountability away from the immediate representatives of the electorate. An important historical lesson which should not be overlooked is that successful economic management must not be induced to converge. There must be enough room for the implementation of economic policies. The domestic focus, design, debate and degree of various issues such as the structure of institutions, the tolerated and permissible extent of inequality and the types of public goods to be provided by the government, are not only a government agenda but a civil society priority. Thus, the government is held responsible for producing outcomes which satisfy the demands and aspirations of the citizens which it represents (Rodrik, 1999).

The succession of economic and financial crises in emerging markets during recent decades has shown strong evidence for not holding the assumption that international markets get things right in all circumstances. The neoclassical economic orthodoxy has modestly made some concessions on its silence on the socially embedded character of the market.¹⁸ The myths of ‘self-regulating’ and ‘self-adjusting’ markets proved incapable of delivering either economic efficiency or socially equitable growth. Therefore, there is growing recognition that public and private spheres are by no means opposite to each other. The pendulum of the public debate has oscillated between various emphases on markets and government interaction throughout history. Economics, especially in its neoclassical guise, has been an influential social discipline since the last century. Nowadays their economic imperatives are widely portrayed and perceived as the self-induced external mechanisms of recent decades, discursively associated with different phenomena labelled in many different ways, including neoliberalism, Washington Consensus and globalization.¹⁹

¹⁸ For instance, the Washington Consensus of economic reform focused mainly on the role of ten policies aiming to foster growth in the Latin American region after the early 1980s debt crisis. Since it is to be discussed in Chapter Seven, suffice it to say that the label of this set of policies was intended to reflect what the members of the Washington Congress at that time, the technocrats of the international financial organizations, think tanks, economic agencies of the US government and the Federal Reserve Board regarded as a desirable set of economic policy reforms for the Latin American economies. The reforms emphasized the role of policy instruments, rather than objectives or outcomes. Additionally, there was also recognition that these actors do not always follow their own precepts. The Washington Consensus set of policy instruments featured small budget deficits, redirection of public expenditure, tax reforms, financial liberalization, competitive exchange rates, progressive reduction of trade barriers and tariffs, facilitation of foreign direct investment entry, privatization of public enterprises, deregulation, and the provision of secure property rights (Williamson, 1990).

The Washington Consensus became associated not only with the process of economic restructuring, but also with the ideological agenda of neoliberalism, precluding any concern for distributive policies. Two decades later, characterized by disappointing rates of growth in Latin America, and severe economic crises in many countries, another agenda has been launched for the region. Its broadened scope incorporates equity and institutions as core issues. The post Washington Consensus takes the completion of first generation reforms, and implementation of crisis-proof mechanisms as necessary conditions for embarking on institutional reforms, and also for improving income distribution and the social agenda. Furthermore, these expanded medium-term objectives are supposed to be complemented at the social and political levels as well (Kuczynski and Williamson, 2003; Birdsall and de la Torre, 2001). Chapter Seven, below, also examines the emphasis of institutions of the post Washington Consensus in more detail.

¹⁹ The assumptions on which neoclassical economics is based portray a homo oeconomicus who seems to have nothing in common with Aristotle’s political animal. However, it is important to stress that it is

The common denominator of these labels is oriented towards the discourse of powerless agencies incapable not only of opposing the structural determinism of economic imperatives, but the unavailability of options to do anything else than blindly obey whatever the market dictates. It is under these circumstances that the unrealistic assumptions which Friedman associates with his 'positive' epistemological position can impact upon the open systems in the world from which they were initially isolated as a form of self-induced external enforcement mechanism. Similarly, political science has not been immune from the influence of neoclassical economics. Aiming to emulate the parsimony of this discipline, one of the most significant efforts to import the explanatory power and predictive capacity of the assumptions which distinctively made neoclassical economics important has been rational choice theory. By making use of broad generalizations and simplifications in a similar way to positivist epistemology, rational choice positions itself far away from the complexity of the phenomena which it seeks deductively to analyse.

The imposition of a methodological rigour that leaves out the complexity of the phenomena has already been discussed. Suffice it to say that the neoclassical model is easily recognised in the rational choice institutionalism already discussed in Chapter Two. Unsurprisingly, the assumptions of bounded rationality and utility maximizing actors, on which this theoretical perspective draws, represent one of the main examples of the real impact which ideas can have, as we shall see. Before proceeding,

precisely this lack of contact that is one of the factors which has accentuated an impasse in the dialogue between disciplines. What is needed is a decisive will to open the debate, rather than constraining them with specialists' jargon, since there is no such thing as a uniform model of economic policies and governance, as I contend in this thesis.

it is important to bear in mind one caveat. I am not providing a quantitative test of any of the economic fundamentals that the neoclassical economic orthodoxy prescribes. On the contrary, what follows is a qualitative analysis of an idea which an international organization has promoted. According to the World Bank, the role which the State should play in economic activities acknowledges rational choice institutionalism as one of the theoretical influences on the basis of which economic policies are prescribed. Those policies in turn, impact upon the material dimension of millions of people throughout the world. It is not my goal to attempt a global evaluation of the economic advice of the monetary and financial organizations, on the basis of positivist assumptions. Rather, what will be attempted in the next chapter is to approach the highly political sets of decisions which have been taken in the specific case of the Mexican economic restructuring since the early 1980s, all of which have had a material and differentiated impact on the population's living conditions.

It is important to recall the notion of institutions which provide the rules of the game and in turn shape human interaction. By opening up and closing down windows of opportunity, each actor is supposed to take optimal decisions to make him or herself better off. As has already been discussed, the structural and deterministic perspective taken by rational choice institutionalism unsurprisingly portrays agencies as powerless to make their own decisions: they can only choose from the given options. According to this perspective, the institutional framework is an important precondition for the performance of an economy, as the analysis of institutional change is pursued from the top structures down to the bottom ones. Furthermore, social change can only be vertically induced, where organizations are able to modify the institutional framework and to alter the structural setting (North, 1990a). It is

therefore important to focus my analysis on the promotion of an idea by one of the most influential organizations during the post Second World War period. The World Bank has undeniably played a very important role in the dissemination, prescription and introduction of neoclassical economic orthodoxy prescriptions and advice. They are given to member countries which borrow conditioned resources, and these in turn, either in a direct or in an indirect way, have an impact on the living standards and conditions of the people from the borrowing countries. In many cases, economic resources have been given to developing nations in Latin America, Asia, Africa and Europe. It is, then, to the World Bank's perspective of the State that I now turn.

A STRUCTURAL 'MARKET FRIENDLY' VIEW OF THE STATE

It is not the aim of this chapter to argue that the World Bank promotion of its particular State agenda comes before its economic recommendations. Rather, it is argued here that the influence of neoclassical economics and rational choice institutionalism has been decisive in the formulation of the perspective of such international institutions. Economists and staff trained in these schools clearly not only defend but aggressively take for granted, spread and promote the postulates and assumptions on which their economic advice and prescriptions are given. It would not surprise anybody that, based on orthodox approaches such as neoclassical economics and rational choice institutionalism, the 'market friendly' view of the State adopted in the World Bank's latest publications and reports makes explicit its preferences for outwardly oriented market criteria, economic policy convergence and harmonization

of best practices.²⁰ Whenever room is given for heterodox options, the relaxation is never loose enough to pose a real challenge to the ‘economics comes first’ position. However, as is stressed throughout this thesis, markets do not necessarily set the priorities, nor do they determine some outcomes over others, since they are embedded in broader social contexts, as Schumpeter, Granovetter and Polanyi have argued.

The World Bank’s recommendations and structural adjustment programmes have evolved through different phases. Since the Washington Consensus and the post Washington Consensus are further discussed in Chapter Seven, limited space prevents a detailed exploration here.²¹ The World Bank, as one of the main economic and financial organizations of the post Second World War era, has not been untouched by the specific circumstances in which it and its members are situated.²² For example, after the oil crises of the 1970s, one of the main concerns of the World Bank for the promotion of sustainable growth in the world economy was the adjustment mechanisms for energy, trade and capital flows. Moreover, general recommendations were based on the distinction between oil importing developing countries, capital-surplus oil exporters and industrial countries. In any case, the emphasis of international policies was orientated towards the improvement of poor countries’ gains from trade, assistance for developing countries’ energy production and the allocation of aid to the poorest countries (World Bank, 1981). After the debt crisis of

²⁰ There are, nevertheless, some analyses which move away from the orthodoxy. Regarding rational choice institutionalism, see Hall and Taylor, 1996; Hay and Wincott, 1998; Peters, 1999; and also Chapter Two of this thesis.

²¹ See the various issues of the World Development Report and Williams, 1999.

²² An important aspect which needs to be taken into account is that both the role and importance of ideas are contextually specific in time and space. Important developments in economic theory have attempted to tackle some specific problems and theoretical puzzles regarding growth, development, economic cycles, inflation, trade, employment, so on and so forth. Not only are they not automatically triggered, but in some cases it takes several years, even centuries, to bring to maturity the ideas which in turn provide the bases for further theoretical and ideational evolution (Backhouse, 1994 and 2002).

the early 1980s and two decades of lost growth and development for a big share of the developing world, the emphasis on macro-economic and micro-economic variables has been ‘fine-tuned’ between different generations of economic reforms, and a more explicit and intrusive position as regards the economic role of the State has been adopted.

Nowadays international organizations such as the World Bank draw up a list of recommendations and preferences about what the role of the State should and should not be, what its capabilities could allow it to do and what it could not be allowed to do. Interestingly, the recognition of the central role of the State is said to be more that of a “partner, catalyst or facilitator”, rather than a major player in its own right (World Bank, 1997b). The State, it is argued, has to specifically serve the market, but in a social way. The World Bank proposes a strategy in order to achieve this goal. First, the State needs to match its role to its capability, and second the State needs to have its capabilities raised through reinvigorating public institutions. According to this view, the more capable a State is, the more effective it becomes. The undertaking and promotion of effective collective actions (i.e. infrastructure, the rule of law and public health, among others) represents the State’s capability. In addition, it is said to be effective when it satisfies society’s demands for these goods and services (World Bank, 1997b).

To achieve the first part of the strategy, namely matching the State’s role to its capabilities, requires certain mechanisms for choosing what to do and how to do it. Taking into consideration the fact that the socio-political fundamentals include a range of different issues which are case specific, the strategies need to be adjusted

accordingly.²³ The fundamentals include the protection of the environment and vulnerable social groups, investment in social services and infrastructure, the maintenance of macroeconomic stability and the overall policy environment, and the establishment of a foundation of law. For the World Bank, getting the State's social and economic fundamentals right, mean providing adequate institutional foundations for markets.²⁴ These general considerations need to be evaluated and tailored according to the specific circumstances of each individual State. Moreover, attention is paid to the credibility of governments and their way of ensuring the spreading and sharing of the benefits of growth for their populations; for instance, via adequate investment and the provision of education and health (World Bank, 1997b).

Furthermore, this first part of the strategy goes some steps further. Once they have provided institutional foundations for markets, governments are supposed to ensure that the State does not monopolize the provision of goods and services. According to the World Bank's recommendations, regulatory systems, the privatization of State enterprises and the focus on specific policies are means to avoid a situation in which the State is cast in the role of sole provider. Additionally, the World Bank acknowledges as a crucial element for a capable State the government's political commitment to economic and institutional reforms. The more committed a government is to reforming its macroeconomic policies and institutional structures,

²³ Williams argues that, based on the view that economic rationality is somehow natural, the World Bank pursues an agenda for implementing reforms at different, albeit complementary, levels. The macro-institutional reforms, such as the structural and sector-specific adjustment programmes, are complemented by other strategies. In addition to the agenda for modifying the social, political and economic role of the State, there are some other specific projects. These include the implementation of micro-level programmes, aiming to teach individuals to think in terms of economic rationality so that they can be then subjected to the discipline of the markets. In short, the construction of economic space and the making of the homo economicus programme target not only governments and institutions, but also the habits and social mores of people (1999).

the faster and more equitable will be the economic development which it can deliver to its citizenry. The reforms of the State which aim to make it a more effective and capable entity take place not only at the macroeconomic level, where the emphasis has been on the exchange rate, industrial and trade policies, but also at the institutional level, at which they need to deal with regulation, social services, finance and infrastructure (World Bank, 1997b).

The second part of the strategy which calls for reinvigorating the institutions of the State matches the institutional emphasis of the post Washington Consensus to be analyzed in Chapter Seven. The reinvigoration of the institutions of the State aims to stimulate better performance by raising the returns for a more efficient bureaucracy, making sure that the disincentives are always lower and less attractive than the incentives for reinvigorating the institutions of the State. The World Bank's perspective stresses openness, transparency and accountability by offering citizens a voice and partnership; the practice of effective rules and controls, preferably making laws enforceable and backed by an independent judiciary; and the promotion of a competitive environment not only for policy making, but for delivering public goods and services, and within public officials and the bureaucracy (World Bank, 1997b).

The fact should be stressed that the World Bank's institutional assessment of the State does not consider it as an agency. Rather, the State is viewed as part of the economic structure, which serves and provides the foundations for markets.²⁵ And in so doing it

²⁴ Such institutional emphasis is characteristic of the post Washington Consensus further discussed in Chapter Seven.

²⁵ The phenomena associated with the processes of globalization provide non-deterministic windows of opportunity and constraints for governments to modify their practices together with effective international cooperation, versus rising transnational concerns, such as the promotion of economic stability, the protection of the environment and the aim of making international development assistance

reproduces the structural and deterministic approach portrayed by neoclassical economics and rational choice institutionalism, as analyzed in the previous chapter of this thesis. As indicated, the World Bank's market friendly formula aims to achieve faster economic development through two core elements: good policies, on the one hand, and State institutions more capable of putting them into practice, on the other. Depending on the region of the world on which we are concentrating and, specifically, on the characteristics of the specific case study, different agendas are set. For instance, the recommendations for Latin America call for the implementation of democratic practices, and decentralization of power and spending, in addition to reforms of the legal system, civil service and social policies.

In the World Bank's view, the role of the State is crucial for reaching better levels of economic and social development. In advancing this goal, it recommends that the State must never engage itself in this task as a direct provider, but simply as a 'partner, catalyst and facilitator' (World Bank, 1997b, 1). The impact of all these sets of ideas is clearly having strong repercussions on the daily lives of millions of people throughout the world. The World Bank's view of the State is a structural perception which reduces the State's *raison d'être* to a set of mere strategies for effectiveness. It sees effectiveness as the crucial match and interaction between rules and institutions, where the provision of goods and services is the State's most important role. The World Bank argues that the effectiveness of a State's performance is determined by the extent to which markets are able to flourish, and thus the extent to which better living standards can be derived.

more effective, the management of regional crises and the spread and promotion of knowledge (World

What it does not say is that the capacity for change lies in the way in which policies are implemented, and also in the courses of action selected by actors themselves, notably governments. The World Bank does not make any explicit mention that there is a broad range of feasible alternatives, although it accepts that there is no unique model for change. However, for this international organization, the nature and extent of change is reduced to a matter of incentives. According to this argument, the stronger the incentives for throwing out old policies and institutional arrangements, the more likely changes become (World Bank, 1997b).

Adopting this perspective, the World Bank views change merely as a structural outcome. There is neither any recognition of the role which agencies play, nor of how vital they are for the provision of contingency in the State's tasks and effectiveness. This should not surprise anybody, since the economic concerns of macroeconomic stability and attraction of investment are perceived to be built upon, and to operate on, a static and stable social context within a framework. It is argued that contingency brings uncertainty, which in the eyes of the investors is perceived as an economic disincentive. Nevertheless, the unrealistic assumption that economic transactions and activities take place in static conditions ensures that it is impossible either to reproduce them or even to find them in the real world. The fluid and non-static nature of social processes clearly needs to be taken into account.

The structural deterministic view, not only of the World Bank in particular, but of international organizations in general, promotes inaction, passive behaviour, submission and acceptance of the status quo. The huge potential which actors have for

Bank, 1997b).

modifying the context in which they live is a cause of concern; therefore, it is deliberately excluded from conservative social, political and economic agendas. Although, in the short-term, policies may induce or select certain strategies over others, in the long-term, change with all its desired and undesired consequences will come. Unsatisfied demands and exclusionary policies can be partially attenuated. However, in circumstances in which they are not corrected, the desire for a radical transformation will build up pressures which are each time more difficult to contain. Regardless of concerns for stability and equilibrium, history teaches us that change always comes in the end.

Consistent with the argument presented in this thesis, it is imperative to explore the links and causal relations between ideas, firms and institutional stability, as all have been instrumental in the orientation of government policies and the social impact of the efforts towards increased commodification. In so doing, attention is also paid to the importance of both innovation and crisis which Schumpeter terms ‘creative destruction’.

IDEAS, STABILITY AND FIRMS: AN INSTITUTIONAL LINK

The previous chapter discussed the importance of institutions and the inadequacy of rational choice institutionalism for explaining and understanding the processes of social change. Nevertheless, the role played by institutions clearly has an impact on the contexts and structures in which agents find themselves. The spatial and temporal dimensions are especially important in the identification of constituent elements

which play a role in the processes of social change. For, it has been argued, geographical and historical specificity are among the most important features to be taken into account in social, political and economic theory (Sayer, 2000).²⁶ Although the social and political contexts are undoubtedly important, some neoclassical economic analysis and recommendations based on this theoretical perspective tend to de-contextualise the economic phenomena from their specificities of time and space. Consistent with my position, it is important to mention that, in order to bring those details back into the analysis, some efforts have been made to relax some neoclassical assumptions and present a more rigorous analysis, as are exemplified by the arguments of Stiglitz, some theories of endogenous growth, strategic trade theory and the new economic geography. None of those theories are adopted here. However, there are some common issues showed by their research agenda and the one presented in this thesis.

What is important to stress in this chapter is how actors, contexts and actions articulate by putting particular emphasis on conceptualization and abstraction. Since the Strategic Relational Approach is not blind to the geographic and historical contexts in which processes are situated, it takes into account the spatio-temporal dimensions of the social phenomena, as it does with the analytical distinction between the material and the ideational, as well as that between structure and agency. Regarding the time and space particularities of the social changes presented in chapter one, the two moments of decisive intervention identified in the trajectory of the Mexican State were the revolutionary period and the early 1980s. Since the emphasis

²⁶ For instance, early 20th century institutionalists argued that taking into account history and the changes which societies display over time is necessary to provide an evolutionary account of the

of this research is placed on the theoretical identification of causes, rather than finding law-like regularities of the processes of social change, the argument presented in this thesis pays attention to some of the tendencies which are typically overlooked in the emphasis and efforts at commodification.²⁷ The main purpose of this section is briefly to recall the notion of institutions presented in Chapter Two and to discuss how they affect the windows of opportunity and constraint for situated economic agents. This is important, as it provides a broader perspective than if the analysis had merely focused on quantitative variables. Since my concern goes beyond the rate of growth of the economy, attention needs to be paid to causal elements and interactions, not merely on statistical regularities.²⁸

Consistent with the emphasis placed on the causal and constitutive role of ideas in processes of social change, as discussed above, a certain pattern of interaction between economic ideas and institutions needs to be taken into account. Either in the face of a crisis, or in the narration of one, we are told, institutional stability cannot be promoted without first allowing economic ideas to reduce uncertainty (Blyth, 2002).

economy. Moreover, it was also argued that the evolution of social structures is a process of natural selection of changing and cumulatively self-reinforcing institutions (Veblen, 1919).

²⁷ A caveat needs to be introduced at this point. The use of reference milestones is preferable due to the fluidity, incremental and punctuated evolution of the processes. For the purposes of this study, the early 1980s represents the period in which economic, social and political priorities were modified in the Mexican agenda. However, some of the elements and causes to be analyzed can be traced back to an earlier time.

²⁸ Behaviouralism, for instance, reduces the significance of theory to a descriptive record of material regularities. It makes use of inductive logic by applying empirical and statistical methods in its search to discover regular patterns of behaviour which would help it generate probabilistic predictions. Since behaviouralism treats agencies as simple aggregations of individuals and does not rely on theory to inform its observations, it suffers from narrow definitions, albeit compensated by employing rigorous statistical techniques. However, correlations among variables are sometimes confused with causes of the phenomena under scrutiny. This conflation, rare in closed systems, becomes problematic in open social, political and economic systems, where the objects and subjects of study can affect their own contexts. Therefore, the character of the open systems makes it impossible to get a clean observation, where the isolation of variables is vital. For it is one thing to quantify statistical significance between observable variables, and another either to reduce or to leave aside unquantifiable factors such as power and ideas in the analysis (Hay, 2002c). The Strategic Relational Approach is better equipped to

The proposition that ideas contribute towards the reduction of uncertainty during moments of crisis functions as a preliminary step in the construction of institutions, as they make political coalition and network building possible, which in turn facilitates collective action. Building on these steps and at the same time parallel to these tasks, the dismantling of existing institutions is of use because it justifies a new institutional design. Furthermore, ideas do play a role, not only in building a new set of rules, but also in paving the way for reaching or regaining institutional stability. Once the construction or adaptation and legitimation tasks for a new set of institutions are accomplished facts, stability is made possible to let them provide a framework conducive to the prospering of economic activities (Blyth, 2002). Thus, ideas play a causal and constitutive role in the construction of a stable institutional framework in which situated economic agents such as firms realise their productive endeavours.²⁹

The informal and formal set of rules which actors generally follow, as defended by North and discussed in Chapter Two, affects the room for agents to manoeuvre, conditioning the latter's interactions. Bearing this in mind, the role institutions play in producing economic and political outcomes is of crucial importance. In particular,

analyse the dynamic flows of interaction of situated actors and their context, which continuously reshape the social, political and economic arenas.

²⁹ There are important common reference points and differences between Blyth's position and the one presented here. He places more emphasis on institutional change, whereas this chapter stresses some of the causal relations of the processes of social change. I do agree on the analysis of the way in which the broad pattern of ideas and institutional change follows attempts to regain stable institutions when threatened, discursively or by crisis and instability. Nonetheless, problematizing structural notions of institutional change and focusing on the causal role of ideas is not the same thing as labelling the economic changes in the last quarter of the 20th century 'the second great transformation' as Blyth does. In my humble opinion, a qualitative historical transformation such as that of the 19th century analyzed by Polanyi in his classic work has not taken place in the contemporary period. It is important to recall that the great transformation rested on a few, but crucial, elements: the balance of power system, the international gold standard, the 'self-adjusting' market utopia and the liberal State, where the laws governing the market economy were of the utmost importance (Polanyi, 1957). Even though important economic changes have occurred since then, according to my perception the qualitative historical transformations of that time dwarf our times.

regarding the economic sphere, the importance of firms and the ability of institutions to open up or cancel out certain courses of action have been stressed, among other authors, by Hall and Soskice. In their book *Varieties of Capitalism*, these authors take firms as core economic actors, and portray them as self-interested entities who strategically interact with others. According to this perspective, firms make use of their capacities in a relational way. They orientate their efforts in order to produce, develop and distribute goods and services profitably. In so doing, they also make use of strategic interactions, not only with their peers and counterparts, but also with the institutional set of formal and informal rules.³⁰ From this point of view, structures such as institutions, condition without determining the range of available and feasible strategies for the actors (in this case, corporations). It is the institutional frameworks which provide national economies with comparative advantages in particular activities and products, from where cross-national patterns of specialization emerge, due to the availability of modes of coordination which condition firms' efficiency (Hall and Soskice, 2001). Bringing a loosely Ricardian notion of 'comparative advantage' to their framework, Hall and Soskice argue that nations prosper not by becoming similar, but by building on their institutional differences.³¹ Because firms are able to retain the core characteristics of their long-standing strategies, the modification of practices to overcome external shocks allows firms to sustain and recreate their advantage, on the basis of common beliefs and understanding. In other

Rather than claiming a second great transformation, what I attempt to do in this thesis is to take theoretical tools and methodological criteria for my study, and analyse the processes of social change. I hope this is clear from the preceding chapters.

³⁰ The core competencies or dynamic capabilities which Hall and Soskice consider include a firm's industrial relations, vocational training and education, corporate governance, inter-firm relations and coordination problems in relation with its employees (2001).

³¹ Taking labour and capital as immobile between two countries David Ricardo argued that trade was determined not by the most efficient producer of goods, as Adam Smith had proposed, but by 'comparative advantage' in which the relative efficiency of producers would help expand the market and stimulate growth (Backhouse, 1994). Technicalities aside, Hall and Soskice take principally the

words, there is room for policy diversity, which does not enforce uniformity in policies, practices or strategies. Moreover, Hall and Soskice acknowledge the path-dependent character of institutions when they mention that the institutions of any given economy are inextricably bound up with its particular history (2001).

Appealing at first glance as this ‘actor-centred approach’ may appear to be, it is, however, by no means unproblematic (Hall and Soskice, 2001, 6). As this analysis is heavily influenced by rational choice institutionalism, it should come as no surprise that some of the latter’s deficiencies are also present in the former. Since a more detailed discussion of this topic is presented in Chapter Two, suffice it to say that the bounded rationality and utility maximizing behaviour of the actors is perceived to be affected by the institutions of the economy. In addition, it is quite evident that Hall and Soskice consider the institutional framework as a precondition for the performance of the economy, similar to rational choice institutionalism. Therefore, this sort of top-down analysis suggests that change can be induced vertically. Even though these writers acknowledge that actors interact with others, this point does not influence any concession as to the potential for actors to influence, promote and achieve changes.

Furthermore, Watson criticises the use made by Hall and Soskice of the conceptual abstraction of ‘comparative advantage’ in the face of empirical indicators which do not match the specialization of contemporary trade flows. He argues that the socio-institutional differences of their approach do not correspond to the distinctive patterns of specialization observed in the real world. His main critique points out that

pattern of product specialization found across nations and expand the notion to allow them to insert,

fundamental features of the social structure of accumulation are obscured by emphasizing the existence of national models such as the ones which Hall and Soskice employ. Thus, the variety of models is poorly explained, weakening David Ricardo's notions of specialization, trade and comparative advantage (2003c).

There is an additional controversy in Hall and Soskice's work besides the strong traces of deterministic structural logic and the loose adaptation of the Ricardian notion of comparative advantage. This is the paradoxical reductionism of two broad types of market economies. The liberal model, which they associate with Anglo-Saxon countries, is juxtaposed with the coordinated model, associated with European countries and Japan. According to Hall and Soskice's analysis, the main feature of the Anglo-Saxon liberal economies is the competitive market arrangements set for firms. By contrast, in the European and Japanese coordinated economies, as well as the market mechanism, firms depend more heavily on non-market relationships to coordinate the orientation of their activities. Even though those authors hint that their typology could not fit many national cases, no efforts are undertaken to provide a more balanced and less schematized account of national systems of political economy. Clearly, there are certainly more varieties of capitalism, to use Hall and Soskice's term, than the ones which they identify. If institutions matter to the efficiency with which not only goods but also services can be produced, it follows then that we need to consider the conditions for domestic policies which aim especially at promoting endogenous growth. This makes innovation one of the crucial dimensions of economic success. It is to a discussion of innovation that I move in the following section, as it is needed for a further analysis of institutions, firms and

rather than fitting, the institutional framework into their account of institutional varieties of capitalism.

innovation to provide a different pattern of economic relations from those presented by Hall and Soskice.

THE 'CREATIVE DESTRUCTION' OF CRISES AND INNOVATION

Innovation has been identified as one of the most important dimensions of economic success. Hall and Soskice point to one of the important elements of the distinctiveness of Anglo-Saxon economies, its tendency towards radical innovation, whereby not only production processes, but also goods, services and technology sectors are equipped with better capacities. By contrast, the coordinated market economies tend to have a more incremental model of innovation, providing continuous but small scale improvements (2001). From their analysis emerge patterns of specialization in economic activities and products which could be interpreted as responses to institutional frameworks. Therefore, the importance of innovation creates market niches and incentives for increased levels of efficiency, both of which are praised in the commodification dynamics which characterize contemporary economic activities. Following this research, firms are revealed as important units of analysis, because they are economic agents situated within an institutional framework. Thus, the analysis of economic agencies such as firms might help the Strategic Relational Approach to provide insight into causal and endogenous mechanisms, as will be shown in the next chapter.

The academic literature on economic development takes technological issues such as innovation and transfer as crucial elements which may help national economies to

develop.³² Limited space and analytical scope does not allow us to discuss the different contributions in this field since the post World War II era onwards.³³ Suffice it to say, however, that there seems to be some common ground based on two important authors. The first one is John Maynard Keynes, whose recommendations that the State should play a role in economic development, along with the caveat against market failures, gained considerable political influence in the post World War II period. Since this time, analysis of the economic role of the State, imperfect markets and asymmetric information has been expanded by Stiglitz.³⁴ The other influential author whose ideas about innovation and economic development have had considerable impact is Joseph A. Schumpeter, whose publications have also influenced economics, political economy, economic sociology and political science.

Innovation in economic activities was regarded by Schumpeter as a core part of the economic process. These, in turn, were never isolated from, or independent of all the social processes (1934). As open systems work, he held that social facts are never purely or exclusively economic.³⁵ Situated within a broader social realm, the

³² Besides technological developments, innovation can also be identified in social, political and economic affairs, although here it is not as widely acknowledged and praised as in its impact of technology.

³³ Development economics has been associated among others, with the work of Raúl Prebisch, Gunnar Myrdal, Alexander Gerschenkron, Paul Rosenstein-Rodan, as well as analysis and reports from the United Nations Conference on Trade and Development and the Economic Commission on Latin America and the Caribbean. Albert O. Hirschman, Moses Abramovitz, Paul M. Romer, Amartya Sen and Paul R. Krugman have also made important contributions. Placing more emphasis on structural adjustment, the International Monetary Fund and World Bank programmes and recommendations have been put into practice, leaving no continent untouched.

³⁴ I have discussed Stiglitz in Chapter Two; due to space constraints there is no need here for further detailed examination.

³⁵ Like Polanyi, Schumpeter does not consider land and labour as products. There are, however, important differences in their accounts. In the latter's perspective, the economic exchanges between labour and land continually renew the stream of economic life, as do consumption goods as well. Money is regarded as a technical instrument which functions as an intermediate link, facilitating the circulation of commodities (Schumpeter, 1934). As reviewed in Chapter One, it is the commodification of land and labour in the first leg of the expansion of the markets, operating alongside the protection to society and nature associated with the 'double movement', which distinguishes Polanyi's contributions (1957).

economic dynamics feature circular flow processes, development processes and crises, which prevent development from following an undisturbed course.³⁶ Schumpeter argued that cyclical fluctuations are as important as economic stability, because they foster the continual emergence of new economic and social forms. Overall, this has the effect of improving economic well-being (1934). In order to achieve economic development, he maintained that changes in economic life alter and displace states of equilibrium. In his perspective, changes in economic life would be more likely to appear in the supply-side of activities of industrial production and commercial life, rather than as demand-driven phenomena of consumer wants. He went on to say that changes in economic life require new combinations in materials and forces which make productive economic activities. The innovative combinations draw necessary means of production from former combinations. Innovation, therefore, becomes a core component for the introduction of new goods, new methods of production, the opening of new markets, or carrying out the new organization of any industry (Schumpeter, 1934).

Innovations and crises combine in a process of ‘creative destruction’. If crises do not permanently obstruct economic and social processes, it is in the emergence of new economic and social forms where social and economic sectors rise and fall, that innovation plays a pivotal role. For Schumpeter, the process of ‘creative destruction’ is regarded as an evolutionary form of economic change. As the label suggests, it incessantly revolutionizes the economic structure from within, destroying the old and

³⁶ The business cycle was described as having different stages. Those are i) a situation of boom which creates out of itself dynamics and which, when they end, gives way to a crisis; ii) the crisis may turn into depression which might be followed by a temporary absence of development, leading to a new equilibrium; iii) the fact that this is an underemployment equilibrium may trigger the reorganization of production which precedes another boom stage (Schumpeter, 1934).

creating the new. The ‘creative destruction’ brought by innovation and crises might translate in the economic sphere into increased levels of competitiveness as one participant finds that the latter factor command a decisive cost or quality advantage. This, in turn, strikes at the foundation of other firms (Schumpeter, 1954).

The fundamental impulse towards novelty in consumer goods and services, methods of production, forms of transportation, market shares and niches, industrial organization and management reduces the long-term scope and importance of established economic entities. To introduce new goods, services, processes and technologies, a revised and updated economic and industrial reorganization is required. This may bear little relation to the neoclassical economic orthodoxy of perfect competition. Even though new methods of production, technology or commodities do not per se confer monopolistic tendencies, those positions are often approximated. Furthermore, imperfect competition affecting market prices and economic output is situated within an institutional pattern, which in turn also creates conditions for another institutional framework (Schumpeter, 1954). Therefore, the crises and innovations which characterize the processes of ‘creative destruction’ decisively impact upon and make the institutional frameworks follow a similar or equivalent dynamic pattern of renovation, as they also need to adapt themselves to the ongoing changes and processes in a dialectical fashion.

By making use of the Strategic Relational Approach, I hope I have shown so far that, while crises, as mechanisms of change, provide windows of opportunity which are appropriate for a macro and meso level of analysis, innovation is better dissected at the micro and meso levels of analysis. The innovation of economic activities

undertaken by firms situated within an institutional framework will follow after an overview from the early 1980s in Mexico on the orientation of the reforms. This will be the main purpose of the next chapter.

CONCLUSIONS

What I have attempted in this chapter is to enquire into some of the causal relations of the processes of social and economic change which are the focus of this thesis. The open character of the system being analysed means that this should not be considered an exhaustive list. On the contrary, an enquiry such as the one undertaken in this chapter must be assessed as exploratory and illustrative. Since it is virtually impossible to control for all of the interactions among variables which affect complex social and economic systems, efforts have been orientated towards revealing the contribution of causal processes of commodification-linked phenomena. The dynamic nature and fluid interactions which characterize this orientation is undoubtedly fertile ground for contingency and indeterminate tendencies and countertendencies.

In order to help us make clear the distinction between closed and open systems, I touched upon the differences between a positivist and a realist ontological and epistemological position. I made explicit a preference for realism and evidenced the weaknesses of positivism. The purpose of the discussion was to highlight that, by making use of the Strategic Relational Approach, attention can be paid to social interactions and relations. This provides a different picture than would have been the case had I used any theory or model based on positivist assumptions. Those

distinctive pictures of the objects and subjects 'in motion' are, in my understanding, adequate for embarking on the study and analysis of social, political and economic processes.

Having stressed the character of power immanent in all social relations as the core factor of change in the preceding chapter, attention in this chapter was devoted to an exploration of some of the causal relations which might be found in the contemporary orientation of economic activities. Those activities are not performed in a vacuum, isolated from the world outside. They are embedded in a broader social spectrum. They are part of an inclusive social universe and, therefore, need to be analysed and dissected with these conditions and characteristics in mind. Neither the analytical distinctions which we make in order to approach objects and subjects of study, nor the evaluations we make of the relations and interactions, are by any means conclusive. The ever-changing social dynamics do not allow us to make such universal claims.

So far, the Strategic Relational Approach has proved helpful in the task of identifying immanent power within social relations as the core factor of change. Rather than following a uniform pattern, the exercise of power makes use of a broad range and variety of causal relations which move in different directions and affect, to different degrees, actors and structures alike. The suggested causal relations I have focused on in this chapter were selected in order to highlight the interactions between structures and agencies, as well as the interactions between material and ideational factors. As discussed in Chapter Two, Foucault stressed that power is attributed to strategic situations in all social relations (1976, 1977 and 1979). As such, its immanency in all social interactions makes use of a range of mechanisms, such as the ones suggested

here, in a non law-like regular form, to continuously build perpetually moving social dynamics and processes. The relational character of the exercise of power provides actors with the endogenous capacity to trigger, produce, and bring about changes which affect them, as well as the contexts in which they are situated. Moreover, the omnipresence of power interactions is not alien to economic activities as the ‘invisible hand’ of market forces might suggest. On the contrary, it is articulated and integrated in all and every phase of the commodification process. Markets are highly political, so are their transactions and activities, and especially so are the frameworks and actors which operate and interact there.

If power is the core factor triggering social change, it operates through a variety of otherwise intangible causal relations, such as the ideational and institutional, which the situated actors in context systematically transform. Power has neither an a priori essence, nor a privileged origin. The strategies through which it is relationally exercised from innumerable points never move uniformly in the same direction, or aim for the same goals. Furthermore, power relations are uneasy and unpredictable phenomena. These open-ended and indeterminate features are, however, the ones which the Strategic Relational Approach is well equipped to analyze. Exercises of power can be deciphered by tracing agencies’ strategies and causal relations. Yet, the account is never conclusive. Nonetheless, no theoretical models or analytical strategies should be blamed for this, because contingency and open-endedness are the wealth, never the misery, of all social sciences.

Praising this wealth, after the section devoted to the influence of neoclassical economic ideas, and the philosophy of science positions, I took the case of the

contemporary outward orientation of domestic markets to external competition. Here, rates of growth, contrary to conventional wisdom, are reported to show weak law-like regularities or correlations with the degree of openness of an economy. Markets are socially and politically embedded. They are by no means neutral or independent of the context in which actors interact. The consideration of social factors other than merely economic variables reflects the highly political character of the markets and the implementation of economic policies. The socio-political context could not be left aside, nor could stability be taken for granted, since the social character of the market provides enough room for different orientations of policies, actors' roles to be played and diversity in the implementation of strategies.

According to the analysis undertaken in this thesis, I found the World Bank perspective on the economic and political role of the State to be deterministic and structuralist. Since, I contend, social change is mainly an endogenous process, agencies themselves have the capacity to internally decide which course of action to take. They are, however, situated in circumstances not necessarily of their own choosing, leaving the door ajar for contingency and indeterminacy. The Strategic Relational Approach focuses on the role played by agencies and on their interactions and capabilities as well. This perspective, as shown above, is not shared by the World Bank, as it emphasises a top-down view, with the perception of change as a structural outcome.

It was in the last parts of this chapter that I considered the interaction between firms as economic agents and institutional structures as a useful approach for the analysis of innovation. The relevance of this task lies in the fact that innovation has been

identified as a core component in the economic performances and development of the State. A vital element of the expansion and strengthening of productive economic activities is novelty in the production of goods and services, channels of distribution, management and market shares and niches. As such, I have highlighted its association with the ‘creative destruction’ which, together with crises, helps to propel the onward march of economic cycles.

Chapter Four further explores the interactions between the power immanent in social relations and the causal factors contributing towards the continuous (re)shaping of social, political and economic dynamics in a specific context. The Strategic Relational Approach has a strong explanatory power which enables it to make a significant contribution to the study of International Political Economy. As such, the theoretical exploration ahead focuses on applying the Strategic Relational Approach to the contemporary trajectory of Mexican economic restructuring during the last quarter of the 20th century. The aim is to provide a theoretically informed and empirically grounded analysis of the overlapping, irregular and contingent convergence of the tendencies and countertendencies in play, where agents undeniably take a decisive role.

CHAPTER FOUR

Social Change in Mexico: Economic Imperatives and Polarizing Results

PROLOGUE

It is the argument of this chapter that the governmental emphasis on the commodification experience of economic restructuring has left an imprint on the processes of social change in contemporary Mexico. The narrow concern for economic imperatives and ‘fundamentals’ has contributed towards rising levels of inequality and has also worsened income distribution. According to a study of the World Bank on well-being and poverty in the country, despite some progress in dimensions such as access to basic services, other dimensions such as the income of the poorest remains widespread and has not improved (2004).¹

It is not the aim of this chapter to claim that the causes of wealth polarization are simply a few variables which could be easily identified. Far from it, and consistent with the argument of the previous chapter, I contend that due to the social and political embeddedness of market activities, the causal relations of commodification can be identified, although they do not claim a perfect correspondence with the phenomena under scrutiny. Important changes need to be undertaken if the aim is a

¹ There is growing recognition that poverty is also associated with inequality. Furthermore, acknowledgement that poverty does not only refer to low incomes, but that it has some other dimensions including human capacities, where education and health are particularly relevant. In addition, access to infrastructure, vulnerability and social status are also important. Following Amartya Sen's *Inequality Reexamined* and *Development as Freedom*, the World Bank argues that if these

more equitable scenario. The Strategic Relational Approach helps us to illuminate the interactions between factors such as power, agents situated within specific contexts, the importance of ideas and unexamined assumptions as well.²

As already identified in Chapter One, since the milestone of the late 1970s and early 1980s the economic model of Mexico faced a moment of decisive intervention. The Mexican government made use of a broad range of strategies to emphasize an outward orientation of the economy. The process of economic restructuring, which was put into practice considered the provision of a new legal and institutional framework including new investment laws, the constitutional reform of land tenure and the membership of the North America Free Trade Agreement. Moreover, by eliminating trade restrictions, it also facilitated increasing levels of competition including foreign goods and investors, as new investment and business opportunities were opened. The privatization, deregulation and liberalization processes acted as core and fundamental guidelines in the forging of stronger economic links with the United States. For instance, the attractive returns in the stock exchange were augmented as NAFTA started taking proper form.

factors give a person the freedom and capability to choose a life of his/her choosing, this person can enjoy and develop his/her well being (World Bank, 2004).

² I have shown that the theoretical lenses we use are neither neutral, nor immune from philosophical considerations about the nature and constituent elements of the social, political and economic world and the way we approach it. The directional dependence of any philosophical position is irreducible, as the ontological views about the world precede the epistemological views about knowledge, which in turn precede the methodological views about the ways to acquire it (Hay, 2002c). The previous chapter has highlighted substantial differences between positivism and realism. The former, associated with neoclassical economics and rational choice models claims universal propositions by generating, testing and falsifying hypotheses. Moreover, positivism asserts that its suggested explanations even have predictive capacity. Realism, in contrast, by acknowledging the open nature of social systems and conceding that intangible factors could influence courses of action and the decisions which actors take, rather than claiming law-like regularities, is able to identify causal relations otherwise invisible or difficult to detect (i.e. power and ideas).

It is important to make clear that the focus of this chapter is mainly the application of the Strategic Relational Approach as a theoretical framework. Nonetheless, it should not be considered by any means as an exhaustive case study of contemporary Mexico, but rather a theoretically informed critique of current trends there. I make use of the Strategic Relational Approach to stress causal relations, and to identify tendencies and countertendencies. However, it is not the same thing as saying that this is the only way of analyzing observable and unobservable phenomena alike. The chapter opens with a discussion of the influence of neoclassical economic orthodoxy in the process of economic restructuring. Next, I highlight important characteristics of the re-designed Mexican economic agenda, such as the lowering regulatory frameworks for land tenure and foreign investment, fiscal reform, the privatization of public firms and trade liberalization. Even though the outward oriented model is relatively consistent in its own terms, it falls far short of taking into account the socially embedded character of economic activities, as it has an uneven social impact. Growing patterns of inequality have been a very high price to pay for the economic transformation of Mexico. For the study of this phenomenon, special attention is devoted to the weak institutional links which characterize the leading manufacturing activities and sectors in the Mexican economy. The neglect of the domestic market has not helped endogenous growth conditions, at a time when economic linkages between outwardly oriented firms and domestic enterprises are further weakening. Creative and innovative pushes have lacked strength and consistency to deliver equitable growth. On top of this, the destructive momentum seems to be much stronger than the creative one, delivering a social legacy of uneven income distribution and polarization.

Estimates of income distribution in Mexico during the last three decades vary due to different methodologies, but nevertheless, they show evident patterns of inequality. For instance, the Economic Commission for Latin America and the Caribbean reports that the poorest two quintiles of Mexicans in 1984 shared 7.9 % of income in urban households, while the richest two quintiles owned 41.2 %. By the year 2000 the situation had worsened as the poorest two quintiles reduced their share to 6.7 %, while the richest two quintiles increased theirs to 49 % (Economic Commission for Latin America and the Caribbean, 2002 Statistical Yearbook for Latin America and the Caribbean). Some authors make use of adjustment factors for their own estimates in order to correct underreporting of data. One researcher argues that in 1984 42.5 % of the population were considered to live in poverty. Twelve years later the poverty had reached 52.8 % of Mexicans (Calva, 2000). Another author found that the lowest two deciles of the population in 1984 shared 4.8 % of total income in Mexico, but 4.7 % in 1996, whereas the highest two deciles increased their share from 49.5 % to 53.7 % during the same years (Dussel Peters, 2000). The Gini coefficient is an inequality index which increases if the income distribution becomes more skewed. A third one reports a Gini coefficient of 58.2 in 1984, and 58.9 in 1992 (Lustig, 1998). According to the World Bank's report *Poverty in Mexico*, the Gini coefficient was 53 in 1992, 52 in 1996, 54 in 2000 and 51 in 2002. This financial organization also reports that during 2000 the share of the top decile in total income was 43.1%, whereas the share of the bottom two deciles in total income was only 3.1% (World Bank, 2004).

The praised process of economic transformation undertaken by the Mexican government, even though it was consistently presented in its own terms, failed to address its own social impact, as insufficient attention was given to redistributive

policies. The agenda, however, was not purely economically driven and aimed for increased efficiency. Political concerns and the targeting of specific constituencies were presented in a technocratic discourse of inevitability, de-politicizing the processes, and insulating them from public participation and scrutiny. Moreover, it was implemented vertically from the top of the government's hierarchies, down to the different sectors of society.

Consider for instance that one of the main mechanisms in which, taking advantage of asymmetric information, a series of economic reforms, such as a reduction of public expenditures that forced reductions in public sector jobs, pushed by technocratic governments in Mexico during the 1980s, was simply agreeing the terms and conditions of letters of intent with the International Monetary Fund. This strategy was perceived abroad as a trust-worthy sign of the political will to engage in economic reforms, and also as consistent with neoliberal trends and the Washington Consensus. However, the decision-making process was never an open and democratic exercise, because the IMF's letters of intent are negotiated and the agenda are specified by the Executive and need not be ratified by the Congress. Therefore, they very easily avoid formal rejection from opposition parties and the divided Congress, because responsibility for the economic packages is portrayed to the domestic constituency as displaced upwards (Vreeland, 2003). Furthermore, during that period in Mexico, the PRI was not only the ruling party at that time, but also generally commanded a majority in both the Senators' and the Deputies' chambers.

The strong character of the Mexican presidential regime, and the blurred links between bureaucracy and the hegemonic position of the PRI (Institutional

Revolutionary Party in its Spanish acronym) the then ruling party which dominated the Congress, facilitated the approval and implementation of those tasks in a crucial way, especially for the de la Madrid and Salinas administrations.³ As the government could not be seriously challenged via the official and institutional channels, these years also saw significant mobilization which gained strength and increased political representation in the following years. For instance, the two following presidential administrations, both faced divided congresses where no political party had an absolute majority and therefore negotiations among the different political forces were required to reach political agreements, were not needed by their predecessors.⁴

The redesign of the Mexican economic agenda brought to the social and political stage the goal of improved economic efficiency. Encouraging enhanced competition and decentralization, the authorities took for granted that these initiatives and efforts would outweigh the costs of any decrease in equality. Such an assumption could be explained in relation to positivist philosophical postulates and stances which were followed either consciously or unconsciously, and internalised by the small number of technocrats trained in neoclassical economic orthodoxy while in charge of the economic restructuring process. The law-like regularities claimed by positivism, as ideational elements, clearly have material and real impacts and consequences which must not be ignored.

³ Presidential terms in Mexico last six years without any chance of re-election. Since this mode was implemented during the mid 1930s all presidents have finished their terms. The De la Madrid presidential term started in 1982, and was followed by that of Salinas in 1988.

⁴ Zedillo took office in 1994 and was the last president from the Partido Revolucionario Institucional (PRI) to rule Mexico uninterruptedly for more than seventy years. Fox from the Partido Acción Nacional (PAN) ended this supremacy in 2000.

Contrary to the conventional wisdom, which argues that financial liberalization in emerging economies was a consequence of international trends, Mexico's experience does not match that pattern. Nevertheless, this is not the same thing as saying that agents such as the International Monetary Fund, the World Bank, or the US government dictated the whole economic script to the Mexican government. Even during the late 1980s, after following orthodox adjustment programmes which proved insufficient for the recovery of the Mexican economy, the government opted for a heterodox plan in which orthodox recommendations and schedules were not followed (Minushkin, 2001a, and 2002). Moreover, since the goals were not altered, and were even enhanced, the use of alternative means did not oppose the consensual view of what the economic restructuring programme for this particular case should be.

The improvement in aggregate macroeconomic indicators was presented as evidence of stabilization and a proper investment environment. Yet, the 1994 crisis made evident the weaknesses of the instrumentation and political management of the economic strategy. The heavy reliance on short term financial instruments proved catastrophic because it increased the vulnerability of the economy to the attraction of financial capital inflows; which, combined with financial mismanagement, ended in the worst economic crisis in Mexican history (Lustig, 1998; Edwards, 1998; Weintraub, 2000a). Further details and a discussion of the mid 1990s financial crisis and banking problems are to be presented in Chapter Eight. What follows is an informed critique, making use of the Strategic Relational Approach, of the process of economic restructuring in this country since the late 1970s and early 1980s.

THE DISTINCTIVENESS OF THE STRATEGIC RELATIONAL APPROACH

As thus far demonstrated throughout this thesis, the distinctiveness of the Strategic Relational Approach makes it a very powerful tool, albeit one with no monopoly on explanatory power, for identifying structural elements which influence without determining agents' courses of action (Hay, 2002c, and 2000a; Hay and Marsh, 2000). Even though the theoretical emphasis in this chapter is placed on economic actors such as firms, this does not exclude other agents, because economic activities are socially embedded, as acknowledged in the SRA. The strategically selective context is, therefore, fundamental to analyze processes of change such as that undertaken here. I do not offer, however, a deterministic account, since I also acknowledge the agencies' capacity to influence the conditions which surround them.

Therefore, the study of political networks becomes one of the classical examples of the relational character of agents (see Chapter Five). However, in this chapter I want to focus on manufacturing chains and clusters of innovation. As it will be shown below, they constitute socially embedded economic networks which complement the markets and economic activities of the State. This is important for the Strategic Relational Approach as I stress, following Polanyi and Schumpeter, the fluid and dynamic motion of the relations and interactions which continuously reshape not only the material elements, but also the ideational ones.

The role which ideas play is also of immense importance here (Hay, 2002b, 2002c, and 2000b; Watson, 2003b, and 2000). Ideas such as the liberalization of trade and investment flows, privatization of public enterprises, lowering regulatory frameworks

and fiscal reforms have had real material impact in several different latitudes. I consider that neoclassical economic ideas were crucial in the re-designing of the Mexican economic agenda, as they provided the guidelines on which the restructuring of the economy was based. Nevertheless, the agenda of economic reforms and their modest consistency, has also brought into the spotlight some, arguably, unintended consequences. The widening gap in income distribution and rising levels of polarization must neither be overlooked, nor considered only as ‘costs’ of the new orientation of economic policies.

Since windows of opportunity and constraint are used by agencies to inject indeterminacy into the social, political and economic processes, I turn here to the task of tracing features of contemporary processes in Mexico. This will, I hope prove a very useful exercise because I deliver an assessment of those features in the form of a broad theoretical perspective in the next chapter. Thus, stressing the importance of social interactions, I document the experience of commodification tendencies and countertendencies in Mexico.

The Strategic Relational Approach provides a balanced account of the current processes of social change in Mexico. In using it in this thesis, I aim to identify causal relations and features of what have been perceived as economic imperatives and their polarized results. The analysis is qualitative. It gives a theoretically informed account of the Mexican commodification experience and the ongoing processes of social change.

THE RE-DESIGN OF THE MEXICAN ECONOMIC AGENDA

The concern for growth was quite clear in the economic restructuring agenda which has been put into practice from the early 1980s. During these years, the core concerns were stabilization and the pursuit of structural change in the Mexican economy. This process of reforming the public finances and reaching macro-economic stability was considered the key. Heading the agenda were financial and trade liberalization, the re-design of fiscal institutions and instruments, the renegotiation of the external debt, and the privatization of public sector enterprises (Aspe Armella, 1993). I analyse these in the following sections. The efforts to reform the role of the State were oriented towards this agenda in a manner which was intended not to disrupt macroeconomic stability. However, the strategy fell short of expectations in other respects, such as employment expansion, the eradication of poverty and provision of justice and public safety, because they were not considered priorities. Aiming for growth without considering equity has been one of the main deficiencies of the outward oriented economic strategy in Mexico, as it will be discussed after an account of the features of its economic restructuring.

An important concern for officials in charge of the external debt renegotiations was to secure packages as extensive and flexible as possible. Pursuing the objective of reaching a solution to the external debt problem was a pragmatic criterion which considered it a better option to reach a timely satisfactory agreement, rather than a good, but extemporaneous deal (Aspe Armella, 1993). During the 1980s, -- an epoch dubbed the 'lost decade' of growth and development for most Latin American countries -- neither the Baker, nor the Brady plans provided Mexico with the

conditions to reactivate its economy and stimulate growth as was needed. The plans were relatively timely agreements, albeit insufficient and far from optimal from the debtor's perspective, since there was a negative transfer of private and public capital flows during most of the 1980s (Villarreal, 1990; Ramos de Villarreal and Villarreal, 2000). The strategy of using revenues from the sales of government-owned enterprises was a key complementary strategy for the reduction of the problem of public debt. On the one hand, the divestiture of public and semi-public firms was seen as a step towards a more effective and efficient government which would provide the conditions for long-term macroeconomic stability. At the same time, criteria such as the sale of government-owned enterprises on a cash basis, and the use of creative financing, were operated as complementary guidelines towards the use of privatization proceeds to repay public debt (Aspe Armella, 1993). In order to make the outward orientation of the economic model compatible with domestic legislation, and to provide a legal framework for such changes, important legislative modifications and adjustments were undertaken. This is the focus of the next section.

LOWERING REGULATORY FRAMEWORKS FOR LAND TENURE AND FOREIGN INVESTMENT

Even though the use of the term 'deregulation' has become widespread, attention should be paid to the fact that it is used generically as a label for lower level re-regulation measures. Every step either to lower or upgrade the regulatory framework needs to be clearly specified. Therefore, either as used for setting a ceiling or a lower common denominator, deregulation must not be confused with the absence of any

framework, rule, regime or institution at all. There is no such thing. The term has been associated with government efforts to provide a market oriented regulatory framework, in most cases tend to be sector specific, compatible with certain general guidelines. For instance, efforts to relax regulations by the Mexican government have focused on the financial sector, the elimination of licensing schemes and other restrictions for such sectors as road transport, petrochemicals, fishing, mining, commodities and telecommunications. Price liberalization has also been among the options (Lustig, 1998).

One of the modifications often overlooked of the Mexican economic restructuring regards the land tenure constitutional reform of 1992. As already mentioned in Chapter One, article 27 of the 1917 Constitution granted special treatment for land property rights. Originally, the 'ejido' (or communal land unit in which the right to exploit the land was given, and which allowed its exploitation), denied the right to sell, rent or borrow against it. This constituted one of the social conquests of the early 20th century revolution -- when Mexico used to be an agrarian economy and a rural country. At this time, the agrarian economy favoured by government intervention had a political engagement rationale. Chapter One already mentioned that the peasant sector was one of the pillars of Mexican corporatism. As the demography of the country changed from rural villages to urban cities, while the economic focus moved from the agricultural sectors to industries and services, the peasantry lost political ranking and the transfer of economic resources was prioritized towards the industry and service sectors. The 1992 reform of article 27 of the Constitution legalized the rental and private ownership of the 'ejido' land, even allowing commercial companies to own rural land within certain limits. Furthermore, the reform made possible the

division of the productive portion of the land unit, even allowing beneficiaries to associate with each other or outsiders to exploit, sell or rent their holdings, which had not been permitted under the former regulatory framework (Lustig, 1998). In short, this was clearly a commodification initiative, aiming to withdraw provisions and protection from the land and from social groups for whom represented the main source of income. These were the demands for which the zapatista indigenous uprising in one of the poorest states of Mexico, made a symbolic outcry the day when NAFTA entered into force.

Prior to the late 1970s/early 1980s economic milestone, it is important to recall a crucial issue that was discussed in Chapter One. The import substitution industrialization which characterized the dominant economic strategy during the post World War II era made use of both tariff and non-tariff barriers to guarantee protection from foreign competition. The included industrial sectors changed over time. With the benefit of hindsight, however, agriculture turned out to be the main loser in this scheme because priority for government expenditure was given to industry and services.

Regarding foreign investment regulations, the modifications in the legal framework aimed to allow unrestricted foreign ownership, in all but the strategic areas reserved for the State. This meant a crucial step towards institutionalization not only for foreign direct investment flows but also for banking and finance, though there had been some prior minor modifications in the late 1980s. They paved the way for the financial services and investment reductions of barriers addressed in the North

America Free Trade Agreement and also for the creation of the National Banking and Securities Commission in 1995.⁵

Originally, the 1973 Foreign Investment Law restricted foreign ownership in the following way. Four sorts of economic activities were distinguished. First, the priority sectors were reserved exclusively for the Mexican State. Second, there were activities reserved exclusively for Mexican citizens. Third came economic activities in which foreign investment could not exceed a certain percentage. Finally, there were activities in which foreign investment was not allowed to be greater than 49 %.⁶ In practice the restrictions were often circumvented, except for the strategic activities (Lustig, 1998; Adams, 1997). Twenty years later a new set of rules repealed all prior regulations governing foreign investment.

The 1993 Foreign Investment Law modifications allowed 100 % foreign ownership in most industrial sectors, granting foreign investors the same status as national

⁵ The latter's main aim was to streamline and resolve differences in accounting and regulatory standards when it merged the National Securities and National Banking Commissions (Adams, 1997).

⁶ Article 2 of the 1973 Law to Promote Mexican Investment and Regulate Foreign Investment defined foreign investment in the following terms: "...investments made by (1) foreign corporations; (2) foreign individuals who are not bona fide permanent residents of Mexico, or those who, because of their other activities, are tied in with or bound to entities or groups making their economic decisions abroad; (3) foreign legal entities without legal personality; and (4) Mexican enterprises in which a majority of their capital is owned by foreigners, or in which foreigners control management..." (Lustig, 1998).

The strategic activities reserved to the Mexican State included the extraction of petroleum and natural gas; production of basic petrochemicals; exploitation of radioactive minerals and generation of nuclear energy; certain mining activities; generation of electricity; railroads; telegraphic and radio communications; and all other activities determined by specific laws or regulations.

The activities reserved exclusively for Mexicans or for corporations with an 'exclusion of foreigners' clause in their articles of incorporation listed radio and television; urban and interurban automotive transportation and federal highways transport; domestic air and maritime transportation; exploitation of forestry resources; gas distribution; and other activities determined by specific laws or regulations.

The activities in which foreign investment was subject to specific percentage limitations were mining under ordinary concessions (49 %); mining under special concessions for the exploitation of natural mining reserves (34 %); production of secondary petrochemicals (40 %); manufacture of automotive parts (40 %); and any other activities for which percentages were indicated in specific laws.

investors. It was subsequently modified in 2001. The 1993 Foreign Investment Law's opening title lists the exclusively reserved activities for the State on the one hand, and the ones reserved for Mexicans with a foreigners' exclusion clause on the other.⁷ They are followed by a list of those economic activities and acquisitions which are specifically regulated.

Moreover, the National Commission on Foreign Investment (Spanish acronym CNIE) had its role, composition and powers for developing policy guidelines and reviewing all new foreign investment applications revised in 1993 (Adams, 1997). The Foreign Investment Time Schedule went through up to January 2004 and considered three different stages to reach up to 100 % capital stock without the need to obtain a favourable decision from the commission.⁸ After the 1993 Foreign Investment Law modifications there have been some subsequent amendments in order to make Mexican law compatible with the North America Free Trade Agreement framework, as for instance seen in the 2001 modifications. These amendments allow foreign direct investment in most of Mexico's economic activities, though Canada and the United States are given preferential treatment (Dussel Peters, 2000).⁹

All the remaining activities restricted foreign investment to a limit of 49 % (Lustig, 1998; Adams, 1997).

⁷ Articles 5 and 6 of the 1993 Foreign Investment Law, respectively.

⁸ The first two stages were up to 49 % in capital stock ownership in a Mexican corporation by December 1995; and up to 51 % of capital stock of a domestic company by January 2001 (Adams, 1997).

⁹ Regarding the energy sector, there are two public enterprises considered strategic for the Mexican government: the exploration, extraction and refinement of crude oil and basic petrochemicals under *Petróleos Mexicanos*, better known as PEMEX, on the one hand; and the electricity sector under the CFE (Federal Electricity Commission Spanish acronym) on the other. These have been core actors in their respective subsectors. Since the sectors those enterprises are in have been classified as priority ones, constitutional reforms would be explicitly required if they are to change ownership status.

FISCAL REFORM: 'DECONCENTRATION' AND 'DECENTRALIZATION' EFFORTS

In addition to a more relaxed regulatory framework for foreign investment and land tenure as analyzed above, fiscal reform has been a core issue on the agenda. The Mexican tax reform has been viewed not only as a problem of economic efficiency, but it has also been presented as a commitment to social justice. The universal organizational membership of the State and its powers of compulsion can be used for redistributive purposes. Still, they do not necessarily point to a minimal role, but only to a more efficient one. Consequently, the pending task in Mexico represents an important challenge. Even though it may seem paradoxical at first glance, based on the fallacy of governments' inefficiency everywhere and at all time that liberalization, deregulation and privatization projects might all point to a diminished role for the State in economic activities, the picture in reality is a much more complex one.¹⁰ Indeed, reaching those objectives might be better achieved by implementing industrial policies, retaining control over some strategic sectors and broadening the tax income base, to mention only a few economic policy instruments. Given that neither the public nor the private sectors are failure-free, the features of universal membership with powers of compulsion characteristic of the State cannot be assumed by any other agency. No other collective agent, either public or private, has the capacity, representation and authority to become responsible for the collection of taxes and the implementation of redistributive policies, among other things. Monitoring production

¹⁰ Stiglitz identified four different public and private sector fallacies. The first one supposes that nationalized industries act in the public interest. The second one is that government is inefficient everywhere and at all times. The third one pays attention to control and planning, where limitations of information pose a constraint for controlling, monitoring and planning. The fourth one is the Coase fallacy which asserts that the government can do no better than the market; this is simply false. Hence, efficient market allocation cannot be obtained without government intervention (Stiglitz, 1989).

and consumption of economic activities, along with the fiduciary responsibility for raising revenues compulsorily, are tasks which weak or insufficiently funded governments cannot perform satisfactorily (Stiglitz, 1989, 1994 and 1998b). The latter option is not an alternative for the State to perform its economic, especially its redistributive role, either in a developed market, or in an emerging economy.

Regarding redistribution, the State is situated at a strategic crossroads where social, political and economic factors and agencies meet. The State powers of compulsion provide the capability to decide the amount and origin of resources, and also the beneficiaries of its redistributive policies. As the State is the main organization permitted to take away resources from individuals, it has the responsibility of making an adequate and transparent use of those resources. Governments' fiduciary responsibilities are, therefore, second to none, due to consequences for employment and expenditure which cannot be separated from taxation and redistribution policies (Stiglitz, 1989). The distributive consequences of public decisions would optimally be economically efficient and politically accountable. This criterion is also valid for the private sector as well, as it might help towards the provision of more accurate and reliable information, a public good and key input, which organizations and individuals alike need for efficient and effective decision-making.

On the one hand, the reforms of the tax system in Mexico aiming to increase efficiency and to modernise tax collection are oriented towards 'decentralization' and 'de-concentration'. A federal system in principle, however, is quite different in reality, where heavy centralization and the management of direct and indirect taxation are to be tackled on two fronts. According to the government, the first one aims at

establishing a real fiscal federalism with homogenised taxes across the country. A de facto heavily centralized system in a big country such as Mexico meant that an important number of local and State taxes were cancelled, increasing the dependence on central government tax shares. Associated problems of the reduction of tax rates and the reduction of the tax base, translated into a weakening of the capacity to collect tax, aggravated by a lack of incentives for local and State authorities to collect their own revenues. Modernization of the agency in charge of tax collection has been justified, for these reasons. Therefore, the Mexican challenges ahead on the revenue side are to match and foster the public capacity to satisfy the needs and demands of their constituencies (Moreno, 2001).¹¹ Furthermore, the ‘de-concentration’ and ‘decentralization’ of public expenditure are considered also as key components of the economic policies.

The achievement of goals such as a larger local financial autonomy, a larger institutional development, broader economic efficiency and the improvement of democratic governance represent the challenges ahead for public expenditure. The achievement of those goals faces grave risks that Mexican government officials need to avoid. The disruption or alteration of a relative State of macro-economic equilibrium is a major concern, as it would exacerbate regional differences. According to the government, avoidance of such scenarios and the reinforcement of institutional frameworks would help to deliver better and more efficient public goods and services (Moreno, 2001). Although a similar efficiency concern is supposed to

¹¹ In this sense, the devolution of tax faculties which would enhance fiscal responsibilities and institutional development, and the empowerment of local constituencies to demand the use of revenue according to local and State needs have been identified as important priorities (Moreno, 2001).

guide the provision of services; the emphasis has been mainly to rely on the private sector, as shown below.

DIVESTMENT OF GOVERNMENT OWNED ENTERPRISES

Most of the privatization initiatives undertaken since the 1980s rest on the intellectual positivist foundation of Friedman, and the US and the British antecedents of the 1980s, whose ideational traces continue to influence some other experiences nowadays.¹² It is important to recall that the generalizations of positivist closed systems and their predictive capacity allows them to claim universality.¹³ It comes as no surprise that, based on the US experience, judgments about privatization are presented as applicable to all cultures and socio-economic systems, regardless of the institutional means by which goods and services are supplied. The objective of each time relying gradually more on private delivery and less on government delivery for the satisfaction of the population's needs goes beyond justification in terms of purely economic efficiency. There is no doubt that the different methods of delegation, divestment and displacement for public and private partnership are emphatic political acts themselves.¹⁴ The role of government agencies throughout the privatization

¹² For an important analysis of that period in Great Britain see Hay, 1996, among others.

¹³ The ontology and epistemology of positivism are analysed in Chapter Three.

¹⁴ There are several different arrangements for providing public services in which government agencies, private actors, consumers and voluntary associations could participate as arrangers, producers and cost bearers (Savas, 2000). For instance, delegation from the government acts as the main arranger, while the private sector produces. Forms of delegation mainly include contracts, franchises, grants, vouchers and mandates. Regarding the divestment of public assets and enterprises, it could be done through sale, free transfer and liquidation. Sale is one of the main ways in which government transfers assets to the private sector and gets some revenue at the same time. It is therefore, a preferred method when the activity is economically profitable and the sector is a non-strategic one. The sale of public enterprises could be targeted to joint ventures, private buyers, the public, managers and employees, and even to a users' or customers' cooperative. The scope of the sale

process is fundamental for establishing the objectives, selecting the appropriate forms, enacting legal reforms, developing clear and transparent procedures and providing a suitable policy environment. Not only do they aim to strive for efficiency in the face of unresponsive bureaucracies, but also to apply market models for political and administrative relationships and for governing and managing public services as well (Savas, 2000).

It is important to make clear that the public sector in Mexico grew disproportionately during the 1970s and early 1980s. During the late 1970s alone, more than six hundred firms engrossed the public sector (Rogozinski, 1998). It is not the aim of this chapter, nor possible in the limited space to engage in a detailed account of the public sector history in Mexico.¹⁵ However, it must be highlighted that it was during the 1970s and up until the early 1980s that the number of government owned enterprises showed a fivefold increase to more than 1100 (Rogozinski, 1998). However, not all of them contributed in a decisive way towards the economic performance of the public sector. According to Rogozinski, the biggest share, especially of those which were incorporated into the Mexican public sector from the 1970s on, were unnecessary

may be partial or full, and the buyer could be domestic, foreign or even mixed. Finally, the main forms of displacement of public enterprises comprise default, withdrawal and deregulation (Savas, 2000).

¹⁵ Suffice it to say that since the first half of the 20th century five broad stages in the Mexican public sector can be identified. First, the setting and institutionalization of the legal and regulatory framework for economic activity after the revolutionary period saw a minimal number of government owned enterprises during the 1920s and 1930s. It is during those years that, consistent with the 1917 Constitutional mandate articles 27 and 28 acknowledge regulator and promoter roles for the State. It was also in this period that the Mexican central bank supplied its initial capital and a few national development banks were created. The next period, known as the import substitution Industrialization of the 1940s and mid 1950s, featured stable rates of growth. A similar situation characterized the stabilizing development epoch which followed. Even though during those two periods there was an increase in the number of public enterprises, the performance of the economy and the socio-political context were not hostile to it. (Rogozinski, 1998).

According to the structural change and punctuated evolution map of the Mexican State presented in Chapter One, all these stages except the contemporary one could be associated with an imperfect degree of protection from the market. Therefore, they can be located in the two bottom quadrants due to their decommodification patterns.

because some represented fiscal losses, and were therefore, eligible for being re-privatized after the 1980s.¹⁶ A point to note, however, is the fact that up to 1982 the criterion for an increasingly direct engagement of the government in the economic activity of rescuing firms with financial problems was a decommodification concern for preserving employment and thus preventing deterioration in income distribution.

Up to this point, the high priority of strategic sectors, such as oil, had not been seriously considered for sale or transfer to the private sector. Significantly, the resources obtained from privatization proceeds were to be deposited in a special fund for paying off public debt. The whole process was supervised by the Mexican Ministry of Finance.¹⁷ Since privatization revenues are a one-off, the main objective was public debt repayment, which would contribute towards the elimination of a major source of public deficit by liberating the public sector from excessive burden.

¹⁶ Sometimes although theoretical and analytical distinctions can be drawn on paper, when something is put into practice differences blur and the task becomes more complex than originally expected. The privatization of government-owned enterprises is a good example of this. While the fundamental goals of a programme of divestiture of public firms pursues are economic efficiency, equity and rent extraction, as viewed from a purely economic perspective, the socially embedded character of economic activities evidence that their social and political time and space context need also to be taken into account.

¹⁷ The sale and transfer of firms to the private sector observed compliance with the legal and regulatory framework, dominated by the 1917 Constitution and federal public administration and semi-official entities federal laws. Limits to the private sector participation are detailed in the Constitution's article 25. Additionally, article 28 lists the public sector strategic areas exclusive to the State, whereas article 134 points out the satisfaction of the minimum criteria which the divestiture process must follow, whereas, the Federal Law of the Federal Public Administration refers to the bankruptcy and liquidation of semi-official entities; while the legal conditions for mergers and transfers are in the Federal Law of Paraestatal Entities (Aspe Armella, 1993).

The privatization initiatives took macro-economic stability as a pre-requisite. Once a divestiture proposal was evaluated and the sales process were agreed to start, a sales agent needed to be appointed. Having selected a commercial bank for the financial valuation, the announcement and sale of the public enterprise in question proceeded; the sale mechanism could adopt different strategies depending on the characteristics and importance of the government owned firm. Smaller enterprises were first considered, following a legally coherent and consistent procedure, which was standardised afterwards. A profile and prospectus of the firms were first required. Once presented, the technical and financial valuation of the enterprises which had an objective of maximizing social welfare was followed by a pre-selection of buyers who considered their financial solvency and offered a price, experience in the sector and investment commitments. The coordination with complementary processes and the costs of implementation which included the bank's commercial commission and expenses were considered as

At this stage a resolution and legal authorization were needed for the closing of the sale. If positive, the signing of the sales, contract, divestiture and preparation of the 'white book' followed. The savings from decreased interest rates were used to increase non-inflationary social spending. Along with parallel strategies of trade and financial liberalization and deregulation, they were meant to make a positive impact on public finances, the balance of payments, financial system and public welfare overall, while enhancing a competitive economic environment boosting employment and productivity (Aspe Armella, 1993; Rogozinski, 1998).

Since the late 1980s the Mexican privatization programme has been aggressive in almost all economic sectors except the ones regarded as strategic in the 1917 Constitution, attracting local and foreign investors either for total or partial shares.¹⁸ For instance, the privatization of the main telephone carrier attracted particular interest at home and abroad, similar to that of the banking sector.¹⁹ Nevertheless, there have also been some significant difficulties with some of the privatization initiatives. Highways and the banks are among those which have aroused controversy. For the former, errors in the concession programme aggravated by the mid 1990s financial crisis led the government to rescue the investors. Much more seriously, the cost of the bailout of the banking sector, a moral hazard seriously exceeded the revenues of its sale a few years before, converting into public debt non-performing

well. Finally, the sale proceeds were to be deposited in a special fund -- Fondo de Contingencia Económica --, to repay public debt (Rogozinski, 1998).

¹⁸ Privatization of former Mexican government owned enterprises has been transacted in various sectors such as airlines, hotel, mining, chemicals, commerce, financial services, insurance, manufacturing, ship building, steel, sugar, textiles, agribusiness, fishing, forestry; shipping, telecommunications, transportation, banking, beverage production, bottling, energy, fertilizers, media, television, construction, building material, food processing, gas stations, tourism, services, warehouses, cargo and containers, ports, storage, railway, gas distribution, satellite systems, airports, etc (Investment Promotion Network, 2001).

¹⁹ Teléfonos de México is also well known by its Spanish acronym TELMEX.

loans, but also controversially rescuing solvent firms and individuals (Huerta González, 1998a; Székely, 1999).

TRADE LIBERALIZATION: THE BANNER OF ECONOMIC RESTRUCTURING

Having discussed the characteristics and context within which the divestiture of government owned enterprises in Mexico has taken place, I should now move to another significant aspect of the country's process of commodification. Trade liberalization has been a core component of Mexico's economic restructuring and stabilization strategy since the very beginning. The originally inward-looking economy was pushed towards a qualitative transformation aiming at more open conditions. A comprehensive elimination of non-tariff barriers preceded further reductions in the level and dispersion of tariffs. Becoming a member of the General Agreement of Tariffs and Trade (GATT), back in the mid 1980s, signalled the new outward orientation of the economy. It was also a step towards institutionalizing the initial unilateral moves favouring a shift from oil exports and agricultural commodities to the promotion of exportable manufactured goods. In order to reinforce the institutional character of the trade liberalization process, one strategy favoured by the Mexican government since the 1990s has been to seek membership and active participation in multilateral forums. They include the Free Trade Latin American Association (Spanish acronym ALADI), the Organization of Economic Cooperation and Development (OECD), the World Trade Organization (WTO), and the Asia Pacific Economic Cooperation (APEC), among others. Additionally, another strategy running parallel to the multilateral membership has been to sign free trade

agreements with the United States and Canada, various Latin American countries, the European Union, and the European Free Trade Association, among others.²⁰

The increasing volume and value of trade and investment flows, especially those from the United States, have permitted an expansion in the volume and value of exchanged goods and services among the North America Free Trade Agreement (NAFTA) members. Tendencies and economic patterns have strengthened economic practices in which manufacturing sectors of the Mexican economy are presented as beneficiaries of trade liberalization, for they have become second to none in production standards for some specific sectors. Aggregate figures of trade in goods and services since the liberalization strategy started to show a steady rise in the volume of exports, as the emphasis on an outward orientation of economic activities would favour. Nonetheless, the pursuance of trade liberalization and manufacturing integration has not delivered a balanced distribution of economic gains. On the contrary, it is discussed below that the export orientation and the strategies privileging inbound industries have contributed towards income concentration and rising polarization, weakening linkages between the domestic market and the export one, and making evident the importance of those features which institutions should have for equitable economic activities.

²⁰ Since the late 1990s free trade agreements have been reached with Bolivia starting from 1995, Chile since 1999, Costa Rica since 1995, the European Union since 2000, Nicaragua since 1998, the Northern Triangle of El Salvador, Honduras and Guatemala since 2001, the Group of Three comprising Colombia and Venezuela as well since 1995, the North America Free Trade Agreement with the United States and Canada since 1994, the European Free Trade Association since 2001, Israel since 2000, and Uruguay since 2004. Ratification by the Parliaments of Japan and Mexico is pending for their bilateral free trade agreement to take effect from 2005. Prospective agreements include among others an associate membership for MERCOSUR (Market of the South which comprises Argentina, Brazil, Uruguay, and Paraguay); whereas China and South Korea may also be considered in the future. The current negotiations for a Free Trade Area of the Americas (FTAA), which claims to bring free mobility of capital and goods, but limits that of labour was conceived as an initiative from the United States back in the 1994 Summit of the Americas. The negotiations have encountered difficulties to be surmounted if the FTAA is to be agreed by 2005, as is to be discussed in Chapter Eight of this thesis.

Traditionally, free trade agreements provide the framework for the free movement of capital and goods among members. Free labour mobility is normally excluded. Consistent with those theoretical considerations, NAFTA goes slightly beyond the traditional scope of a traditional free trade agreement because it also considers investment rules.²¹ Moreover, trade in financial services is granted National Treatment and Most Favoured Nation status, which aims for fair, equitable and non-discriminatory treatment.²² Parallel to those considerations, transfers, standards for expropriation and for compensation, and dispute settlement provisions are also taken into account. Nevertheless, NAFTA does not go far enough to allow for the free mobility of people. Even though there are two parallel accords on environmental and labour cooperation within the NAFTA text, there is no authorization for the free movement of labour between Canada, the US and Mexico. In practice, migratory restrictions aim to prevent a flow of unskilled migration into US territory, where a blind eye is, however, turned to the benefits that they deliver to its economy.

Even though the emphasis on institutions is quite evident in the negotiation of several trade agreements by the Mexican government, the main weight of Mexico's trade relations with the world is heavily concentrated within the North America Free Trade

²¹ NAFTA's Chapter Eleven considers investment provisions and Chapter Fourteen focuses on financial services.

²² Financial integration as a privately driven phenomenon has been considered a step towards the financial and monetary integration of the Americas, where the dominance of the US markets acts as a magnet for financial flows. However, there is an important differentiation between monetary and financial affairs which should not be overlooked. The decentralized nature of the financial sector and activities allows a range of different private actors to create and maintain them, albeit with a government regulatory and supervisory role. But the government is the principal actor and sole decision maker for monetary issues. For monetary integration government support is needed in order to move towards an integration stage. Those considerations are important since financial and monetary integration are expected to become central part of the economic agenda in the American continent in the future. Negotiations for a Free Trade Area of the Americas are currently under way, following the NAFTA narrow framework model, as argued in Chapter Eight, below.

Agreement, and especially with the United States. Consider for instance that 69 % of Mexican exports went to the US in 1990, rose by 85 % in 1994 the year NAFTA entered into force, and went up to 89 % in 2000, manifesting a very heavy concentration. Similarly, the biggest share of imported goods comes from the US. They were 62 % of the total in 1990, reached 72 % in 1994, and increased to 74 % in 2000. Paralleling those trends during the last decade, imports from Asian countries and the European Union have steadily grown (INEGI, 2002).

Since the reach and scope of those institutional moves go beyond national boundaries, Chapter Seven of this thesis pays particular attention to the international, multilateral and global contexts in which Mexico, as a collective agent, is situated. Suffice it to say that the Mexican trade liberalization experience, along with its financial liberalization, privatization and deregulation could be considered different facets of the commodification process, as its emphasis is placed on economic motives, rather than welfare concerns. This is what I show in the remaining sections of this chapter.

WEAK ENDOGENOUS INSTITUTIONAL LINKS: DESTRUCTIVE RATHER THAN CREATIVE

At this point it is important to recall that the institutional links are important reference frameworks for the situated agents in context. As discussed in Chapter Three, economic actors such as firms are no exception because they work within formal and informal institutions. The variety of institutions and the different ways in which they can be coordinated have been used to suggest that the economic performance of the

economies and the prosperity of nations is built based on institutional differences, since one of the aspects which affects firms' efficiency is the institutional coordination to which they are subject (Hall and Soskice, 2001).²³ Important as those considerations are, however, they leave something crucial. The profiles of the firms are as important as the character of the institutional framework. For, if we are restoring agency to the processes that appear to be irresistible, we cannot afford to leave features of the actors unexamined. The role and characteristics of the agents, economic firms in this case, do not contradict, or are opposed in any sense, to the features of the structures, and the institutional framework. I argue throughout this thesis, consistent with the Strategic Relational Approach, that agents have the power and capability to influence and contribute towards shaping the processes in which they take part. Therefore, the orientation and profile of the firms also influence the characteristics of the structures they are in contact with.

It is argued throughout this thesis that the importance of institutions for making explicit what 'the rules of the game' are, functions as one of the crucial elements which contribute towards shaping the context for agents. It has already been discussed in the preceding chapter that Hall and Soskice even suggest that the institutional framework provides economies with comparative advantages which may become a determinant of their prosperity (2001). It is also discussed that emphasis should be on the institutional link between the immaterial character of projects, goals and ideas, on the one hand, and the stability of the economic, political and social conditions, on the

²³ Hall and Soskice made a broad differentiation between liberal (Anglo-Saxon) economies and coordinated ones. According to their perspective, the former are more conducive for firms to engage in radical innovations because firms are situated and respond to a competitive market arrangement, whereas firms in the coordinated economies, referring to European and Japanese models, tend to rely more on non-market mechanisms, and their patterns of innovation tend to be more incremental (2001).

other, as the formal and informal rules in society which shape human interaction (North, 1990a).

However, because the Strategic Relational Approach, based on realist ontological and epistemological positions, enables us to explore the articulation between actors, contexts and actions, the analysis presented here differs from neoclassical economic orthodoxy which tends to de-contextualise economic phenomena. My analysis shows that institutions per se do not guarantee any success or automatically trigger any particular achievement. Weak institutional links, or a poor orientation of the efforts and strategies, may cause harm, which is not necessarily limited to economic losses or externalities. The impact of such poor orientation, and of weak links in spheres other than economic, is often unacknowledged.

I contend here that it is not enough to stress the institutionalization of economic restructuring, but that a careful evaluation is needed. The commodification process under way in Mexico does not follow an economic trend alone; it is also, in its own right, a strong political process, and as such, open ended, contested and contingent. Moreover, it is not by any means a terminal stage, but a phase in the historical transition of that country.

Since all economic activities are socially embedded (cf. Schumpeter, 1934, and 1954; Polanyi, 1957, 1992, 1996; Granovetter, 1996a, 1996b, and 1994), I go beyond regularities to illustrate a different picture which comprises not only economic gains and costs, but also some of the causal elements and interactions otherwise invisible. This section explores the weak institutional links; the lack of cluster connections

among economic activities oriented towards both the domestic market and the external market; the polarization and widening income distribution gap in Mexico; the poor features of innovation which tend to relegate the Mexican economy's insertion into niches in the world market; the costly social legacy of the economy which is intertwined and interwoven with the import-prone export-oriented industrialization; and liberalization and deregulation processes. At this point it is important to stress the fact that there is no necessary trade-off between economic performance and inequality. Though there can be one in some circumstances, the point is that there need not be one. Equitable growth is possible if attention is given to a proper balance of economic and social policies.

One of the major problems of the Mexican industrialization experience which is also found in some other Latin American economies has been the aiming at and maintaining positive rates of economic growth at the expense of redistribution and equity. It is not the argument that the export oriented industrial model is the only factor responsible for unevenness and polarization, but that it certainly has not made any contribution towards the improvement of those pressing issues, as palliative programmes do not address the causes of inequality. It is true that the origins of the poor income distribution in that country in particular, and the region in general, have historical antecedents. However, the current implementation of economic strategies which accounts for the commodification experience has pushed further the accentuation of the patterns of decreased protection from the market. The emphasis has been placed on a socially disembedded expansion of markets and exchange transactions.

The search for economic efficiency, based on a platform of sound economic fundamentals, from which growth and economic benefits would trickle down has not delivered as expected. It never does. Patterns of unemployment, the precarious financial situation, indebtedness, the low rate of non-speculative investment, technical obsolescence and weak support for technological research and development have contributed towards further weakening of the industrial sectors (Fajnzylber, 1990). Given that the industrial sectors are crucial for the outward orientation of economic activities, it is striking that so little attention has been paid to the quality of the industrial insertion and its linkages. A broad picture of the industrial activities portrays poor innovation features in most of the sectors; although there are some that perform above average, even using state of the art innovation. However, they tend to be more the exception than the rule. Chapter Three suggests that innovation in economic activities is vital for keeping the economic processes in being. Along with crisis, innovation forms part of a dynamic pattern of renovation which not only adapts, but is capable of influencing the depth and pace of ongoing changes, as it contributes towards revolutionizing the socially embedded economic structures from within, destroying the old and creating new ones (Schumpeter, 1954).

The Mexican experience during the last two decades has put heavy emphasis on stability as a precondition for reactivating economic growth. It is undeniable that the whole economic restructuring experience of the country has taken as a guideline the goal of growth and the promotion of stability. Even though there have been some results, they are by no means impressive, especially at the micro and disaggregate level. A big share of the population has found its living standards to have deteriorated overall during the last two decades, especially if compared to the conditions prevalent

up to the late 1970s and early 1980s (Székely, 1998; Kelly, 1999; Damián, 2000). Clearly, both domestic and international conditions have changed much since then, as compared to what they were at the dawn of the 21st century, and it is not my purpose to review them. The reactivation of the business level and the reorientation of the productive activity followed an orthodox neoclassical rationale which ignored more inclusive social and political considerations.

What I am arguing, however, is that making use of the Strategic Relational Approach suggests that the same importance has not been granted to innovative inputs and combinations in economic activities and the promotion of cyclical fluctuations. These fluctuations, in turn, if properly conducted, could promote a more equitable distribution of benefits and welfare. The focus on manufacturing has been on relatively mature industries, such as automobiles and electronics; while the insertion has not been where most of the added value of the processes is, but on non key stages such as assembling (Dussel Peters, 1997 and 2000). Sadly, innovation is not one of the main features of the Mexican manufacturing sector, as a big share of it is low in added value. Similarly, the articulation between industry with a base in natural resources and service industry cannot be characterized as optimal, either. It also appears that the designing of strategies and policies, and the strengthening of institutions face important challenges ahead. What I find disquieting is that the reproduction of institutions and features of the model which have been weak in delivering growth, and much worse for the promotion of equity, are inclined to engage in a path-dependent pattern which present no alternatives beyond further commodification.

Clearly, this is far from an optimal stage, as it would make the cyclical fluctuation increasingly critical. Decisive steps towards promotion of equity are necessary, as they would bring about decommodification. In so doing, political will and a clear identification of the economic sectors and activities which can be targeted as beneficiaries of specific government programmes are vital components if a qualitative change is to be achieved. A qualitative transformation aiming for greater equity needs leadership in the design and implementation of public policies which touch upon and affect consumption and investment patterns. Enhancing the international competitiveness of the industrial system cannot be left to the invisible, or more precisely, the inexistent hand of the economy, as attention needs to be paid to the natural resources endowments, agriculture, the demographic trends, the domestic entrepreneurial capacity, portfolios and foreign direct investment, to mention only the most obvious areas (Fajnzylber, 1990). The restructuring of the economy, if equity is to be delivered, gives the State important functions to play in complementing market mechanisms. It is not my argument that the State does need to be the main economic actor; however, I contend that, due to its centrality, the State is best placed to attenuate and correct market failures. Furthermore, markets similarly compensate for and address public failures via increased economic efficiency.

The State can promote innovation not only by allocating resources to research and development, which are undeniably important, but also by promoting stronger and more integrated forward and backward links in the economic chains. The more coherently planned and implemented these are, the better. This is of crucial importance in a country where the outward orientation of the economic activities has been inattentive to the socially embedded features of the model. As part of the process

of ‘creative destruction’, innovation in economic activities has been acknowledged as key for reaching a more evenly developed condition. Innovation in economic activities is associated with the degree of technological knowledge in the productive activities. Therefore, the attention paid to technological issues is a core factor for the economic performance and progress of an economy (Fajnzylber, 1990).²⁴ Technological knowledge not only helps productivity to surge, but also could favour growth, improve living conditions and infrastructure, and enhance an equitable distribution of benefits. Thus, the absorption, development, incorporation and innovation of technology is one of the core variables that the industrial policy of a State needs to pay attention to. The absorption, incorporation and spread of technological innovations in economic activities helps to push economic processes and activities a few steps forward from the mining and exploitation of natural resources, either perishable or non-perishable, which lead to non-renewable income, especially in the medium and long term. The difficulty lies in the fact that to absorb, innovate, incorporate and innovate in technology are not easy tasks at all. Although the technological frontiers move quite fast, and increase the difficulty of catching up with the latest developments, let alone leading the dynamics, the incentives to innovate lie in the fact that income from more technologically advanced sectors and progress tends to be better rewarded (Cimoli, 2000). The gains however, must not be concentrated in a few hands, because that would take us back to a vicious circle of polarization and pauperism. Thus, there is a task and a rationale for the State to design and put into practice industrial policies which compensate for the heavy reliance on

²⁴ Even though there is an agreement on the importance of technological progress, it is striking how little, if any, attention neoclassical economic orthodoxy has paid to it. Economists trained under positivism frameworks tend to be more concerned with short-term equilibriums at an aggregate level where the specificities of the sectors housing technological progress is ignored, than with the reach and spread of their benefits (Fajnzylber, 1990).

foreign markets. The challenge of industrial restructuring is to reinvigorate the domestic markets at the same time as gaining a better position abroad.

True, this is easier said than done, but sketching a very detailed strategy goes beyond the scope of this thesis. However, Fajnzylber has pointed to the identification of specific subsectors which have more reach, spread and impact in the productive sector as a whole. Those which are more integrated into the whole economy and which feature more backward and forward linkages for incorporating and disseminating technological progress must be considered as candidates (1990). One of the shifts in priorities which cannot be postponed in Mexico is to move away from a 'maquiladora' assembly enclave to a more dynamic and better integrated economy. The importance of this lies in the facilitation for promoting the insertion of those sectors which have enhanced productive and competitive specific features into the international economy. Nevertheless, the institutional framework plays a very important part in providing an adequate environment conducive to strategic cooperation between the public and the private sector, without leaving aside interests of labour (Fajnzylber, 1990). In other words, for the Mexican case it would mean abandoning the low cost labour strategy and re-orientating efforts towards enhancing the quality of educational, medical and welfare resources provided throughout the country.

Important as all these considerations are, they would make no sense if the emphasis is merely concentrated on a narrow economic agenda. For the historical, social, political and cultural processes all interact with each other. It is crucial to recognise that the open nature of social systems and the identification of contingent causal relations,

rather than formal associations, permits the Strategic Relational Approach to broaden the analytical scope and to formulate informed critiques of the phenomena under scrutiny. The commodification emphasis of the current process in Mexico has many different facets, but it does not by any means lack a political character. If the concern for equity is to be convincingly approached and tackled, granting protection from the market to the labour sector is an additional step towards abandoning the commodification process. The promotion and delivery of equity needs adequate welfare levels, and it is again the State, via public policies and instruments, which is the best situated agency to attend to this issue.

However, this capacity of the State to transform the function of industrial and trade policies is a resource which can be used in several different ways. For instance, due to the heavy concentration of power on the executive, it was used by the Mexican government during the 1980s and early 1990s to present vertical economic pacts which allowed unilateral and fast liberalization aiming to benefit the private export oriented sectors. Since there was no effective counterweight in the Congress legal reforms, they posed no obstacle. Furthermore, the implementation of specific programmes targeting outwardly oriented enterprises was put into practice without paying adequate attention to the economic linkages and broader social context within which the economic actors were situated.²⁵ Special manufacturing enclaves on the one hand, and the agricultural sector, on the other, have faced such situations as are studied below.

²⁵ Examples of these include programmes openly tending to favour temporal imports over the production of export goods (Programa de importación temporal para producir artículos de exportación,

CRUDEST COMMODIFICATION FOR AGRICULTURE AND INBOUND INDUSTRIES

In Mexico there is a deep need to reverse the unsustainable use and deterioration of natural resources including water, land, forests and air. The challenge of first halting and then reverting deforestation, soil erosion, urban air pollution and surface and underground water contamination trends are enormous, as they all betray the pernicious effects of commodification.²⁶ On top of those environmental concerns, and situated within the contemporary socially embedded processes, in historical terms not only has the agricultural sector of Mexico been neglected, but also its political importance has been downgraded. At the same time that the economy changed from a main producer of raw materials and commodities, to manufacturing goods and services, the process was accompanied by a demographic transition from a rural to an urban country (Reynolds, 1970). Needless to say, the political importance of the peasant sector varied as well. As has been discussed in Chapter One, Mexican corporatism worked as a strategy of political engagement and control of social groups, where the peasantry over the years received less attention while economic

Spanish acronym PITEX); maquila exports; and highly exporting firms (Programa de empresas altamente exportadoras, Spanish acronym ALTEX). (Dussel Peters, 2000).

²⁶ Mexican environmental priorities include, amongst others: a) reversion of deforestation; b) stopping practices which erode the soils; c) sustainability in water use, reduction of water contamination and an increase in the supply of potable water; d) adequate management of solid waste; e) extension of wastewater collection and treatment systems; f) improving the capacity to manage and dispose of hazardous waste; and g) to slowing down the loss of biodiversity (Gilbreath, 2003).

These broad objectives have historically been approached with different strategies and, therefore, the results obtained so far vary. Consider for instance that the Mexican government aims to achieve a sustainable use of water resources. This goal, in turn, is translated into the design of strategies seeking to make a more efficient use of agricultural irrigation and urban supply (Comisión Nacional del Agua, 2001). For such case, a policy of multiple and successive uses of water implies, amongst other factors, the agricultural and industrial reuse of waste water. In doing so, it liberates underground water supplied by a complex of pumping stations to the main cities and areas where the population is

resources from agriculture contributed to finance the import substitution industrialization model (Reynolds, 1970; Hansen, 1971).

As has been argued above, the reforms entailed in article 27 of the 1917 Constitution became some of the drastic reforms carried out in the rural economy, eliminating the 'ejido' or communal land. It meant that the special treatment which had been given to land was changed to allow for ownership and not mere exploitation as had been the case. Additionally, the trade in agricultural commodities was liberalized, and price interventions were eliminated. In 1995 a programme of land titling complemented the constitutional reforms of three years before (Giugale, Lafourcade and Nguyen, 2001). The organizations and institutions which had previously supported the agricultural sector were privatized, reduced or eliminated, leaving agriculture in an institutional vacuum without any protection from the market. This is of utmost importance since the Mexican government has historically provided support to the agricultural sector; the withdrawal of its protecting mechanism, notably particular subsidies and public investment, severely affected small farmers and peasants, who relied on them for their survival.²⁷ Therefore, it is the rural areas where poverty is not only most acute, but also has intensified parallel to the process of economic restructuring, as one fifth of the population belongs to the worst-off deciles (Kelly, 1999).

The World Bank reports that during the 1990s a contrasting phenomenon with indexes of inequality was observed. The national Gini coefficient for income was 53 in 1992, 54 in 2000 and 51 in 2002. The indicators for expenditure were 51 in 1992,

concentrated; while at the same time, it addresses the problem of tapping hydrological underground sources to satisfy the demand of a growing population (Cuadra Moreno, 1981).

52 in 2000, and 50 in 2002. However, this was not by any means a uniform trend. The pattern described by urban areas was similar to the national tendency, whereas in the countryside, where an important share of the indigenous population lives, inequality has increased. Specifically, in the rural areas, Gini coefficients for income rose from 47 in 1992 to 53 in 2000, and went down to 49 in 2002. Regarding rural expenditure, Gini coefficients rose from 41 to 56 and decreased to 48 during the same years (World Bank, 2004).

Nevertheless, following the broad pattern of the government's dismantling the protection from the markets, some agency initiatives have tried to build or restore regulatory frameworks, as a response to the abrupt removal of legislation, organization and institutions. Even though those subnational efforts are not centrally coordinated they provide evidence of the extreme importance which agencies play in the pushing and promotion of decommodification initiatives, on the lines originally suggested by Polanyi.²⁸

Although for some years during the import substitution industrialization period the agricultural sector contributed towards the financing of the model, by the 1980s and 1990s stagnated rates of growth and lack of competitiveness were to be blamed for the increase in rural poverty and for its small contribution to the Mexican Gross Domestic Product. According to the North America Free Trade Agreement schedule, open competition of this sector with Canada and the United States is due in 2008.

²⁷ The World Bank's view portrays the unsustainable subsidies which led to dependency in the ejido sector (Giugale, Lafourade, and Nguyen, 2001).

²⁸ For a compelling argument paying particular attention to coffee, one of Mexico's most important agricultural exports, see Snyder, 2001.

However, the US shows no signs of eliminating its controversial farm subsidies in the foreseeable future.²⁹

During the 1980s, in the aftermath of the debt crisis, the reactivation of economic activities proved critical, as external financing sources were no longer available. Therefore, the original orthodox structural adjustment programme was abandoned and replaced with a heterodox package during the second half of the 1980s (Minushkin, 2001a, and 2002; Ramos de Villarreal and Villarreal, 2000). The manufacturing sector was selected as a viable alternative to diversify the economic profile of the

²⁹ Inconsistent with what it preaches to the world, the United States agricultural subsidies and policies have systematically protected their farmers from international competition at bilateral and multilateral levels. The elimination of agricultural subsidies and tariffs which the US government obliges trading partners to pursue is not matched by their own actions. The country's agriculture subsidies affect not only export oriented agribusiness but also inwardly oriented small farmers abroad. Consider for instance that the plummeting prices of some agricultural commodities such as corn have helped to increase rural misery in Mexico. Without any significant protective net in Mexico, unfair competition from their counterparts on the other side of the border puts the small, poor and worst-off out of the business; while the subsidies for farmers from the United States, allow them to sell their commodities at prices far below what they cost to produce.

Furthermore, the use of genetically modified crops critically threatens biodiversity. Such is the case of maize which has been imported from the United States without any regulation, and without any labelling requirements warning of its altered conditions. Not only is maize one of the most important crops in the world, but Mexico is the place where it originated and where its enormous diversity comes from. Genetically modified grains must not be used as seeds as they contaminate, in this particular case, the very center of origin of a crop with huge importance for world supply. The genetic contamination of Mexican maize risks environmental and health effects, neither have been seriously evaluated. Crucially, maize represents not only a food source, but it is a vital part of the Mexican cultural heritage.

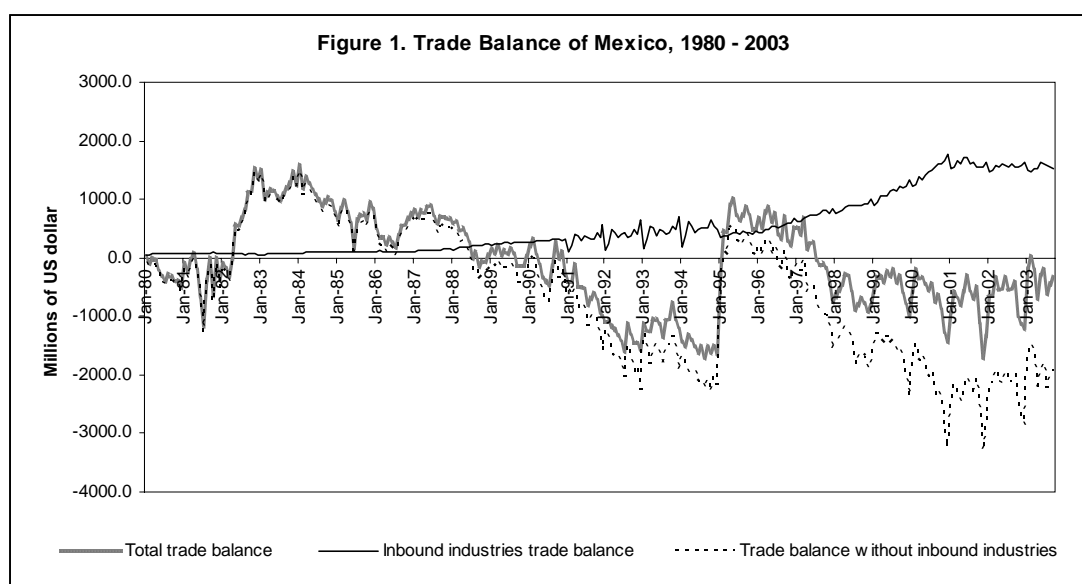
Wealthier nations have been undermining agriculture in the poor and developing countries by their discretionary use of tariffs, export subsidies and direct farm subsidies. The European Union is not exempt from controversy either, as its Common Agricultural Policy seizes an important share of the common budget. Even though both actors, the European Union and the United States, have accused each other of unfair trading in multilateral negotiations such as the General Agreement on Tariffs and Trade (GATT), and the World Trade Organization (WTO), the main losers are neither the EU nor the US, but the developing economies whose agricultural commodities are systematically either denied access or given restricted access to those markets.

The United States' agricultural subsidies only benefit their farmers; whereas the Common Agricultural Policy of the European Union guarantees a level of protection to the farmers of all EU members. Ever since the very beginning both policies were conceived to guarantee a food supply for the population on one hand, and farming income on the other; while allowing the export of surpluses. It is this scheme in conjunction with the restricted access to the protected agricultural sectors for developing countries, which has remained a problem, as neither the US, nor the EU make any substantial concessions in it. Since a free trade area coverage is not as comprehensive as an economic union, and members set their own tariffs, in some cases an individual decision may cause economic injury to another. Furthermore, dumping or countervailing duty panels might be set in specific cases.

country, then heavily dependent on oil exports and some raw materials. Foreign direct investment flows privileged inbound industries, also known as ‘maquiladoras’, as the government provided incentives such as tax exemptions, which were accompanied with the availability of low cost labour along the border with the United States.³⁰ The spread of those foreign enclaves in the Mexican territory which import parts and supplies duty free into Mexico and export their production, largely to its northern neighbour, has been the target of serious criticism (Calva, 2000; Dussel Peters, 2000; Villarreal 1990).

Although the inbound industries were allegedly conceived as an option for remedying the lack of external links with the foreign markets, associated with the import substitution industrialization the result went too far in the opposite direction. It is no secret that those assembly plants are not properly integrated into the domestic industrial structure of Mexico. They have benefited from low cost labour, fiscal special treatment, and a relaxed enforcement of environmental regulations, among other things; making use of scarce domestic inputs, representing neither a solution for the rising employment demand, nor for technological transfer. Even though the zero tariff put into place with the North America Free Trade Agreement would formally account for abolishing the inbound industries regime, in reality the model has become institutionalized as Figure 4.1 below shows.

³⁰ Such a scheme however, was not new by any means. Although it had originated in the mid 1960s, the proliferation of plants in various manufacturing categories made the inbound industries one of the most important sectors in the export oriented industrialization strategy to be promoted during the last two decades.



Source: Figure based on Mexican central bank data. November 2003.
<http://www.banxico.org.mx/siteBanxicoINGLES/eInfoFinanciera/FSinfoFinanciera.html>

Because the incentives of low wages, adequate infrastructure and political stability for a broad range of labour intensive assembly industries act as key incentives, the attraction of a comparative advantage based on cheaper costs remains.³¹ Examples range from garments and textiles, to automotive, computer and electronic products. Therefore, the main features of the inbound industries have not become an anachronism. Instead, they have spread beyond the border export promotion zones, into other areas of Mexican territory. The problem for low skilled and labour intensive mature industrial sectors based heavily on low cost labour is that such a comparative advantage can be easily eroded. It is no secret that many countries make use of such an economic strategy to attract foreign investment; the portrayal of a race

³¹ From the United States position, tariff provisions 806 and 807 allowed its firms to receive duty-free inputs from the US, and by those means to cover only the Mexican value added tax share (Gereffi, 1996).

Cheaper 'maquiladora' competition from some other countries does not have the preferential access which NAFTA provides to the United States as the biggest domestic market in the world. However, there is no guarantee that this situation will continue.

to the bottom is apt.³² Furthermore, the neglect of the domestic market, while favouring the externally oriented firms and sectors, has severely impaired the endogenous capacity to deliver growth with equity for a very important share of the population, as the Strategic Relational Approach shows in the next part of this chapter.

MEXICAN OUTWARD ECONOMIC ORIENTATION AT THE EXPENSE OF THE DOMESTIC MARKET

The features and profile of the manufacturing sector that has been promoted since the early 1980s in Mexico is built on the foundations of the import substitution industrialization period, and the creation of export promotion zones for inbound industries.³³ Since different profiles can be found in the firms working in these sectors, it is a task beyond my reach to engage in a detailed discussion of the history and characteristics of Mexico's manufacturing firms.³⁴ For the purposes of my

³² Although it is only one of the criteria used by investors, consider for instance, that in low skilled and labour-intensive industries, countries such as China attract a growing share of foreign investment. It has been highlighted that due to its oversupply of workers, the labour cost is just a fraction of other economies such as Mexico.

³³ It is important to mention that different stages have been identified in the process of import substitution industrialization in Mexico. The first phase, or effective stage, lasted from the late 1920s until the early 1970s. Villarreal reports dropping import substitution indexes for consumer, intermediate and capital goods in the first stage. This initial phase was followed by a stagnating one during the 1970s, when especially during the second half of the decade, the initial trend no longer followed a downward pattern, but instead showed a rise in the index for all total manufactured goods. This phase is associated with oil mono-exports without deindustrialization. Finally, the last stage could be characterized as apparent or recessive, as it showed a stop-go pattern for the import substitution index during the 1980s (Villarreal, 1990).

³⁴ Consider for instance, that the automobiles and autoparts branches are led by transnational companies such as Ford, Chrysler, General Motors, Volkswagen and Nissan, and a further of handful automotive firms since the late 1990s. There is a similar situation in the electronics subsector, where Philips, Daewoo, Acer, IBM, etc., dominate. Oil and petrochemicals present a very different profile since Petróleos Mexicanos, (PEMEX) is a State monopoly whose revenues are one of the most important income sources for the government. Domestic oligopolies such as Femsa and Modelo participate in a leading position in the beverage and brewery sectors respectively; whereas Vitro

analysis, helped by the Strategic Relational Approach to identify unobservables, I pay attention to the causal relations of the import prone export oriented industrialization and focus on some important characteristics of the firms. Even though it is not clear that the emphasis on export promotion, and liberalization of trade and investment could generate, at best, proper and sufficient conditions for growth and development, the efforts of the Mexican government have been oriented in this direction.

The main focus of the liberalization, privatization and deregulation economic strategies targeted specific variables, such as the rate of inflation, control of fiscal deficits and attraction of foreign investment. Judged with the benefit of hindsight it can be said that the implementation of economic strategies aimed at those goals has been relatively successful in its own terms. During the last twenty years in Mexico a broad and aggregate picture of those variables has been closely monitored. Moreover, their performance has even been presented as an outstanding achievement of the government commitment to keep the orientation of the economic policies pointing in the same direction as they have been oriented so far. For a few years the levels of inflation which once reached three digits has been kept to one-digit levels, almost matching international standards, especially that of the main economic partner, which is the United States of America. Similarly, the levels of fiscal deficit have been reduced and kept, within certain margins, under control. The reduction in the levels of government expenditure has been consistent with the narrow stated objectives. Finally, the attraction of foreign investment has remained one of the top tasks ever

operates in the glass and derivatives branches. Micro, small and medium size enterprises also play a part in a range of different sectors. Capital and technology intensive goods tend to be concentrated, albeit non-exclusively, with big firms (Dussel Peters, 1997 and 2000). For non-manufacturing sectors, the profile of the companies is also mixed with a handful of conglomerates leading their respective branches.

since the process of economic restructuring started. Furthermore, the amount of flows, both portfolio and direct, which have been pouring into the economy, especially since the opening of the North America Free Trade Agreement, provide evidence of Mexico's coherence and consistency. Since the early 1980s, a group of technocrats has been responsible, yet unaccountable, for keeping the main economic orientation and goals unchanged, despite major shocks, such as the financial mismanagement crisis suffered during the mid 1990s.

Unfortunately, a blind eye has been turned to the costs and omissions of the emphasis in the economic model and the selected strategies and mechanisms. The modest success of the outward orientation of the economy for promoting exports is seen as less impressive from any other perspective than a narrow and aggregate one. Moving away from positivist assumptions and claims is essential if a more balanced, realistic and critical view is, hence, a prerequisite for analyzing multifaceted phenomena. This is exactly what the Strategic Relational Approach allows us to do, as will be clear below. Keeping the rate of inflation low, controlling the fiscal deficit, and attracting foreign investment flows, targets reactivating rates of economic growth, leaving aside equity concerns and redistribution. Either the neglect or the oversight of the domestic market and of the variables directed towards social sectors, have relegated these in the economic agenda, and hardly any attention is given to them. For the latter, employment, domestic demand, wages, the labour market, and savings only fit the model when considered as variables which may impact adversely upon the inflation rates. They are, however, important and related to the reactivation of the domestic market, which has suffered as one of the crucial factors omitted in strategies to promote external resources at the expense of domestic ones. There need not

necessarily be a contradiction, nor a trade off, since the promotion of economic growth in a more equitable way will consider domestic conditions (Romer, 1986 and 1990).³⁵

Since equity and redistribution cannot be left to the imperfect and incomplete market domain, because it tends to concentrate wealth, the results of such actions have been high social costs, welfare reduction and an increase in poverty. The importance of this cannot be overstated, for material conditions such as health provision and ideational ones such as education and training are key components for forming and strengthening human capital formation. In other words, labour's skills and education could be used and oriented towards the acquisition, absorption and innovation of technological advances in a range of economic activities, such as manufacturing. In this sense, Romer, among others, has pointed out that aiming for growth requires large stocks of human capital (1990). No wonder the most important asset for an economy are the profiles and qualifications of its population. Furthermore, it is also crucial for attracting Foreign Direct Investment flows. It is precisely regarding these pressing issues that the role which must be played by State policies in facilitating the generation of endogenous growth conditions cannot be rivalled by any other agency. The problem lies in the proper articulation of the policies and strategies which will foster rates of economic growth with a more equitable face. Since focusing only on the attraction of investment, or promoting any given profile of labour, is never a

³⁵ Taking technological innovation as a core part of his model, Romer suggests that endogenous changes in technology provide incentives for continued capital accumulation and long-term growth (1986 and 1990). For him, the qualifications and skills of the labour force would facilitate the use of technology as a vital factor for fostering economic growth. The qualitative features of the labour force, or making use of economists' jargon, human capital are important as they cannot be replaced by simply aggregating big numbers of people. The process must not be undertaken in isolation. On the contrary, he suggests that integration with the world markets would contribute towards reaching growth goals (Romer, 1990).

necessary, nor a sufficient condition for reaching that aim, the real challenge lies in the articulation of the linkages of economic activities. The difficulty of achieving a balanced emphasis on the complete chain of products and services is something which needs to be overcome. If the domestic market is to be reinvigorated, the economic links need to be integrated so as to recreate the dynamics domestically adding value to the process (Dussel Peters, 2000). Hence, the integration of economic links encompasses the whole process from the original inputs up to the final marketing and consumption, together with the impact on production, employment, wages, technology creation, and learning processes, among others.

It is important to stress emphatically at this point that the promotion of the domestic market and attention to endogenous conditions are by no means contradictory or opposed to international and transnational links, relations, compromises, commitments and flows. I am not proposing to subject the latter to the former at all. What I argue, using the Strategic Relational Approach is the need to reassess and re-evaluate politically, socially and economically the role, participation and integration of the commodification experience in Mexico. This is because there is a strong need for a set of strategies which deliver better and more balanced living conditions for the society as a whole. Concern over the rising levels of inequality and concentration of wealth and income does not come out of the blue. Since the 1980s different programmes aimed to target specific sectors have worked as palliatives. Furthermore, they have been used as political instruments, leaving the roots of the problems unaltered. During the last two decades, administrations have come and gone, without any substantial and serious commitment to combating the factors that affect the growing polarization, and widening of the gap between the better-off and the worse-

off (Székely, 1998; Kelly, 1999; Damián, 2001). Needless to say, this is a great deficiency of the economic restructuring which has even been praised beyond the country's borders. Adopting a middle to long-term perspective, the re-evaluation of the economic guidelines which have led the outwardly oriented economic model would take the form of a more inclusive socially oriented agenda. For this to happen, the recognition that economic activities are socially embedded remains crucial, as is the acknowledgement of its contingent and open ended character.

Reinvigorating the domestic market, and facilitating the conditions for endogenous development is, therefore, necessary to provide an economy with a more balanced profile in Mexico. There is a need to generate economic incentives for the absorption of and innovation in technology, while strengthening the relevance of highly skilled and efficient labour within the economic activities (Dussel Peters, 1997). The links of the productive processes, on the one hand, and the formal and informal institutions, on the other, together with the domestic and international sectors and markets are crucial for articulating networks which would deliver a more equitable outcome in the long term. Additionally, paying more attention to the endogenous features of economic activities and sectors could help to provide a more diversified character to the economy. This might reduce or avoid entirely a heavy dependence on specific markets or sectors. Having highlighted the low priority which the domestic market in Mexico has been given, a trap where endogenous equitable growth conditions are increasingly difficult to promote, I now need to turn to some of the countertendencies and contradictions which operate within the outward oriented economic model.

ENEMIES WITHIN THE MODEL: DISENTANGLING THE EXTERNALLY ORIENTED GROWTH AND DOMESTIC INEQUALITY DICHOTOMY

The emphasis on manufacturing and the structural change undertaken in the Mexican economy are far from ideal as a closer examination makes evident. Leaving inbound industries aside, it is important to analyse, evaluate and challenge the conventional wisdom of the outwardly oriented economic model. Note that it is somehow misleading to talk about the manufacturing sector exports in general, because in reality only a few sectors and firms are responsible for much of the volume and value of the exports. Not all of the manufacturing sectors are high exporters. Moreover, for those who are, there is a tendency towards concentration, with polarizing effects on employment and wages. Of special concern is a pattern of weakening and losing backward productive links with the endogenous market. Not only are the high export sectors and firms having a poor level of integration with the domestic economy, but also they make no contribution or have no spillover effects on economic growth, technological innovation, employment, and know-how (Dussel Peters, 1997). It is also important to bear in mind that the increase in growth since the trade liberalization programmes started and the rise in manufacturing exports, especially to the United States, have a big intra-industry trade component in sectors such as the automobile, spare parts and petrochemicals, which are amongst the most dynamic. Since the biggest share of labour is concentrated in the micro, small and medium firms, their disarticulation with the most dynamic ones spreads very few, if any, gains to a broader social base. The lack of links with big firms shows no association between exports with rising employment and growing Gross Domestic Product (Dussel Peters, 1997 and 2000).

The increasing levels of polarization between the export oriented branches and companies on one hand, and the domestic oriented firms and sectors on the other, distance themselves from each other, as the widening gap between domestic demand and export performance indicates. For instance, Dussel Peters reports a heavy concentration of Mexican exports by a small, albeit highly exporting group of firms with a low impact on employment. Consider, for instance, that maquila exports shared 45 % of total Mexican exports in 1998, while the main foreign and national exporting firms held 44 %. Those impressive numbers contrast with their share of employment in Mexico. Inbound industries' firms account only for 2.7 %, while the main exporting firms, both foreign and national, absorbed 3.5 % of Mexican employment during the year (2000).

The most dynamic branches, in terms of exports, of the manufacturing sector include automobiles, electronic equipment, household appliances, machinery and electric equipment, textile industries, soft drinks and flavouring, apparel, cleaning and cosmetic preparations, fats and oils, corn milling, non-electrical machinery, transportation equipment, wheat milling, pesticides and fertilizers, metal furniture, and food for animals (Dussel Peters, 2000).³⁶ Not only do those branches account for the biggest and most dynamic exporting subsectors of the Mexican economy, but they are even more important as importers as well. The current account and the trade

³⁶ Other relevant manufacturing industries, albeit less dynamic in terms of exports are steel and iron, glass and products, meat and milk products, metal products, chemicals, plastic products, basic inorganic chemical, basic petrochemicals, electrical equipment, ceramics, tobacco, leather and footwear, cotton, wool and synthetic textiles, lumber, plywood. The least dynamic manufacturing exporters include fruits and vegetables, food products, beer and malt, motors and autoparts, paper and paperboard, sugar, medicinal products, plastic resins, synthetic fiber, cement, alcoholic beverages, wood products, structural metal products, rubber products, non-ferrous metals, coffee, jute, rough textiles, petroleum refining, and printing (Dussel Peters, 2000).

balance have seen their deficits increase, though temporarily attenuated in the aftermath of the mid 1990s financial crisis. The export oriented model, due to its strong links with foreign markets, but also due to disincentives in the productive sector such as the rapid import liberalization, overvalued exchange rates and low domestic investment, neither created, nor consolidated endogenous growth conditions. I contend that the problem with the institutionalization of the current economic model is falling into a path-dependency trap, if it is to be carried on with the strong deficiencies which I have pointed out. In other words, further disincentives for the endogenous economic activities could only deliver a vicious circle of deteriorating conditions to which the markets could only offer increasing rates of commodification.

Even though relatively successful in their own terms, the export orientation of the Mexican economy puts additional pressure not only on the ‘social variables’ by delaying the attempt to address social demands, but also on variables which are important for the viability of the outward orientation of the economic model itself. The relative control over the reduction of inflation rates and fiscal deficits, along with increases in foreign investment flows, savings rates, and foreign trade, particularly the rise in manufacturing and inbound industries exports as core sources of growth and concentration on trade with the United States, contribute towards other issues, perhaps not so obvious at first glance. Contrary to official discourse, the exchange rate since the 1994 financial mismanagement crisis has not been allowed to float freely. In reality, the Mexican Central Bank has systematically and continuously intervened in the exchange rate through several mechanisms (Dussel Peters, 2000). The point is relevant, since the attraction of foreign investment and the inflation

control obsession have contributed towards keeping the real exchange rate relatively overvalued (Calva, 2000). Even if an adjustment or devaluation of the exchange rate is undertaken, it will only be a matter of time for the appreciation of the currency to start afresh. Manufacturing and inbound industries which have benefited from a relatively strong peso since the late 1980s, have contributed to overvaluation of the real exchange currency. One of its most serious facets, the appreciation of the Mexican currency, was a factor in triggering the mid 1990s financial crisis. Paradoxically, the emphasis of the economic restructuring model generates disincentives for exports to function as the growth pillar of trade liberalization, as a result of exchange rate policies. This is especially the case when overvaluation of the exchange rate and high real interest rates turn against the manufacturing sectors (Dussel Peters, 2000; Calva 2000).

The Strategic Relational Approach abstract framework can be useful for illuminating specific observations such as those regarding the Mexican economic sectors and activities. Consider that, for Mexico, the high concentration of manufacturing exports in a limited set of firms has been characterised by an even higher rise in imports, which accounts for growing volumes of intra-industry and intra-firm trade. In other words, commodities not only are traded within the same industries, but in some particular cases even within the same firms. This is particularly important in capital intensive branches where transnational corporations participate, especially in automobiles, autoparts, electronics and machinery subsectors. Similarly, inbound industries are responsible for a large share of intra-industry trade. The export oriented industrialization tends to feature an even stronger import orientation as the manufacturing sectors in Mexico follow a tendency towards further specialization in

products which are also increasingly imported (Dussel Peters, 2000). These patterns only weaken to a greater degree, but even worse, they deter the creation of forward and backward value added linkages, crucial for the reinvigoration of the domestic market and the facilitation of endogenous equitable growth.

Since the 1980s, the patterns of social inequality and polarization have seen the accentuation of Mexico's uneven income distribution and the rise of poverty in general. It is a pressing issue, where social exclusion and high levels of relative inequality have steadily risen in a parallel fashion, as high capital and financial concentration also make few beneficiaries. The liberalization of economic activities has even worsened the conditions of the 'lost decade' of growth and development since the early 1980s (Székely, 1998; Kelly, 1999; Damián, 2001). As the population increases, the lower share of employment for poor families and the creation of jobs with health insurance and social security lags far behind the demand, dramatically reducing the number of options for job seekers. No wonder there is a rise in the informal sector and growing numbers of immigrants, especially illegal workers to the United States; they have become irrefutable evidence of commodification for an increasing number of Mexicans (Calva, 2000).³⁷ Furthermore, remittances sent from the US to Mexico are one of the most important foreign currency and capital inflow sources for the latter country at the aggregate level. More importantly at the agency level, the money which migrants sent to their families becomes in most cases a significant income source due to the wages and salaries disparity between the sides of

³⁷ The North America Free Trade Agreement (NAFTA), embraces and points towards the free movement of capital and goods among the signatories. Needless to say, no free labour mobility is considered, especially for poorly qualified people. Nevertheless, migrants often seem to find holes on the otherwise most heavily patrolled border of the world, between Mexico and the United States.

the Rio Bravo. Hence, another quite crude expression of the processes of commodification in Mexico takes place when the richer and more developed market works as an economic magnet, despite the formal and informal series of deterrents and disincentives against illegal migration to the United States. Lack of proper economic opportunities enhances the attraction of better salaries on the northern side of the border. This becomes especially acute for a smaller and more neglected Mexican domestic market with quite weak, and for the most vulnerable social sectors and virtually non-existent social security systems. However, illegal workers face additional difficulties in that their irregular migratory status makes them ineligible for welfare and social protection where they are. Thus, increasing their income level turns out to be their route to modify their unpalatable economic status and conditions; they fall into a vicious circle of increasing their degree of commodification to secure better conditions of living, which would otherwise be difficult to reach.

Since the liberalization of economic activities has failed to generate adequate jobs, the unsolved challenge of absorbing the growing numbers of workers into the formal labour market remains a huge challenge over the coming decades (Székely, 1998).³⁸ I argue here that the creation, development and strengthening of economic linkages between the inward looking and outward looking economic activities requires efforts to orientate policy towards meeting the employment demand both in quantitative and

Regarding the demography of the latter, a country historically forged by immigrants, it reveals a growing share of the 'latino' population as a key tendency in its evolving demographic profile, where 'black' and 'asian' people are also on the rise, in contrast to the declining 'whites'.

³⁸ Official figures in Mexico fail to capture an accurate estimate of employment, unemployment and sub-employment. A loose definition of economically active population takes all those above twelve years old who had worked for at least an hour for a monetary income, other retribution, or even for no payment at all. Bearing in mind this definition, official figures report 52 % as the economically active population in 1990 and 57 % in 2001; whereas the open unemployment rate is said to be 2.8 % and 2.4 % respectively, for the same years. During 1995, the year after the Mexican financial crisis erupted, open unemployment rose to 6.2 %, while the economically active population was reported to be 55 %

in qualitative terms. Overemphasizing manufacturing industries as the core sector of the economic model has failed to deliver jobs, since liberalization is neither associated with trade, nor specifically with exports (Dussel Peters, 2000). The low generation of employment, in which poor conditions are also a pressing concern, has meant that wages have fallen both in real and relative terms, making living conditions difficult for a big share of the population as households tend to rely heavily on employees' wages. Most importantly, economic activities not associated with the export orientation of the economy, such as construction, trade, restaurants and hotels, education and services have been overlooked as employment generators (Dussel Peters, 2000).

A few hundred manufacturing firms and the inbound industries account not only for the export push, but also for the deepening of net imports. Such trade deficits have been financed through foreign investment, which in turn, has been one of the factors behind portfolio inflows and the uncertain strategies of firms. Since one of the reasons for increased importance of transnational corporation intra-industry and intra-firm trade is that needed parts, components and processes from national suppliers are not available in the domestic market, these high exporters have to import their required inputs. In some cases the failure to satisfy technological, quality and organizational standards cannot be overcome easily by the micro, small and medium size enterprises. Due to their asymmetry, especially when compared with the Mexican firms, some transnational corporations have pursued different business expansion strategies. Two of them stand out: either they have merged with domestic firms, or they have bought up smaller ones (Dussel Peters, 2000).

of the total of Mexican working people (Instituto Nacional de Estadística, Geografía e Informática,

The worsening conditions for endogenous growth are not only a result of the emphasis on the current outward economic strategy. Some historical factors have also played a role in affecting the domestic context. Consider for instance the renegotiation of the foreign external debt and the negative capital transfer during the 1980s. Additionally, the high priority given to the control of inflation, on one side, and the structural adjustment, on the other, have affected the exchange rate, adding overvaluation pressure to the macroeconomic conditions. On top of the increasing dependence on foreign investment and exports, the domestic banking sector bailout which ended up in foreign hands some years later, are not conducive to integrating and strengthening the forward and backward linkages of the commodity chains which the domestic market requires (Dussel Peters, 2000). Therefore, there is an unquestionable need for the support and creation of subcontracting mechanisms on the economic and productive activities side, whereas the small, micro and medium size firms which are mainly oriented towards the domestic market need to take full advantage of factors such as education, technological innovation and development, and financial instruments and credit. If the recovery of the domestic market, and the aim of a more equitable and sustainable economic growth is to be fulfilled, stronger governmental efforts and attention need to be directed towards the generation of adequate, proper and quality employment. Moreover, increasing the supply of qualified labour for quality jobs cannot ignore the rising cost of wages in real terms, as the low cost jobs offer no realistic and sustainable solution in the medium and long term (Székely, 1998; Kelly, 1999; Damián, 2001). Therefore, a better integration of the Mexican economy on higher value added commodities and services chains

2002. Anuario Estadístico de los Estados Unidos Mexicanos).

requires an urgent reassessment of the priorities of the economic model. Quality and equitable growth and development cannot take place without reinvigorating the role and context of domestic economic actors.

Crucial to the reinvigoration of the forward and backward economic commodity and service chains linkages, is the proper organization of clusters of innovation aiming to stimulate progress. Institutions play a role of extreme importance for linking the production capacity of the economic sectors with their technological capability. My use of the Strategic Relational Approach claims that attention needs to be paid not only to the formal and informal markets, on the one hand, and non-market institutional frameworks, on the other, but also to the interactions and the characteristics of the economic networks within which public and private agencies interact. Therefore, national innovation systems should be oriented to a heavy promotion of linkages among firms, both, foreign and domestic, micro and transnational alike, and universities and research centres; in short, all the public and private actors involved in the innovation processes (Cimoli, 2000). The challenge is not to be avoided if the poor organization and connection of economic activities which inhibit the process of innovation is to be overcome, as it is hindering growth with equity in Mexico. Innovation in economic processes, activities, goods and services, contributes to the inventive and original side of ‘creative destruction’; this is vital if the economic cycles are to be kept in motion. What is needed is a decisive articulation of policies which do not place the domestic market second to the external market. What is also needed is an industrial policy which promotes an economically stronger articulation among firms and participants in the commodities and services chains; to generate equitable endogenous growth; to orientate coordinated efforts

towards innovative steps in economic processes and activities; and finally, a strong political will for a better and brighter future ahead.³⁹

FINAL REMARKS

Ever since the late 1970s the Mexican economy has faced a range of many different facets of Schumpeterian ‘destruction’, which unfortunately have not been adequately balanced by equally strong ‘creative’ pushes. Leaving aside a short sighted strategy based on the comparative advantages of geographical proximity to the United States and low cost labour is merely the prerequisite for aiming at and reaching a qualitative improvement in living standards. It is imperative to avoid falling into a path dependent vicious circle of neoclassical economic orthodoxy which, even though relatively successful in its own narrow terms, falls far short of delivering sustainable and equitable progress at the national, and especially at the individual level. The need to create stronger and more sustainable linkages and cluster connections among the economic actors is something which Mexico cannot afford to ignore. A more comprehensive and coherent model, attentive to the social embeddedness of economic

³⁹ Alternatives exist, however, as the role of a long-term industrial policy, redistribution and welfare provision can be led only by the State. Important tasks ahead need not be delayed as the qualitative transformation for a more equitable future includes: a) decreasing the vulnerability of the Mexican economy to external markets, i.e., relying less on short term portfolio investment flows among others; b) adopting an exchange rate policy with reference to balanced external accounts excluding inbound industries; c) articulating consistent links between industrial policy and trade policy, where the latter is not subordinated to the former; d) promoting and facilitating endogenous conditions for financing economic development, increasing domestic savings and investment rates, and reducing financial external dependency; e) implementing a domestic industrial policy orientated towards easing productive non-speculative economic activities; f) not keeping sound public finances and inflation rates under control in isolation, while strengthening fiscal reform and tax collection; g) reassessing the importance of welfare, employment and income distribution, where investing in human capital must not be postponed; h) putting into practice sustainable regional integration policies which are environmentally sustainable, and which aim to decommodify the commodity status which nature has

activities is required to re-orientate both the means and the ends of the contemporary commodification experience. We need to think of alternatives to replace the current import-prone export-oriented strategy. Alternatives which encourage a proper articulation between domestic and external markets, and where the endogenous conditions deliver more equitable rates of growth and development for the population needs must be considered more seriously than they have been so far.

It must be clear by now that the Strategic Relational Approach reading of the process of economic transformation in Mexico has highlighted crucial causal relations, regular without being law-like, in the country's commodification experience. By taking a balanced account of the situated economic agents in context, and the material and ideational factors, I have highlighted the most acute problems in the socially embedded economic networks, which are otherwise considered totally isolated from their context. Regarding the industrial disintegration between a handful of highly exporting firms and most of the Mexican firms and groups, it is important to bear in mind that quite a high number of medium, small and micro enterprises are mainly oriented towards the domestic market. It is precisely to the domestic market that scant attention has been given. For a relatively large number of cases, this market has not totally recovered since the 1980s, where the companies which account for the biggest share of the economically active people face difficulties in financing their operations through the Mexican financial system (Székely, 1998).⁴⁰ Since international financing

been given and which has so far been taken for granted; and i) increasing not only the efficiency and efficacy, but also the accountability of all government agencies (Calva, 2000).

⁴⁰ The financial liberalization in Mexico failed to open credit availability for the biggest share of the population. At the same time that the richest firms and individuals expanded their credit options and resources, the liquidity constraint has affected a vast majority of the citizens and enterprises. For the disadvantaged sectors, credit scarcity has represented further constraints to avoid the social cost of reorientation of the economic model; while the richest deciles have been provided with better opportunities to protect their income, assets and capital (Székely, 1998).

is beyond their reach, high domestic interest rates and credit ineligibility further disarticulate the spread and dissemination of productive non-speculative activities. Consider, for instance, that as a consequence of the formal economic constraints, the rise of the informal sector and the growth of the black market, particularly since the 1980s, has not been checked. As long as the incentives for remaining there outweigh what hundreds of thousands of people could get in the formal markets, the problem will not be sorted out. Immigration shares to a great extent the same origin, as the vertical implementation of liberalization and privatization strategies has thrown people out on the streets, and left peasants with no work to do. It is no secret that the open unemployment statistics fail to capture the massive increase in the informal sector and black market on the one hand, and of the high numbers of immigrants principally to the United States, on the other. This is, undoubtedly, a critical issue in a country where no unemployment insurance or reliable safety net exists to attenuate, compensate or alleviate economic displacements. There is, therefore, the need to provide welfare, grant protection from the markets and reverse the commodification status, either intentionally or unintentionally, so far embraced by the Mexican government.

For an important number of Mexican manufacturing industries and firms, improved management efficiency has not been accompanied by innovative techniques or procedures, leaving it to price and market signals to steer the direction of the firms. Based on the 'self-regulatory' and 'self-adjustable' market assumptions that mainly price signals should be followed to guarantee the optimal allocation of resources and technological upgrading, the critical result has been a careless lack of effort in the creation of networks between firms (Cimoli, 2000). This is of the utmost importance,

as the creation, development and strengthening of linkages critically impinge on the economic performance and competitiveness of the firms. Furthermore, the links within economic actors such as firms within a sector, and between sectors, on the one hand, and within the institutions, on the other, may impact and have spillover effects which go beyond any specific economic transaction.

Weak levels of cooperation which characterize the manufacturing, and especially the inbound industries, are responsible for the poor diffusion of innovations within economic networks. The loss of articulation of the dichotomy between a handful of outward oriented firms, and a vast number of micro, small and medium size firms inwardly directed cannot be disregarded. In addition, the intense dependence on foreign technology makes 'maquiladoras' to support and to stimulate networking activities with foreign firms and institutions. Needless to say, this reinforces knowledge and technological innovation, mainly in the United States, but also in other countries. The dependence on imported capital goods and equipment has not only prevented, but also has been used to replace the learning capability which otherwise have accumulated in specialized domestic suppliers (Cimoli, 2000). Since innovative technology can be bought, used, adapted, improved and created, the challenge ahead of substantially improving the sectoral innovation clusters embedded in a framework of particular competitive relationships and institutional linkages must not be postponed.

The problem of leaving technological learning and innovation as a response to price and market signals lies in the fact that it does not provide any clear incentive for articulating science and technology policies aimed at specific purposes with properly

defined goals. Therefore, in such cases the results are badly addressed programmes. Clearly, adopting such a risky selection shock-strategy condemns not only the individual firms, but also all the agencies involved in the processes, or linked to the sectors, to lag behind the international frontier. Even a simple concern to catch up increases the difficulty if the emphasis is merely on management modernization and competitiveness, following a narrow governmental policy, and an equally short sighted management vision. In order to avoid the stagnation of technological innovation and increased commodification, efforts and incentives need to be orientated towards the re-articulation and re-strengthening of domestic linkages, to promote endogenous equitable growth conditions. If this is to happen, local economic networking activities must be drastically improved, both in terms of quality and quantity, and the production system and technological capabilities enhanced. For instance, the present low technological opportunities and the research and development efforts have to be improved. There also needs to be an improvement in the organizational and institutional response. Additionally, not only must foreign direct investment flows be orientated towards contributing more significantly to local technological activities, but also the linkages among scientific sectors and local institutions have to be reinvigorated (Cimoli, 2000).

Crucial for these steps will be the replacement of the labour-intensive low skilled strategy by one which promotes and reinvigorates ideas, knowledge, science, technology, research and development. In addition, specialization in the mature technology traditional activities, which faces increasing quantitative international competition, will have to be abandoned in favour of a more cooperative approach to diffuse technological and scientific innovations through networking. The

development of human capital, where technicians, engineers and scientists play a core part, must not be abandoned or left to the imperfect and incomplete market forces. Since the governmental policies and the efforts of management to make use of modernization and competitiveness have proved inadequate for catching up at the international technological and innovation frontier, increasing the sectoral innovation within clusters could clearly be a more decisive step towards that goal. Furthermore, education, training and specialization on the side of human capital and local networking on the relational side could help to re-orientate the efforts to this direction. Most importantly, from my point of view and relying on the Strategic Relational Approach, this would not only be a market driven process, since economic activities would be subsumed within a broader social context. There is a great need to put into practice long term industrial policy initiatives, with the decisive and qualitative involvement of the government. All the different stages of the process have to be reviewed, not only those to do with exchange. The idea is to domestically reinvigorate and balance all the links in the productive chains, if the current economic strategy in Mexico which has shown vital shortcomings and lack of proper articulation is to be addressed and corrected (Cimoli, 2000).

CHAPTER FIVE

Repoliticising the Social Processes of Change

FOREWORD

It has been stressed throughout this thesis that the Strategic Relational Approach is a powerful theoretical tool for analyzing the processes of change. It has also been argued that it is able to trace the contingent and open ended nature of the processes where strategically situated actors relate to, and interact with, each other within a strategically selective context. The processes of non-violent change which concern us are suffused with the uncertainty, uneasiness and contingency experienced by the agencies, both individual and collective, facing and shaping windows of opportunity and constraint in their interactions.

The cascade of minor, iterative and cumulative changes shaped by trends and counter-trends make the changes unfold in an incremental, albeit punctuated way. As was argued in Chapter One, the trajectory of the State can be traced in its market preferences, but also in its socio-political preferences. The latter could be associated with welfare concerns and corporatism, whilst the former could feature a more utilitarian role for the State where social policy is second to economic policy. Additionally, particular emphasis has been placed on the processes of commodification to provide a theoretical background to the analysis, and to make reference to the experience of a developing economy as well.

As thus far demonstrated, weak endogenous institutional links, on the one hand, and poor patterns of technical innovation, on the other, neither of which take into consideration the socially embedded character of economic activities, have delivered poor and inequitable growth in Mexico during recent decades. It is therefore necessary to analyze the political features of the current processes of social change. In this chapter, by making use of the distinctiveness of the Strategic Relational Approach, I engage in a theoretically informed analysis of the processes of social change, of which political autonomy and democratization are key components. Particular emphasis is paid to restoring a key role to political actors in shaping and influencing the course of events in which they are themselves strategically situated. The role of the State as a social relation within the described dynamics is, therefore, under scrutiny in this chapter.

The argument delivered in this chapter proceeds in the following way. Considering the social character of dialectical interactions, and the need to re-politicise what are presented as economic imperatives, I contend that institutional turns cannot necessarily guarantee the goals they are oriented to, due to the open-ended processes of change, where agents' interactions bring uneasiness, unpredictability and uncertainty. Emphasis is placed on a theoretical discussion of the role and characteristics of the State, particularly as a fluid socially embedded site of political practices which continually reconfigures itself in order to secure the conditions for wealth creation and capital accumulation. After a brief discussion of regulation theory, I focus on the suggested transition of ideal types from a Keynesian Welfare National State to a Schumpeterian Workfare Post-national Regime. Then, I take each

of the highly stylized suggested features in turn and compare them with the atypical Mexican case. The aim is to demonstrate that the theoretical and analytical power of the Strategic Relational Approach is not limited to Eurocentric ideal types. It can also deliver powerful insights and perspectives in other contexts and without falling into functionalist views. Since my concern is the processes of change, I stress the importance of the role played by the situated agents to internally appropriate the processes and to endogenously reproduce the tendencies and countertendencies at play. Finally, I highlight the relevance for networking practices of common strategic agendas where the interactions among agents within the defined context are crucial in orienting the efforts toward relevant objectives.

APPROACHING SOCIAL PROCESSES, CHANGE AND THE STATE

The punctuated evolutionary character of all social processes cannot be satisfactorily studied by focusing exclusively or mainly on the role played by institutions. Important as they truly are, the path-dependent character which perspectives such as rational choice institutionalism tend to present is unsatisfactory. In addition to the structurally determinist and functionalist analysis of change thus far, discussed in Chapter Two, another deficiency is the conflation between the persistence of institutions on one side, and their permanent character on the other (Cammack, 1992). For instance, it is not rare to find claims suggesting that the whole trend, plus the individual moves, towards trade and financial liberalization, the privatization of government enterprises and the lowering of regulatory frameworks, are crucial because they ‘lock in’ mainly economic reforms. Specifically, it has been argued that

key non traditional gains for the North American Free Trade Agreement (NAFTA) include improved market access for all members, shelter from new protectionism in the United States, and credibility, with lock-in, effects for the economic reforms in Mexico (Panagariya, 1999b). Such statements and assertions reveal a rather poor understanding of the political character of interactions, of the social dynamics of change, and of the socially embedded actions of situated agents within a strategically selective and non-determinant context.¹

Consistent with the attempt to “bring the State back in” to comparative and historical studies, I have been focusing on social change, and also on key roles and characteristics of the State as a social process. In so doing, I have also analysed causal relations and distanced my analysis from the claim that it reveals law-like regularities. I am also aware of the danger of generalization based on Eurocentrism and the insensitivity towards historical differences and the individual features of many cases and experiences throughout the world, where the levels of development vary significantly. Nevertheless, consistent with my research project, it is necessary that I move beyond the consideration of the State as a set of organizations which display different degrees of effectiveness in exercising their autonomy, profile, intervention mechanisms and capacities (Evans, Rueschmeyer and Skocpol, 1985).

Attempts have been made to deliver comparative and historical studies of different States from different continents. Moreover, the focus on the State as a configuration

¹ The sequences of interrelated changes which occur within or embrace open social systems not only bring aggregate results, but also acknowledge the possibilities and capabilities of changes yet to come (Sztompka, 1993). For the individually situated agencies within a non-determinant context face various stages that succeed and overlap each other in time. Therefore, it does not come as a surprise that all

of organizations has been oriented towards viewing the State as a set of institutions, emphasizing social control, authoritative decision-making and the implementation of policies (Grindle, 1996). The problem is that, without acknowledging the socially embedded character of the interactions which continuously shape the processes of change, no analysis leaves room for the uncertainty and unpredictability associated with the dynamics of open social systems. Furthermore, an additional difficulty with analytical perspectives of this sort is that they tend to overemphasize the persistence of institutions as if they were permanent, granting primacy to structural and deterministic views and concerns over the management of macroeconomic policies (see Grindle, 1996; Giugale, Lafourcade and Nguyen, 2001; among others).

The central role which the State plays in economic and political affairs is crucial for the argument presented here. Prioritizing a narrow emphasis on economic restructuring without addressing adequate redistributive policies has contributed to accentuating patterns of inequality all over the world (Vreeland, 2003). The assumption that, once the institutional framework is in place the population can find ways to grow when authorities open new business opportunities, has not materialized for a big share of the population in Mexico. As presented in Chapter Two, both market and government are failure prone, as imperfect information, incomplete markets, inefficiencies and disruption affect them both. The public and private sector follow contrasting rationales. Economic and non-economic objectives are crucial for the former, whereas profit seeking represents the main goal for the latter. Acknowledging that markets are neither ‘self-regulating’ nor ‘self-adjusting’ makes evident the role which government intervention must play, especially for

those variations tend to affect, albeit to different degrees, the relationships and interactions among

redistribution purposes (Stiglitz, 1989, 1994, and 1998b). The expansion of social protection from the markets, as Polanyi suggested, represents a vital component of the social dynamics which non-synchronously accompanies market expansions (1957). There is a clear need for the government to play an active role in the implementation of redistributive policies and welfare provision which would, in turn, enhance a more efficient market allocation of resources. Not taking this into account increases the main risk of leaving markets to allocate resources on their own. This in turn would result in increasing the concentration of wealth in a few hands, and so dramatically widening the gap between them and the worse-off sectors of society. Such economic polarization is a market failure which leaves governments with the vital task of addressing social needs, delivering welfare levels and conditions, providing adequate goods and services and facilitating competition. These last issues are not by any means incompatible with any government's capabilities, because increasing levels of market competition are, in turn, provisions against public failures, as rising incentives help to attenuate them (Stiglitz, 1991, 1998a, 2002).

A number of analytical efforts to approach social processes, the nature of change and the dynamic features of the State have proved unsatisfactory. Examples include elite theory, new institutionalism and rational choice theory, amongst others. Due to the inadequacy of synchronic analysis and comparative statics for such tasks, my preference is clearly for diachronic analysis.² Even though there is quite an abundant literature on the State, social processes and social change, not enough attention has

material and ideational elements within specific time and space fixes.

² While synchronic analysis 'freezes' the object, focusing on relations at a specific time, comparative statics compares and contrasts 'snapshots' conducted at different times. Neither is capable of grasping the complex and often unpredictable outcomes which emerge from a multiplicity of never-static

been given to acknowledging the fluid dynamics and self-constituting dialectical interactions between them. Since limited space and scarce resources do not allow us to engage in a deeper revision of them all, and since I need to make (even more) explicit where I stand, it is to the Strategic Relational Approach analysis to the State that the next section is committed.

A STRATEGIC RELATIONAL APPROACH TO THE EVER-CHANGING STATE

The State is one of the major subjects and objects of study in political science and related disciplines. Consequently, it should come as no surprise that approaches which emphasize political control and means of coercion over a population confined within certain territorial limits have earned a classic status in the broad spectrum of social sciences in general (cf. Weber, 1979). Since proponents of the Strategic Relational Approach have pursued systematic and detailed literature surveys and theoretical analysis of the State, it is on their research that this section builds. In *Re-Stating Social and Political Change*, Colin Hay presented a brief critical survey of the literature in addition to an analysis of second post Second World War Britain (1996). Bob Jessop has written *The Capitalist State: Marxist Theories and Methods* (1982), *State Theory: Putting the Capitalist State in its Place* (1990b), and *The Future of the Capitalist State* (2002).³ Whilst the second not only discusses a range of different sources on the State at the same time as making a seminal contribution, the third one

factors. Thus, diachronic analysis is more adequate than either to emphasise the process of change over time, as it allows us to trace and chart the interaction of multiple causal relations (Hay, 2002c).

³ In addition to a large number of journal articles and book chapters.

advances the debate by moving beyond his original position and presenting theoretically informed ideal-types.

Clearly, where the provision of institutional foundations for the market is prioritized over more socially inclusive political agendas, the State is more than a market friendly “partner, catalyst and facilitator” of economic activities (World Bank, 1997b). For moving beyond a structural and deterministic position influenced by neoclassical economics and positivism requires agencies to take into consideration the role which they play in building the processes of change, as I have argued in Chapter Three.

Since the State is part of a social context, it must be seen from a broader perspective. Even though it might be considered in isolation merely for analytical purposes, the dynamic and complex social relations which continuously re-shape it make it a site, generator and product of strategies. For the formation of path dependence, these strategies for making future choices are built on past ones, and in this they favour some strategies over others, deploying specific features of strategic selectivity which are never neutral (Jessop, 1990b).

Additionally, the State is an extremely complex institutional ensemble and a site of political practices and struggles. Moreover, its organizational unity and cohesiveness of purpose have no pre-given form or unity, because the encapsulation and balance of a wide range of forces, networks, situated agents in context and strategically selective contexts makes it a moving entity. Thus, the State changes shape and appearance due to the environmental and conditional forces which act upon it (Jessop, 2003). For the

purposes of this argument, I am neither leaving aside the juridical, geopolitical, military, bureaucratic organization, economic, and various other dimensions; nor am I omitting other debates, as clearly there have been important contributions to the field.⁴ Rather, I am interested in stressing the dynamic, socially embedded, political and relational character of the processes which the State is 'made' of.

For the Strategic Relational Approach, the State is "...an ensemble of socially embedded, socially regularized and strategically selective institutions, organizations, social forces, and activities organized around (or at least actively involved in) making collectively binding decisions for an imagined political community..." (Jessop, 2002, 6 and 40). It is in such a fluid and evolving system, where the series of dynamic and complexly interwoven processes and practices features conditional and relational characteristics, that the exercise of power takes place.

The never-ending and ever self-renewing processes of State formation and re-configuration, due to the relational character of power exercised by situated agencies within strategically selective contexts, make up what is perceived as State power. Since societies cannot be organized and coordinated from a single centre because power is never external to social relations, it has been argued that the State has no power of its own. Rather, it is the continuous exercise of interactions which builds a complex social relation reflecting changing forces in specific combinations (Jessop,

⁴ References are numerous and differ in their theoretical emphasis. Valuable contributions include Bartelson, 2001; Barzel, 2002; Boyer and Drache, 1996; Cerny, 1990 and 1995; Evans, Rueschemeyer, and Skocpol, 1985; Germain, 1997; Grindle, 1996; Giugale, Lafourcade and Nguyen, 2001; Helleiner, 1994; Hirschman, 1970; Jessop, 1990b and 2002; Ikenberry, 1992; Krasner, 1984; Kratochwil and Ruggie, 1986; Martinussen, 1997; Ohmae, 1990 and 1996; Ruggie, 1982; Schumpeter, 1996; Stiglitz, 1989, 1991; Strange, 1996; Weber, 1979; Weiss, 1998; Wendt, 1992, and 1999; Williamson, 1990; World Bank; 1997b; among others.

1990b).⁵ Furthermore, the institutional ensemble mediates the relations reflecting the balance of broad societal forces and specific State apparatuses (Jessop, 2002).

It is for the State that the rule of law and the legal character of the bureaucracy and governmental apparatus provide an administrative matrix. This in turn exercises legal monopoly over the means of coercion. On top of this, the opening, maintenance and restoration of the conditions for wealth creation and capital accumulation are undoubtedly vital among the features of the State (Jessop, 1990b and 2002). They are important not only for providing a playing field for the private sector and economic activities, but also for the public sector, since tax collection and the role of money function as economic matrices of State activities (Schumpeter, 1996).

It is precisely the concern to secure the conditions for wealth creation and capital accumulation which provides the key functions of the State. Such emphasis on accumulation objectives over legitimation goals disregards any concern for equity. This becomes more evident when key practices which aim to secure that broad goal make use of the fictitious commodification of land, labour, money and knowledge.⁶ The socially embedded character of the economic activities entails the recognition of the contentious boundaries drawn by neoclassical economics.⁷ Moreover, it is the

⁵ According to Jessop's view, power is reinforced through the mobilization of support for policies and through the monopolization of the means of coercion (1990b).

⁶ In the Schumpeterian and Polanyian sense discussed in this work, this grants some protection from the socially embedded markets which are neither 'self-regulating' nor 'self-adjusting'. However, the last fictitious commodity of knowledge was not considered by either Polanyi or Schumpeter. The argument is simply that, as intellectual property rights are a pragmatic private appropriation of knowledge, they provide the basis for monopoly rents and national competitiveness (Jessop, 2002).

⁷ For an excellent discussion about the problems of neoclassical economics as an asocial and ahistorical science concerned more with the mathematical modelling of arbitrary assumptions than with providing explanations of economics in the real world, see Lawson, 1997 and 2003. He identifies persistent tensions and incongruities between theory and practice due, among other things, to an uncritical acceptance of positivism. His proposition of adopting a richer realist ontology of social open systems is shared in this thesis, as has been discussed in Chapter Three.

promotion of suitable conditions for the production, distribution and exchange of goods and services that also needs to be attentive to issues such as the articulation of the interlinked processes, the legal order and property rights. It is necessary to be aware of all of these general functions of the State in relation to the market, if we are to successfully address the social and political repercussions of favouring general and particular conditions for profit-oriented and market-mediated activities (Jessop, 2002).

Given that the State is such a ‘polyvalent and polycontextual phenomenon’, the shape and appearances which it takes can be process-traced and used as a proxy for accounting for the social processes of change. It is important to recall that, even though wars and military conflicts are important factors of externally-imposed changes, my focus is oriented towards pacific processes which tend to follow patterns of punctuated evolution. I have argued in Chapter Two that the processes of social change need to be internally appropriated and endogenously digested by the agencies, both individual and collective, if they are to become part of the dynamics in motion within open systems. Since the realm of the State and the form of the State change through history, the patterns of punctuated evolution of the State have something to tell about the features of social change. Thus, the central and mediating role of the State cannot be easily disentangled from social changes (Hay, 1996).

Regarding the disarray of neoclassical economic ‘theory’, Lawson points out that it is “...widely interpreted as a body of substantive thought that, amongst other things, focuses upon individuals rather than collectivities; upon exchange activities rather than production or distribution; upon optimising (maximising or minimising) behaviour rather than satisficing or habit following; upon conditions of perfect competition rather than oligopoly or monopoly; upon structures facilitating constant (or decreasing) returns to scale rather than increasing returns; upon presumptions of perfect knowledge and foresight or ‘rational expectations’ rather than uncertainty or ignorance; upon end-states, fixed points, or equilibria, rather than processes in time; upon functions (utility, cost, preference, profit) that are well behaved (where appropriate, convex, differentiable, fixed, well ordered over all the arguments, etc.) rather than otherwise” (Lawson, 1997, 86-87).

For such State centrality, patterns of continuity and change continuously re-shape the contexts within which the State, as a situated agent, undergoes trends and countertrends of evolution and transformation. Despite the numerous tendencies and countertendencies of globalization which have been identified and discussed in the academic literature, the centrality and importance of the State has not been dramatically challenged.⁸ The State retains a key role in economic, political and ideological functions. Consider, for instance, the centrality and importance in the uninterrupted management of political linkages. Contrary to claims that the capabilities of the State have been eroded, or that they are currently facing erosion, no great retreat, at least to the radical extent that had been announced, is yet observed. Rather, what has been maintained is a crucial capacity for maintaining social cohesion and the maintenance of sovereignty (Jessop, 2002).

Clearly, with the benefit of historical hindsight, it is easy to see that some other actors have risen in importance and complemented some of the traditional functions and roles of the State. None, however, has totally substituted the key and central role that the constantly restructuring State plays in its various realms and dimensions. None has even dared to attempt such a thing. The State as a social process has suffered historical transformations, but it has been and remains a crucial actor in the socially embedded political and economic processes which entail social change. As already discussed in Chapter Two, these open system characteristics bring uneasiness, uncertainty and unpredictability.

⁸ Early claims about a globalization era in which markets supplant the Nation-State as the primary economic units have been convincingly discredited (Hay and Marsh, 2000; Held, McGrew, Goldblatt, and Perraton (1999)).

The continuous patterns of change and continuity brought about by social processes interact in such a dialectical way that presents trends and countertrends at the same time. For instance, three trends have been identified regarding the restructuring of the State. They are the denationalization of the State, the destatization of politics and the internationalization of policy regimes (Jessop 2002). Those trends are, in turn, matched by countertrends which include an increased scope in the articulation and primacy of spatial scales in addition to the national level, an augmented role in 'meta-governance', and the contestation of forms and implementation of international regimes (Jessop, 2002).

Regarding the first of the listed trends, the 'hollowing out' of the State represents on the one hand, a denationalization of the State, with the re-articulation of political and economic organization. On the other hand, the displacement of tasks and responsibilities upwards, downwards and outwards can be observable at the local, regional, national and supranational levels (Jessop, 2002). Second, the always contentious redrawing of the public and private divide, where the complementary roles played by the market and government in addressing each other's failures, such as imperfect information, incomplete markets, inefficiencies and disruptions, must not be overlooked (Stiglitz, 1989 and 1998a). Since this topic has already been addressed in Chapter Two, suffice it to say that the State plays a role in correcting market failures (i.e. in the distribution and allocation of resources). Due to the centrality and key role of the State, it also facilitates the current enhancement of openness and competition. In addition, the extra levels of competition which markets bring at the same time tend to raise the incentives for efficiency and attenuate public failures such

as bureaucratism and ‘red tape’. Third, the internationalization of policy regimes has been associated with the rising significance of networks of different kinds which have favoured alternatives for self-organization (Jessop, 2002; Castells, 2000a and 2000b).

One of the most significant countertrends of the restructuring of the State reflects the increased scope of, and the number of interactions among, spatial scales. It is argued that even though the national scale is the predominant one, the countertendency portrays emerging actors and networks which also operate at the local, regional and supranational levels (Jessop, 2002). The second countertrend complements the first one, as an increased number of both individual and collective agencies coordinate their efforts through exchanges, command and dialogue. As the degree of complexity and interconnection among market actors, State actors and networks increases, so does the likelihood of failure. Neither markets, nor hierarchies, nor heterarchies are exempt from information failures, incompleteness, inefficiencies and disruptions. However, it is the State that plays the principal role in the governance of the different modes of coordination. Hence, it is the State which plays an increased and decisive role in ‘meta-governance’ (Jessop, 2002).⁹ Similarly, the third countertrend matches and complements the previous two because the forms and implementation of international regimes are not guarantees of failure free governance. On the contrary, international regimes are incessantly contested in both their shape and the way in which they are implemented (Jessop, 2002). Thus, the State is a central player and sometimes a referee in a wide variety of regimes. Therefore, it “...must be not only an object but also an agent of regulation...” (Jessop, 1990b, 315).

⁹ The term of ‘meta-governance’ was originally suggested by Hay.

REGULATION THEORY AND THE STRATEGIC RELATIONAL APPROACH

In this section, I make clear that Jessop's analysis of the State could be considered an attempt to remedy what was perceived as a weakness of regulation theory.¹⁰ Embarking on a discussion of such a theoretical perspective is a task which clearly exceeds the aims and goals of this research. However, in order to provide a theoretical context for the ideas I am discussing, a few concepts must be briefly presented here.

Regulation theory emerges from Marxism, especially taking off from Althusser's work. Seminal work of this theoretical perspective was presented by Aglietta, Boyer and Lipietz among others.¹¹ Even though its various exponents give differentiated weight to various analytical concerns, as the different schools can be distinguished, they appear united by a broad common agenda. Regulation theory pays attention to "...the changing forms and mechanisms in and through which the expanded reproduction of capital as a social relation is secured..." (Jessop, 1990a). Such forms and mechanisms include, among others, norms and legal frameworks, modes of calculation, strategies and procedures, networks and institutions. The theoretical and analytical lenses are rooted in realist ontology and take off from the tradition of historical materialism. At the same time, the various regulation schools tend to differ on issues such as the historical periodizations they present, the directions in which

¹⁰ Jessop's early 1980s work predates his interest in Regulation Theory. In contrast, his publications from the 1990s onward make references to this theoretical perspective. Thanks to Colin Hay for pointing out this difference.

¹¹ In addition to some other titles and journal articles, Aglietta published *A Theory of Capitalist Regulation: the US Experience*, Lipietz wrote *The Enchanted World: Inflation, Credit and the World Crisis*, and Boyer's publications include *The Regulation School: A Critical Introduction*.

they have orientated their research efforts, their definitions of the object(s) of regulation and the conclusions which they deliver (Jessop, 1990a).

Making use of a broad understanding of the economy, not only reduced to relations of exchange, but also focusing on relations of production and to a lesser extent distribution, exponents of regulation theory have contributed interesting, albeit controversial, analytical distinctions, approaches and conclusions.¹² For instance, to help those scholars proceed with their analyses, they have coined concepts such as Fordism and post-Fordism, for which differentiated sorts of labour, modes of economic growth, modes of regulation and social organization can be identified (Jessop, 1992, 1994a, 1994b, 1994c and 2002; Storper and Scott, 1992; Hirst and Zeitlin, 1992).

On the one hand, Fordism is understood as an accumulation regime based on patterns of mass production and mass consumption, not only of consumer goods but also of services in a largely autocentric national economy. Fordism is named after Ford, who first mass-produced the 'Model T', and became, first, the emblematic entrepreneur, then the corporate leader of the automotive industry. It is associated with urban and industrial wage earning societies which have made use of collective bargaining and a Welfare State. Those characteristics have been associated with the immediate post World War II era in advanced economies, mainly in Northern Europe, Canada and the United States. However, historical specificities aside, the geographical extent of the Fordist accumulation regime seems to be confined to advanced Anglo-Saxon

¹² Still, the fact that for regulation theory relations of distribution are not emphasized as strongly as are the relations of production and exchange, does not diminish the importance of its analytical framework and contributions.

economies and North Western Europe (Jessop, 1992, 1994a, 1994b, 1994c and 2002; Storper and Scott, 1992; Hirst and Zeitlin, 1992).

In contrast, post-Fordism is an accumulation regime which relies on the development of flexibility and innovation in information and communication technology, focusing more on what is now labelled the knowledge based economy. In addition to flexible machines and systems, the workforce is preferred to be a flexible one as well, subordinating social policy to self-induced economic and international constraints. Although the name gives no hint, the post-Fordist accumulation regime is supposed to be a transitional one, somehow incomplete and not fully valid as a new phase of capital accumulation. This is because the link with Fordism is supposed to be far from automatic and mechanical, because patterns and elements of continuity and discontinuity can be identified (Jessop, 1992, 1994a, 1994b, 1994c and 2002; Storper and Scott, 1992; Hirst and Zeitlin, 1992). Furthermore, it is not clear whether such a stage of the also called 'new economy' has expanded or connected densely and comprehensively enough in every continent to deserve the title of a regime. Clearly, those characteristics embrace only a handful of specific sectors in selected economies which, as a consequence, suggest a much more limited geographical coverage.

Some of the practices, strategies and links have selectively spread, however. Since the 1960s, some of the most developed economies, in order to overcome the slowing down in productivity, have sent some of their industrial and manufacturing activities abroad, mainly to Latin America and South East Asia. The problem is that it has been a partial and segmented articulation with technological restrictions. As a result, it has not delivered an endogenous virtuous cycle, but has enhanced external dependency

and subordination to the leading economies. In addition to the problems of unequal income distribution and sustainable practices, the incapacity to widen and develop domestic markets endogenously has anxious consequences which cannot be ignored, as shown in Chapter Four. Because links with the external markets tend to truncate the articulation of the domestic markets, patterns of social exclusion in ‘peripheral Fordism’ have become a major problem (Dussel Peters, 1997; Peck and Tickell, 1994).¹³

A caveat needs to be introduced at this point. I need to stress that, in this research, I am not claiming an association with any specific accumulation regime, either Fordism or post-Fordism. Since I have been making an effort to define, situate and trace processes of change and processes of commodification, the use of the broad categories of regulation theory, such as accumulation regime or regulation regimes, do not guide the orientation and emphasis of this research. Nor is it my aim to prejudge any issue. By making use of the Strategic Relational Approach I am able not only to uncover crucial causal relations of processes of commodification, but I can also provide a broader political agenda which enhances the importance of strategically situated agents to promote change.

THE TRANSITION FROM ONE IDEAL TYPE TO ANOTHER IDEAL TYPE

¹³ The import-prone export-oriented industrialization in Mexico has been put set in motion by an authoritarian government. The aim is to promote the inbound industries for the local assembling of export goods. However, as already discussed in Chapter Four, such a strategy is far from unproblematic. The outwardly oriented industries account for a small share of labour and a big share of imports and exports, whilst the domestically oriented firms account for the most significant share of

Consistent with the claim that importance needs to be granted to ideas as they inform and contribute towards shaping the material sphere, in this section I favour an ideational emphasis as I provide an example and discuss a proposition. In order to stress the evolutionary extent of social processes, Jessop developed two highly stylized ideal types in a remarkable theoretical exercise. One crucial issue to bear in mind is that his proposition focuses on types which could be associated, albeit imperfectly, with a handful of advanced economies, particularly Anglo-Saxon and Northern European ones. He downplayed the consideration of different national experiences. Arguing that the main characteristics and dynamics of the State as social processes have not been eroded, and that the functions the State performs, although modified, have not suffered a general retreat at all, he engaged in stylizing the imaginative kinds. Keeping the core elements of the State in place, the changes which can be observed correspond to features of the ideal types (Jessop, 2000 and 2002).

There are many contrasting views regarding these issues. Consider, for instance, one for which the modification of the external environment and the internal conditions are to be channelled by institutions, leading to a ‘process of structuration’ (Cerny, 1990). The role of institutions helps the dynamic organizational mix of markets and public actors which is oriented towards the consolidation and development of different states with analogous but specific structures throughout the world. In so doing, it helps the prioritization of economic activities over social and political activities and directs the

labour (cf. Dussel Peters, 2000 and 1997; Fajnzylber, 1990). The next chapter discusses key characteristics of the Mexican political system and the democratization experience.

move from a Welfare State to a Residual State via a Competition State (Cerny, 1990, 1995, 1996a, and 1996b).¹⁴

The Competition State is presented as a carrier of the financial and monetary imperatives which makes use of institutions for allegedly shaping economic production and exchange activities. Clearly, this is not a point of view shared in this research, because it assumes that the State is much more than a mere vehicle of financial orthodoxy, as argued by Cerny (1993a, 1994). Neither does finance work as the ‘infrastructure of the infrastructure’, nor is the State’s main goal the pursuit of increased levels and forms of commodification along the lines of private industry. Furthermore, the State does not resemble a mere firm for promoting a relatively favourable investment climate for transnational capital, and it does not have powers of its own which tend to shrink in the face of economic and financial imperatives (Cerny, 1990). On the contrary, as should be clear by now, I contend that deterministic, functionalistic and structural explanations are at best misleading and at worst, inaccurate.

¹⁴ For Cerny, the Welfare State’s main purpose is to intervene, taking certain activities out of the market place by delivering them socially, decommodifying them. In so doing, it fails by overloading its functions and capacities. This failure is tackled by the Competition State which withdraws levels of protection and takes all economic activities to the market place, while eroding the boundaries between the public realm and the private realm which tended to be more sharply defined at the previous stage. The commodified and commodifying role which the Competition State plays for its own sake and for the promotion of competitiveness between national, industrial and financial activities within the relatively open world economy allegedly levels the playing field by strengthening transnational links and making network webs of interdependence deeper and denser. In short, the Competition State is forced by the imperatives of international competition to prepare the ground for a more radical stage. The Residual State is supposed to subordinate its key civic, public and constitutional functions to its commodification tasks. Its priorities include sticking to the inherited agenda originally drawn by its competitive sibling. Instruments include the lowering of regulatory frameworks, privatization of government assets and enterprises and the liberalization of trade and investment flows. The Residual State’s functions and associations become increasingly problematic as its authority, legitimacy, policymaking capacity and implementation face insidious erosion and weakening (Cerny, 1990, 1995, 1996a, and 1996b).

Returning to the main line of enquiry, Jessop argues that an ideal type of the Keynesian Welfare National State (KWNS) has been partially eroded and tendentially replaced by one of a different kind, namely a Schumpeterian Workfare Post-national Regime (SWPR). Let me explain briefly what the profiles of those ideal types are. Both highlight the orientation of economic policies and social policies, and more precisely the subordination of the latter to the former. At the same time, they stress the primacy of the territorial or geographical scale at which they operate, and the means used to compensate for market failures.

For the first ideal type, namely the Keynesian Welfare National State, the label 'Keynesian' comes from the delivery of infrastructure to provide the means for the mass production and mass consumption of goods and services, while aiming for full employment and demand management. This set of economic policies is presented as supportive of an expansion of welfare rights, mainly at the national level. In addition, the State is faced with the task of compensating for market failures (Jessop, 2000 and 2002).

For the second ideal type, the SWPR, the label 'Schumpeterian' comes from the goal of achieving an increasing degree of mainly technical innovation and economic competitiveness which would help expand the use and spread of communication and information technologies in the so-called knowledge-based economies. Such concerns are placed on the demand side of the open economies. In addition, the subordination of social to economic policies is stronger in this type, as welfare rights come under attack and there is downward pressure on the 'social wage', which stresses the workfare character of social policy. Moreover, the post-national label is used to

denote the rise in importance of some other geographical and spatial scales to the (still central) national one. Similarly, the growing importance of networks for the compensation for market failures is presented as the emergence of regimes where the State operates in 'meta-governance' matters (Jessop, 2000 and 2002).

The transition from the ideal typical stylized terms of the Keynesian Welfare National State to the Schumpeterian Workfare Post-National Regime is said to occur, taking into consideration capital accumulation and wealth creation through the mediation of market and non-market social relations. This incomplete and imperfect transition is undertaken while the conditions which reproduce and maintain the fictitious commodification of land, money, knowledge and labour are kept in place (Jessop, 2002).

What is striking is that a mere handful of cases can be associated with the first ideal type. Likewise, a very small number can match the features of the second one. Needless to say, neither all the features associated with the KWNS, nor all the characteristics of the SWPR, could be associated with the social processes of change and commodification which occupies us in this piece of work. The Mexican case to which I have been referring does not match either highly ideal stylized type. Nevertheless, the use which can be made of them is enhanced and improved by moving away from the whole set of ideal types and their full-picture presentation, towards a sharper and clearer individual and disaggregated picture.

The functionalist rigidity and lack of flexibility which appears at first glance in both the KWNS and the SWPR could be dramatically reduced if each of the features of the

ideal types were considered as nouns rather than adjectives. That is, I aim to take each of the characteristics in turn, without putting them into any straitjacket which would reduce the nuances of the subjects and objects under scrutiny. More importantly, the lack of choice that the transition from one ideal type to the other seems to convey could be overcome by reinvigorating the role played by agency. Such a move allows us to eliminate restrictions and rigidities, at the same time that the spectrum of available and viable choices for the agencies significantly widens.

BEYOND AN IDEAL MATCH

What I do in this section is not only to take into account the material transformations of the contexts, but also the ideational factors interwoven in the social, political, and economic processes of change within contemporary Mexico. In particular, I select the eight ideal type features suggested by Jessop, and look for match and consistency with the punctuated evolutionary trend of the Mexican processes. At first glance this might seem to be an odd choice, as neither the conception of the Keynesian Welfare National State nor the Schumpeterian Workfare Post-national Regime, were formulated with Mexico in mind.¹⁵ On the contrary, the highly stylized characteristics of both ideal types stress distinctive aspects to which a very small number of cases, largely Anglo-Saxon and Northern European, have made the transition. Although they do not describe concrete realities, they provide an undeniably consistent theoretical

¹⁵ When discussing the different variants of the Keynesian Welfare National State and some of the problems of the North America Free Trade Agreement, there is a very brief reference to Mexico as a country affected by the dominance of capital from the United States (Jessop, 2002). Similarly, regarding Regulation Theory, the Mexican experience is considered as a peripheral variant of Fordism, where its main feature is that some export commodities are locally assembled (Peck and Tickell, 1994).

and ideal benchmark against which to assess the very condition of action which is the ability to formulate strategies. As such, they could be of great help to further imagine and crystallize alternative routes and courses of action which are open to policy-makers in Mexico. This is because the value of theory and ideal types is, among other things, to inform and enrich the debate, not to close it down. As I have argued in Chapter Two, ideas have a mixed causal and constitutive impact on material and ideational outcomes (Watson, 2000; Hay, 2002c, and 2000b).

First of all, regarding the sets of economic policies and ideas, I cannot catalogue the Mexican experience as typically Keynesian. The economic policies and strategies which were originally implemented in post-revolutionary Mexico preceded the spread of Keynes' ideas, and much preceded the United Nations Economic Commission for Latin America and the Caribbean (ECLAC).¹⁶ Decades later, such national strategies and experiences informed the theoretical construction of the latter (Calva, 2000). Regarding the former, full employment, the cornerstone of Keynesian policies, was never reached. Nor was complete demand management implemented, nor did the efforts to deliver infrastructure reach an optimal stage in the economic history of the country. However, it is impossible to deny Keynes' influence and the importance of his ideas was felt in government and academic circles, especially during the 1950s and 1960s (Babb, 2001). Although there was never a perfect ideal match, the stabilizing development strategies and import substitution industrialization, which I have referred to in Chapter One, had hints of his thought. For instance, Keynes' idea was relevant that the State has a role to play in guiding the propensity to consume and the inducement to invest. Similarly, there was a gradual degree of socialization of

¹⁶ Keynes' work was an influence on ECLAC economists, and government officials alike.

investment, where the key issue was not so much concern for ownership of the means of production in guiding economic policies as the delivery of proper conditions for economic activities, much as Keynes had argued for (1964).¹⁷

Nonetheless, there is an important difference which should be considered. Both Keynesianism and the development ideas associated with ECLAC advocated a strong role for the government in economic affairs. Yet, the approaches differed in their suggested strategies. First, the development policies implemented in Latin America were not identical to Keynes' recommendations for aiming at the 'aggregate volume of output corresponding to full employment' in the industrialized nations. Second, Latin American policies opted for a more selective strategy as they focused more on the promotion of activity within particular economic sectors. Perhaps more importantly, as Keynesianism acknowledged the economic differences between developed and developing economies, it provided a theoretical justification for the latter to pursue different policies from those of the former (Babb, 2001).

However, a Schumpeterian characterization of Mexico is even more problematic, especially when the term is used as a synonym for innovation. I have already devoted substantial parts of Chapters Three and Four respectively, to the discussion of Schumpeter's conception of 'creative destruction', and the disquieting lack of innovation characteristic of Mexico's manufacturing economic activities. Therefore, I am here in a position to say, without further argumentation, that the distinctive set of Mexican economic policies does not match the ideal type suggested by Jessop.

¹⁷ In his own words "... (i) t is not the ownership of the instruments of production which it is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to

Schumpeterian thinking is not unknown, but the contemporary orientation of government economic policies has paid little attention to facilitating and promoting innovative combinations which would help, or set the foundations for a knowledge based economy. Scant attention has been paid to the quality of industrial insertion and linkages in Mexico, where there is a concerning lack of cluster connection among economic activities (Cimoli, 2000). The weak endogenous links between domestic firms and amongst economic sectors need to be reinvigorated in order to revitalize and strengthen the domestic market, while gaining a better position abroad (Dussel Peters, 1997 and 2000). If the goal of the absorption, development, incorporation and innovation of technology is to be achieved, particular sectors and activities need to be targeted as beneficiaries of industrial policy programmes (Fajnzylber, 1990).

Regarding social policies, Mexico has never had a Welfare State comparable to those of European or Anglo-Saxon countries. Although basic welfare is provided, safety nets tend to be unreliable and imperfect, especially for the social sectors which need them most. Nevertheless, the concern for delivering protection from the market has not been completely absent. What Mexico has had is corporatist practices for the political engagement and control of social groups. These delivered initial improvements in education, sanitary conditions and standards of living on the whole, albeit mainly in urban areas (Reynolds, 1970; Hansen, 1971; Lustig, 1998). As suggested in Chapter One, decommodification practices were second to a concern for political stability, the attraction of investment and the cushioning of social pressures and demands.

augmenting the instruments and the basic rate of reward to those who own them, it will have

Yet, the current emphasis on labour market flexibility and the subordination of social policy to economic imperatives in Mexico prioritizes a workfare strategy which, sadly, is closer to the Schumpeterian ideal type than the welfare counterpart (Dussel Peters, 1997 and 2000; Cimoli, 2000). Again, as the previous chapter focused on the commodification processes in Mexico, there is no need for further elaboration. Suffice it to recall, for example, that one of the crudest aspects of workfare is to be found in manufacturing inbound industries, where, in a big proportion of cases, workers' low qualifications and low skills, along with additional incentives, are taken as competitive advantages (Gereffi, 1996; Gereffi and Korzeniewics, 1994; Gereffi and Wyman, 1990). Needless to say, such a race to the bottom strategy is extremely problematic, as it accentuates and reinforces the patterns of inequality already discussed.

Even though the relative primacy of the national scale for the delivery of social and economic policies and programmes has seen modifications in Mexico, this is not the same thing as saying that it has been overtaken by the importance of other levels. Clearly, throughout the years there have been changes, and the emergence of local, regional, international and transnational agendas must not be ignored. Nevertheless, the primacy of the national scale is undoubtedly fundamental for core issues. As regards the nation, variations, debates and changes through history have contributed to its contested and continuous metamorphic nature. Nearly two centuries of turbulent independent history and a tendency toward 'imposed unity', on the one hand, and the challenge of traditional ideas and patterns to the nation and its interests, on the other, continue to influence the perceptions among Mexicans of their nation (Morris, 1999).

accomplished all that is necessary..." (Keynes, 1964, 378).

Nationalism has not only followed sentiments and attachments which tend to be identified with a national identity, but also the role played by ideas, discourses and ideologies in the definition of national interests cannot easily be separated from courses of action, policies and strategies of a nationalist tone (Krauze, 1997a and 1997b). The interrelationships among identity, interests and policies feature social embeddedness and determinants which dialectically affect and are affected by dynamics of change, via the promotion of changes in identity, interests and policies (Morris, 1999).

Something similar happens with the role of the State. Within ever-changing strategically selective contexts, the Mexican State has been, and will continue to be, a central actor, albeit one who does not always act consistently. Public and private participation in a variety of different regimes does not necessarily mean the irreversible erosion of the State, because they are not zero-sum games. Moreover, as I have argued in Chapter Two, following Stiglitz, both market and government are failure prone, as information asymmetries and imperfections, inefficiencies and disruptions affect them both (1989, 1991, 1998b). Self-organization is not failure free either, and therefore provides no guarantee for any sort of compensation. Considered in this light, and as more a complementary option, the importance of regimes for addressing market and government failures should not be overstated.

As can be seen, Mexico does not fit the aggregate stylized types, and does not even match most of the individual features suggested for the Keynesian Welfare National State or for the Schumpeterian Workfare Post-national Regime. Still, this should not deter us from making use of the Strategic Relational Approach. Nor that this should

be considered as a weakness of this approach, for it is not. This is an approach which is capable of suggesting ideal typologies, but which also allows us to explore causal relations in a variety of processes, such as the commodification which I have been paying attention to. Others, such as political autonomy and democratization, could be considered as well. For the Strategic Relational Approach is a powerful tool and properly equipped for process-tracing. It could be used either to trace the process from one ideal type to another, or for the investigation of specific historical moments and trajectories, as I attempt here.¹⁸ As I am concerned to enrich my theoretical and empirical analysis, I must give further attention to the strategies, mechanisms and factors which play a role in shaping the social processes of change. This is precisely what I do in the next section.

MAKING CHANGE HAPPEN: 'PARTICIPATION AND OWNERSHIP'

The social processes of change are internally appropriated, and punctuated in its evolutionary trends and countertrends, as has been discussed in Chapter Two. By making use of the Strategic Relational Approach, I have been trying to emphasize the dynamics and processes of change over time. In so doing, I have also been making references to the Mexican experience in my attempt to trace and chart the interactions of causal relations. Without making any claim of law-like regularity, I have been aware of the complex, open and unpredictable dynamics and outcomes of multiple

¹⁸ Hay, in *Re-Stating Social and Political Change*, traces the evolution of the British State, citizenship, crisis and Thatcherism (1996). Furthermore, Jessop himself has also pursued similar tasks in various publications. Globalization has been subjected to critical scrutiny as well (i.e. Hay, 2000a, 2000b, 2000c, 2001, 2002b, 2002c and 2003c; Hay and Marsh, 2000; Watson, 2000 and 2003b; Watson and Hay, 2003).

factors. The dynamic and never static character of actors and the situations and conditions which surround them constitute a necessary reference for the formulation of strategies in context. As the deployment and putting into practice of those continuous strategic calculations reflect enhanced knowledge of the changing environment, it comes as no surprise that change often cumulates incrementally. Thus, the patterns of punctuated evolution are not alien at all to the social processes of change which I am inquiring into (Hay, 2002c).

The internal appropriation of the open and complex system and interplay of situated agents in strategically selective contexts is dialectically influenced while it influences numerous factors, at the same time absorbing and re-shaping endogenously the social, political and economic processes. Since all change in social systems is inextricably related to agency, the interactions pursued by actors in networks of links of different sorts are of remarkable importance. However, these links are not equally important, nor do they reach all the other parts of the open and complex systems in the same way. There are clearly variations in the quality, strength and reach of the links between different actors and within the various networks woven by them (Dark, 1998).

The processes of change are articulated by means of altered relationships and patterns of interaction, where specific historical and geographical contexts cannot be stripped of the actors situated within them. By cumulatively building the processes, with their dialectical tendencies and countertendencies, the windows of opportunity and periods of restraint deliver wanted and unwanted outcomes. The articulation of the processes, however, is not only due to the medium-term persistence of the structure, but also to

the complexity and systemic contingency which is triggered by the actor's intentionality (Dark, 1998). Thus, it is the internal appropriation and the generation of endogenous and favourable conditions which make agencies own the changes, thereby acting according to them and socially constructing new patterns of interaction.

Stiglitz has argued that 'participation and ownership' are crucial for catalyzing 'society-wide' change as it aims towards the core objective of development. Since for him the latter entails the 'transformation of society', where effective change cannot be imposed from outside, active participation in the processes increases the degree of ownership of the actors. If this is to happen, the motivated and participative agencies which become involved and make changes their own complement the role of institutions and incentives towards the transformation of society (1998c). In so doing, and by virtue of their 'participation and ownership', the endogenous social dynamics of change depend on the crucial role of agencies to bring indeterminacy and uncertainty into the processes.

Acknowledging that institutions might be a necessary, but never a sufficient, condition for change, as institutions are also objects of change themselves, it is important to be aware that the probability of collapse might also arise. As the complexity of the systems and processes rises, so does the likelihood of change, for which efficient information processing and exchange is vital in order to respond to the challenges posed by a feasible catastrophe (Dark, 1998).¹⁹ However, problems of

¹⁹ Dark argues that the maximum point of growth in an open and complex system is quite close and immediately prior to the point of catastrophe. Although his theoretical claim is oriented towards long-term change, its validity provides insight into shorter and medium-term processes as well. Furthermore,

asymmetry and incomplete information tend to be more the rule than the exception, as I have already discussed (Akerlof, 1970; Spence 1973; and Rothschild and Stiglitz, 1976). Incomplete and asymmetric information is quite common for both public and private actors, and has direct consequences on the courses of action which they choose to take. Hence, this poses a significant challenge for, as risks increase, opportunities for innovation also increase, which potentially can transform and produce new systems and feed new trends and countertrends.

Acting in a dialectical fashion, the tendencies and countertendencies may make some trends and countertrends emerge as others decline. As the succession of processes are historically situated chains of events which follow contingent sequences, the dominance of some options or courses of action may be explained in the way in which they are socialized and internally appropriated. Clearly, one of the main and basic strategies is the formation and consolidation of both formal and informal networks. They may vary in the degree of specialization, specific characteristics and the aims which they pursue. Nevertheless, the allegedly horizontal negotiated consent which they tend to put into practice, along with the flexibility which allows them to adapt to different scales, makes networks an ideal mechanism of dialogue and spread or socialization of the objectives which they are oriented to reach. It is, therefore, necessary that we have a look at the importance of networking in the following section.

CREATING AND OPENING CHOICES BY NETWORKING

he characterizes long-term changes as contingent and contextual, but trans-historical and cross-cultural

The uncertainty and unpredictability exercised when actors communicate, exchange, or engage in any other form of contact, can never be exactly reproduced over time. Nor can the strategically selective contexts. Therefore, it is impossible to entirely reproduce the social, political and economic phenomena. Even though some similar patterns may be identified, there is neither any agent nor any structure which can guarantee or determine the course of events in its entirety. Both are capable of transforming each other, as they are not static and each has the capacity to make space for creating change. However, as I have already argued in Chapter Two, it is the power immanent in all social relations which makes agencies capable of influencing, promoting and achieving changes. One of the strategies for socially spreading the new patterns of interaction, or of disclosing and popularizing preferred courses of action, is by developing networks. Furthermore, by networking, either formally or informally, on a broad range of issues, the relational character of the interaction helps the dynamics to become an endogenous part of the actors, contributing in this way towards the internal appropriation of change. Hence, networking provides the means for flexible and inter-organizational responses to changing circumstances. Moreover, networking entails the formulation and implementation of strategies in action. The courses of action, in turn, yield direct effects and strategic learning to the actors, who need to deal and adapt themselves to the intended and unintended consequences (Hay, 1998b).

Networks of many different sorts are historically recurrent and familiar organizational strategies throughout the world, which reach different degrees of complexity in

within series or cycles of roughly four hundred years (Dark, 1998).

different societies, cultures and institutions. Due to their flexibility and practicality and the recognition of agendas which are of mutual or complementary importance to their members, the networks operate as modes for coordinating collective action (Hay, 1998b; Hay and Richards, 2000). Easy horizontal implementation is to the network's advantage, as it allows its participants to formulate and operationalize strategies which deliver not only the immediate direct effects for which the network was originally created, but also strategic learning. Furthermore, as some issues or objectives may be of greater interest or of more crucial importance, the formation of strategic alliances can be used to push the common agenda forward, and this may work to the benefit of its constituent parts. It is precisely this relational character and the simplicity of forming, evolving, transforming, and terminating networks which gives them their flexibility to changing states of affairs. Hence, common strategic agendas for an incredible variety of issues can be established by networking (Hay, 1998b; Hay and Richards, 2000).

Even though some networks may have broad goals and objectives, networks can also operate under specific and clearly defined objectives and strategies. I need to make it clear that I am not interested in networks themselves, but rather in the possibilities of creation and transformation which networking brings to situated actors.²⁰ The motivation, intentions, recognition and identification of core issues are crucial preliminary steps in the formation of a network and, more importantly, in the instrumentation of networking practices and actions. Plausible as it may seem at first

²⁰ Networking flexibility makes it ideal for effective responses and adaptation to changing social, political and economic contexts. Since networks are never static and invariant structures, they aim to facilitate social interaction, and in so doing they are not exempt from being used as aids for the relational character of power, where vertical imposition is ruled out. This will be no surprise, as neither networks, nor networking practices, follow hierarchies (Marsh, 1998).

glance, networks are not the same as structures and should not be conflated with them. For, once the recruited members have moved into action, networkers resemble more collective actors than self-interested individuals. Yet the common agenda which motivates collective action does not limit or constrain the evolution and transformation of the original objectives, as is to be illustrated in the following chapter. Networking practices by the member parts tend to dictate a realignment and if necessary, partial modifications, exhaustion, failure or even termination. These processes take into account both the intended and unintended effects of networking, and the strategic learning which results from the practices and action of networking. Similar to the simple way that a network can be created, it can also be terminated. Once the goals have been reached, transformed, or unfulfilled, networking loses momentum and the network is either changed or terminated. When there is a lack of common issues networks become unviable and networking impossible, because it is the identification and agreement of a common strategic agenda which is necessary for unleashing networking operations and practices (Hay, 1998b; Hay and Richards 2000).

A contrasting view is provided by Castells, who argues that networks privilege the power of flows over the flows of power. As he considers that networks have become the emblematic social structure of the contemporary age commanded by information and communication technologies, he tends to conflate them with social structures (2000a and 2000b). According to his account, networks do not present a flexible and adaptive character as they tend to be 'programmed' and can turn off any 'non-compatible node'. Furthermore, the experience of being part of a network is allegedly more important than what it can deliver to its members. Sadly, he includes no

recognition of the importance of networking as a vehicle for the promotion of change. The identification of networks with structures leads him to portray an orientation of the 'network society' whose main reference is cultural, which hardly refers to, or makes contact with the material and natural bases of existence (Castells, 2000b). The problem is that such a stage cannot be generalized to any great extent, however influential the networks are, beyond small and localized groups in developed and developing countries alike. This depiction nevertheless, is not shared by the biggest share of the population of the world, who, make daily use of numerous sorts of networks on a regular basis, whether they have a state of the art technological character or more traditional forms of interaction.

Regarding one of the important objections against networks, it has been argued that they deal poorly with issues of limited inclusion and exclusion. It is true that the reach of possibilities for transformation through networking cannot be spread beyond certain limits. Clearly, some benefits cannot be directly reached by those agents who are not included or take no direct part in networking practices. Still, at this point it is important to stress that I am proposing the alternative of networking merely as a complement to market failures and government failures. I do not claim that the latter should be replaced by the former. In fact, networking can complement other forms of governance such as markets and hierarchies, and in so doing the problem of network exclusion can be addressed. I contend that over-reliance on one form of governance alone is problematic. However, getting the balance right among governance mechanisms is not easy either, and varies significantly depending on the particular circumstances in which the situated agents in context find themselves.

Nevertheless, one of the main arguments in this thesis is the immanence of power in all social interactions, which helps the situated agents in context to influence the conditions that surround them. Networking can be considered a vehicle of transformation, since it can be used as a flexible option for spreading and reaching, albeit with varied impacts, the shared agenda which originally triggered the formation and practices of the network itself. Even though the agenda may have suffered alterations affecting not only its membership, but also the strategically selected courses of action to take, this could be considered as evidence of the power interactions between agents. Its orientation and strength may vary, but the exercise of power by situated actors delivers changes, as I have stressed in Chapter Two. With this in mind, and before sketching an agenda for contemporary Mexico in the light of the processes of commodification it has undergone. I use Chapter Six to discuss some features of the political system in the country as well as the salient political processes of increasing political autonomy and democratization.

CONCLUSIONS

The capacity of the Strategic Relational Approach to identify and trace causal relations proves useful in exploring the deeply political character of the social processes of change. Since the approach is able to acknowledge the relations between material and ideational elements, on the one hand, and those between the structural and agential elements on the other, it provides plenty of room to scrutinize the tendencies and countertendencies which build the processes up. Bearing in mind the centrality of actors in influencing the conditions which surround them, it comes as no

surprise that crises can be studied for more than the destruction they leave behind, as they can display a reorientation of strategies and the setting of goals, and can therefore, create new opportunities for transformation.

Taking this into account, the State as a polycontextual and polyvalent phenomenon cannot be disengaged from the socially embedded context in which it is situated. Since it is concerned with maintaining and reproducing the conditions for capital accumulation and wealth creation, it cannot ignore a concern with legitimation imperatives. Thus, it keeps a central place and plays a crucial role which no other actor can assume. Failure prone, as are markets as well, due to asymmetric information and inefficiencies, the State can still remedy distributional shortcomings and can be helped by increasing incentives for efficiency. The fact that institutions tend to persist without becoming permanent reflects the State's dynamic and fluid shape and appearance, which responds and is responsible to changing environments and conditions. Nonetheless, the socially embedded political and relational character of the State processes as they continuously renew and reconfigure themselves, originates in relational power interactions amongst situated agents in context, rather than being merely an aspect of the power of the State. Therefore, the State cannot erode its power, for it is not its own.

Jessop's suggestion of highly stylized ideal types of the transition from a Keynesian Welfare National State to a Schumpeterian Workfare Post-national Regime is rooted in Regulation Theory. The types focus on the subordination of social policies to economic policies, the geographical or territorial scale of operation and the means used to compensate for market failures. According to his account, for these moves to

occur, the restructuring trends of the State will include the denationalization of the State, the destatization of politics and the internationalization of policy regimes. They are matched by countertrends, such as enhanced room in the articulation of the primacy of scales in addition to the national, the augmented role of the State in 'meta-governance' and the contestation of forms and implementation of international regimes.

What I contend, beyond the features of those ideal types, and the imperfect match with the Mexican case, is that the strength of the theoretical utility of the Strategic Relational Approach opens up research avenues for process-tracing. Such processes emphasize political economy issues, such as commodification experiences, or socio-political issues, such as political autonomy and democratization, and cannot be decontextualised from their spatio-temporal placing.

Furthermore, the Strategic Relational Approach enables us to explore the never-static dynamics which become endogenously incorporated and internally appropriated, making change not only possible but also feasible. Since institutions are a necessary, but never sufficient condition for social change, the uncertainty, uneasiness and unpredictability which actors' interactions bring into the processes clearly affect the final outcomes in punctuated evolutionary fashion. I have preferred diachronic analysis which emphasizes the process of change over time and is different from comparative statics, in which the comparison takes the form of contrasting snapshots from 'frozen objects' conducted at different times. In this respect, Cerny's and Jessop's accounts of change more closely resemble comparative statics than diachronic analysis.

Nonetheless, making use of the theoretical tools of this approach, I have been able to identify that one of the main strategies for the appropriation and spread of change is networking. This is not a small issue, for it is capable of creating and opening choices for the situated agents who take part in the networks. For networking to succeed, it is necessary for there to be a common strategic agenda which may guide the interaction of the members and serve as a guiding reference for evaluating progress, realignment, failure or success. Networking does not mean limited contact among specific groups. On the contrary, networking can be developed within networks and across groups of different kinds, presenting alternatives courses of action and expanding the windows of opportunity for those involved. Its character may be economic, bureaucratic, industrial, electoral, and so on, depending on the core issues agreed and identified in the strategic agenda by the agencies.

CHAPTER SIX

Social Change in Mexico: Enhancing the Agenda of Reform

PROLOGUE

As was shown in Chapter Four, the implementation of the new economic agenda in Mexico has been prioritized over conditions of equity and democracy. For instance, democratization and the setting of checks and balances to presidential discretion was, and has always been, relegated to a secondary place behind perceived or self-induced market imperatives, such as reducing public deficits and lowering inflation rates. Judicial reform ranked a distant third. The first of the three agendas, namely the economic restructuring, has been associated with the market axis of analysis presented in Chapter One, whereas the second and third agendas, which are democratization and political autonomy, have been associated with the power axis of the analytical map also in that chapter. Thus, the analytical distinction allows us to understand the significance of the schedule of the reforms as they were put into practice.¹

¹ In the mid and late 1980s there was a more or less widespread perception that one crucial difficulty for the restructuring of the then Union of Soviet Socialist Republics, USSR, as attempted by Gorbachev, was that the transparency policy, namely glasnost, and the transformation policy, perestroika, were together put into practice at the same time. It has been argued that the synchronized and parallel implementation did not allow for the economic changes to take place and consolidate, as they were immediately politically challenged and undermined. The lesson to be learnt, according to some officials and analysts, was that the reforms should have been attempted in sequence; granting the economic restructuring priority over the political openness (Centeno, 1994). Thus, democracy would have been sacrificed in the name of social, political and economic stability.

Regarding the Mexican experience on the economic front, the two most important economic crises suffered by the country during the last decades have been very different in nature, origin and impact. The 1982 crisis had macroeconomic fiscal mismanagement at its root; whereas a dozen years later, although the fiscal deficits were under control, financial mismanagement brought harsh consequences. We do not need to examine this here, as the mid 1990s crisis is to be examined in Chapter Eight. Moreover, both crises had international causes and impacts, but the structural economic adjustments were mainly absorbed domestically.

The aftermath of the early 1980s crisis has been characterized as the lost decade of economic growth in Latin America, and Mexico was by no means an exception. Years of low economic growth and constrained domestic markets, among other factors, contributed to further lower the standard of living of large shares of the population (Dussel Peters, 1997 and 2000; Székely, 1998). Following the crisis of the mid 1990s, the recovery was not as long and painful as it had been in the 1980s, partially due to a more favourable international context. Judged by the respective amounts of their economic rescue packages, the 1995 crisis was more than ten times greater in nominal value (Lustig, 1997a and 1998; Adams, 1997).² Both reform packages made use of extraordinary resources and were not exempt from controversy, since the means to make use of them and the guarantees provided were unconventional, to say the least. Whereas this chapter discusses the 1982 crisis, Chapter Eight deals with the 1994-1995 crisis.

² Still, if a comparison between the mid 1990s financial crisis bailout and the debt crisis rescue package of the 1980s is to be made, the constant value amount of the former was roughly seven times greater than the latter.

The financial crisis which unfolded in 1994 was tackled with a concern to avoid derailing the orthodox economic agenda, making sure that the structural adjustment under way would not be abandoned, as it was a perceived condition of external support. In contrast, the 1982 fiscal and debt crisis was used as an opportunity to modify the political and economic agenda of the administration entering office in the same year. It represented a moment of decisive intervention to change the trajectory and the role which the Mexican State was playing at the time as a direct actor in economic activities. For example, this was manifested in the divestiture of government owned enterprises, which grew disproportionately during the 1970s (Rogozinski, 1998). The fact that the new agenda could be implemented owed much, among other factors, to the vertical character of the political system. This allowed a technocratic elite to pursue the economic transformation first, thereby postponing the political transformation. In short, with the benefit of hindsight, it can be affirmed that the importance of the early 1980s' reform lay in the fact that a historical transition moved the orientation of the Mexican economy away from decommodified economic activities to a stronger emphasis on market orientation. This made commodification via processes of deregulation, liberalization and privatization the main governmental concerns. Hence, the government seized the opportunities presented by the crisis. It has been suggested that these tendencies may be traced in the upper right quadrant of the theoretical map of the first chapter.

It is important to note that detaching actions from the values and ideas which accompany them de-contextualizes the conditions under which those courses of action are undertaken. By using the Strategic Relational Approach one can remain aware of

the orientation of the phenomena and processes under scrutiny. In other words, present behaviour is controlled by the subjectively assessed meaning and desirability of an anticipated future. Yet, the fulfilment of specific goals is not solely driven by their objective likelihood (Whitehead, 2002). Situated agents in context play the driving role, without determining the process. Thus, the normative, transformative and persuasive components of the processes of democratization cannot be omitted from the analysis, as is often the case. Long-term open-ended processes of commodification and democratization, where unforeseen circumstances and unintended side effects are analyzed, preclude teleological explanations. I am not claiming inevitable patterns of convergence, advocating the end of history, or aligning myself with utopian closures. On the contrary, rather than pursuing functionalist and deterministic views, I present and highlight what I perceive as the main patterns and orientations. Needless to say, the processes of social change hardly follow law-like regularities, nor do they deliver identical outcomes, as they are charged with contingency and unintended consequences.

The argument presented in this chapter and sustained by the Strategic Relational Approach, by emphasizing features of both structure and agency, and the material and ideational dimensions within specific time and space locations, is divided into eight different sections. Firstly, the analysis opens with a theoretical discussion about democracy, the meaning of a democratic transition and its consolidation. *Sui generis*, some key characteristics of Mexico's political system and government are also presented, such as the central role of presidentialism and the former ruling hegemonic party. Grasping those factors is of the utmost importance, as it allows us to gain insight into what the contemporary democratization process means, for it has often

fallen victim to an authoritarian concern for stability in that country. It is contended that the meaning of democracy is not restricted by any means to the exercise of free and competitive elections (Levy and Bruhn, 2001). Important as they truly are, they are just a mean, albeit one which cannot guarantee totally, of reaching more egalitarian outcomes. In order to provide an adequate contextualization of the strategically selective, but never determining, contexts within which democratization processes take place, I explore the early 1980s' economic crisis as a crucial moment for intervention. Taking it as a milestone, this was the period from which the Mexican economic restructuring experience took off. Within this context the political reforms have been implemented at a very slow pace, especially if compared with the rush and sense of urgency associated with the economic agenda. Taking into account all these elements, I stress the importance of networking not only for increasing the degree of political autonomy of the situated agents in context, but also for strengthening democratic practices. Finally, after analyzing an agenda of transformation suggested by the World Bank, I sketch the participatory relevance of networking for enhancing the relevance of a more inclusive, democratic and equitable common strategic agenda.

DEMOCRATIZATION PROCESSES: AN ENTERPRISE WORTH EMBRACING

González Casanova lucidly stated in the early 1970s that the meaning of *Democracy in Mexico* is not narrowly defined to electoral issues. Rather, such a form of government implies quite strong shared meanings which go beyond the polls, to the extent that people share culture, income, and power. He also saw a relationship between the shares as a prerequisite for development, which not only entails

economic growth but also the redistribution of the national product and which in the end represents a transformation of society (González Casanova, 1970). Thus, equity and liberty are perceived as key components of democracy. It does not come as a surprise that for Mexican people the exercise of freely voting in elections, in addition to decisive steps towards economic well-being and respect for the rule of law, is considered as a means to achieve a political model which can ameliorate historical levels of inequality (Camp, 2003).

Even though such statements were made several decades ago, the broad challenge of democratization still stands. The Mexican authoritarian regime ruled by strong presidents, elected from a hegemonic party, suffered nominal discontinuity in 2000 (Camp, 2003; Levy and Bruhn, 2001). However, in narrow electoral terms, the transition to democracy in Mexico, important as it undoubtedly is, represents no culmination of the broader process of democratization. On the contrary, the fact that the first half of the Mexican revolution motto of ‘effective suffrage, no reelection’ was shamelessly ignored, while the second one was revered, delivered quite a sui-generis political locus in the country. There is no doubt that such a scenario must be transcended if the aim is to move from the rule of legality to the rule of law and to achieve a more democratic and egalitarian society.

In Sartori’s words “(w)hat democracy is cannot be separated from what democracy should be. A democracy exists only insofar as its ideals and values bring it into being...” and sustain it (cited in Whitehead, 2002, 20).³ Clearly, this is another neat

³ Quoted in Whitehead’s *Democracy. Theory and Experience* as a ‘deontological concept’ where democracy can and should be integral to the meaning of the term. Giovanni Sartori’s influential

example of the impact of ideas as causal and constitutive of material outcomes, which the Strategic Relational Approach is properly equipped to identify and handle. Furthermore, it is evident that there is a normative element in the literature on democracy. This normative position in turn, goes beyond necessary but insufficient procedures of public decision-making and accountability undertaken by citizens to elect and hold representatives accountable, and the operative principles under which regimes function. Thus, it cannot leave aside the ideas and values which are the non-material elements of democracy (Whitehead, 2002). Both academic literature and political discourse have praised it for promoting values of relativism and tolerance. Hence, democracy rests on the faith in society that making use of good judgement for pacifically electing representatives is second to no other form of government.⁴

Moreover, because the State is the basic precondition for citizenship, which in turn is needed for democracy, it has been asserted that the centrality of the role of the State remains unchallenged because no other agency is in a position to grant citizens' rights and enforce their obligations.⁵ Since democracy in the real world cannot be detached either from the State or from its experiences, their contextual variability, fluidity and contestability makes efforts to pursue democracy part of the dynamic open-ended processes. Nonetheless, the literature on transitions to democracy and democratization

account of democracy was presented in his book *Democratic Theory*, and later further expanded in his *Theory of Democracy Revisited*.

⁴ Normative commitments are far more common than is usually acknowledged; the preference for 'self-adjusting' and 'self-regulating' markets being another example. The system of ideas, values and beliefs by which the spread of the market economy is presented is normative, although it is seldom explicitly acknowledged as such. A leading economist succinctly put it this way: "I believe in trade and openness in processes: they contribute to a more open, democratic society. For me, these are values in their own right" (Stiglitz, 1998c, 92).

⁵ State and nation must not be conflated. The nation, for instance, relies mainly on the resources of collective psychological identification of the people who are part of it. However, the nation's lack of autonomy, agents and rules fall short of the State's organizational characteristics, though the former's nationals might or might not be identical to the State's citizens, as the State and the nation are clearly linked and could historically overlap (Linz and Stepan, 1996).

has paid more attention to a restricted concept which revolves around issues such as electoral competition, political participation and civil and political liberties (Diamond, Linz, and Lipset, 1990).⁶ Those issues might also include the celebration of undemocratic pacts, and the mobilizations of a resurrected civil society, but perhaps more importantly, they include the convocation and holding of competitive elections as key ways in which to pacifically exit an authoritarian regime (O'Donnell, Schmitter, and Whitehead, 1986). In this regard, a transition to democracy is considered complete when the winner of free and competitive elections holds office in government. For, it holds open contestation above the right to win control of the government; which represents only a step towards a consolidated democracy (Linz and Stepan, 1996).⁷

In the process by which such a stage is reached, namely a consolidated democracy, the crucial importance of agency has been acknowledged (O'Donnell, Schmitter, and Whitehead, 1986; Linz and Stepan, 1996). There is hardly any doubt that domestic factors and actors play vital roles in democratically oriented tasks. Yet, this is not the same thing as saying that they are isolated from external influences (Whitehead,

⁶ Factors which are considered to play a role in the transition to democracy and democratic consolidation include the legitimacy and performance of the government holding office, the political leadership of some key actors, the country's political culture, the social structure and the levels of socioeconomic development, the strength of associational life, the roles of the State and the society, the adequacy of political institutions, the existence of ethnic and regional conflict, the involvement of military men and factors present in the international arena (Diamond, Linz, and Lipset, 1990). Even though these factors are considered to contribute towards democratic stability, in the case of Mexico Levy described a pattern of contingent convergence, as they became part of a complex system of stable civilian rule without democracy (1990).

⁷ According to Linz and Stepan the conditions which can facilitate the consolidation of democracy include the development of a free and lively civil society to associate and communicate; the existence of a relatively autonomous political society capable of taking part in free and inclusive electoral contestation; the pre-eminence of the rule of law to ensure guarantees of civil liberties; the State's apparatus to operate bureaucratic norms usable by democratic leaders; and the so-called 'economic society' capable of participating in institutionalized markets (1996).

1996).⁸ Situated in context as the agents who take part in the processes clearly are, the efforts associated with democratization must be understood as a mainly open-ended endogenous process. More precisely, as democratization favours abiding by the rule of law, reaching agreements and promoting a more inclusive participation in political affairs, the dynamics of the trends and counter-trends in question tend to be characterized as a complex, long term contingent process of social construction not exempt from internal tensions (Whitehead, 2002).

Regarding the Mexican experience, the increased levels of political autonomy which agencies develop, both individually and collectively, contribute towards continuously reshaping the conditions surrounding them. For such dialectical interaction, the movement and orientation towards an outcome which is neither fully stable, nor entirely predetermined in its sequences, nor in its time-frame, delivers uncertainty, unpredictability and uneasiness to the actors involved. Nonetheless, the transition process from authoritarianism to democracy and the democratic consolidation in Mexico are subjected to reinterpretation and revision by the society in question.⁹ It is

In addition to a democratic regime and the authoritarian regime which concerns us in this thesis, it has been suggested that some other regime types include totalitarianism, post-totalitarianism and sultanism (Linz and Stepan, 1996).

⁸ On top of international aspects of democratization such as contagion, control and consent, a relatively new element now present in the international context is the existence of conditionality from international organizations such as the International Monetary Fund, the World Bank and the World Trade Organization. There is no doubt that they have acquired additional responsibilities which exceed their original mandates. As clauses and recommendations touch upon areas of policy-making, depending on the specificities of the case, their influence may not determine a democratic outcome, but they are still a factor that must on no account be ignored nowadays (Whitehead, 1996 and 2002).

Moreover, the European Union holds democratic clauses in its membership eligibility criteria for the countries which are considered as candidates to join the EU. In a slightly different context, the 1997 Economic Partnership, Political Coordination and Cooperation Agreement between Mexico and the European Union included human rights and democracy as one of its 29 cooperation sectors. In trade related matters this agreement laid the basis for the Free Trade Agreement between Mexico and the European Union which entered into force in 2000 (Zabludovsky, 2001).

⁹ It has been argued, with the benefit of historical hindsight, that the Mexican revolution could be understood as a step forward in modernising the Mexican authoritarian State. It did not destroy the authoritarian characteristics of the previous political system, but merely modernized them. The Porfiriato, the dictatorship which, from the last quarter of the 19th century up until 1910, was the

an open-ended socially constructed project which overlaps with some other trends such as the commodification trends that I have discussed in Chapter Four.¹⁰

One of the biggest challenges for the transition to democracy and the democratic consolidation in Mexico lies in the informal rules which prevent individuals from properly sticking to the rule of law. Clearly, legality is never a sufficient condition for democratization when the rules can be easily bent, for this prevents the contenders from conducting their interactions in accordance with the logic of democratic institutions. Though the original partial and selective moves were initiated and controlled by the government, it still responded to popular pressure from below. Therefore, the process cannot be reduced merely to an affair for the elite (Harvey, 1993). The next section engages in a closer exploration of the specific characteristics which have made Mexico's government and political system such a distinctive case.

KEY FEATURES OF THE MEXICAN GOVERNMENT

regime against which revolutionaries fought in the very first stage of the conflict, emptied the ballot of content and significance. Therefore, the revolutionary cry for 'effective suffrage, no re-election' echoed deeply and powerfully in Mexico at the time, as it still does nearly a century later. Despite an advanced set of rules incorporated into the 1917 Constitution, expedient government actions and social inertia ended up adapting authoritarian features of past regimes to a contemporary context, institutionalizing them in the former ruling hegemonic party and the presidential powers (Meyer, 1977).

¹⁰ One of the key international factors which have continuously favoured to the civilian authoritarianism in Mexico has been support from other governments, especially the United States (Aguayo, 1998). For them, a stable regime has been much more important than their democratic credentials, as their wholly mixed record on the support of democracy evidences. Regarding the Mexican experience, the non-democratic nature of its political system provides significant historical examples in which a so-called concern for geo-strategy and stability has been privileged over democratic values. The northern neighbour never made public any policy or strategy towards the transition to democracy in Mexico, or towards a democratic consolidation there (Mazza, 2001).

Building on the theoretical arguments presented in terms of the Strategic Relational Approach in Chapter Five, it can be said that networking has historically been a very common social and political practice in Mexico. It has been exercised both through formal and informal channels. It has continuously contributed towards directly and indirectly re-shaping the social and political landscape there. Yet, the specific characteristics of presidentialism and the former ruling hegemonic party have played decisive roles and imprinted features of crucial historical importance.

What is without any doubt the most remarkable aspect of the processes of democratization and increasing political autonomy is the fact that it has avoided to a great extent another major armed confrontation in Mexico, similar to that of the early 20th century revolution. Yet, it is a fiction that the reshaping of institutions to make them more tuned for political competition, democratic practices and federal exercise have been undertaken without resorting to the use of force.¹¹ Though far from clean of casualties, confrontation has been, however, institutionally channelled. The political system did not collapse or break down and nor did the actors and the context remain unaltered. All this was accomplished because of the rising importance of political parties, the judiciary and the electorate, which have also contributed towards shaping

¹¹ Ignoring protests and overlooking repression have been widely used by the government and international counterparts as a tactic, especially during the 1940s and 1950s. For instance, popular and union movements in the late 1950s, which were repressed and where hundreds of workers were incarcerated, were dismissed as unimportant. Likewise, peasant and guerrilla movements have struggled not only against an authoritarian civilian regime but also against oblivion. In a country where deep and intense inequalities exist, it comes as no surprise that the number of discontents is not small. Yet, social rebellion was suffocated not by attending its demands but by State coercion and discursive indifference to violence. Additional historical examples are the late 1960s and early 1970s students' massacres. Guerrilla uprisings and the slaughter of peasants further evidenced the brutal suppression of dissidents. Blood-stained electoral frauds were also part of the mechanisms to hand. The very first reaction against the Zapatistas in the mid 1990s was repression; negotiations and an uneasy truce followed (Aguayo, 1998).

the trends towards democratization, activating checks and balances to the executive and extending further the degrees of political power and autonomy.

Without attempting to present a historical account of Mexican presidentialism, the bureaucracy, and the Institutional Revolutionary Party (Spanish acronym PRI), there is a need to recall briefly what was analytically presented in Chapter One. There it was argued that in addition to the commodification tendencies, there have also been political trends which can be traced along an analytical 'x' axis, as presented in Figure 1.2 of the chapter. Making use of the Strategic Relational Approach I suggested there that when historical and social processes cut along the political axis, a moment of crisis and decisive intervention can be identified on either pole. As I associated this with the punctuated evolution of the State in Mexico, I found that transformative outcomes such as the 1910 revolution on the negative end, and the early 1980s crisis on the positive end, meant the opportunity for new social, political and economic trajectories. Thus, for the political scales in the diagram in Chapter One, the negative end represents political constraints and the positive end is associated with opportunities and tendencies leading to political autonomy; while, for the economic scales, the positive one alludes to commodification and the negative one concerns decommodification trends.

Regarding the Mexican experience, what happened in the aftermath of the violent struggle was that government policies oriented towards socio-political preferences, developed political corporatist practices of control, and made initial attempts to deliver basic welfare. In contrast, from the early 1980s on, market preferences were ranked at the top of the agenda, and the role of the State was justified in utilitarian

terms in a relatively stable, albeit contested, fashion. In short, it is my argument that patterns of political constraints are to be found on the two left quadrants of the map used for tracing the punctuated evolutionary trajectory of the State. In contrast, different degrees of political autonomy can be found in the upper right and lower right quadrants (see Figure 1.2 and Table 1.1 in Chapter One).

It is important to bear in mind that the concentration of power and primacy of the Mexican President, subordinating the legislative and judiciary, on the one hand, and the governments of the States, on the other, responds to extremely important historical reasons. It is beyond the scope of this work to examine carefully all its phases in history. Suffice it to say that after the armed confrontation of several different factions in the revolutionary period, there was a need to confront decisively the domestic and international constraints. Imposing authority and legitimacy over diplomatic decisions, and also over strong men or ‘caudillos’, required unity and strength if different sorts of threat were to be faced. By regaining political control this way, the Mexican President has historically made use of both formal and informal mechanisms which, in turn, have contributed towards shaping the contemporary political arena. It is a process in the making, however: one that has evolved through different phases and has adapted and transformed itself, making use of all available resources.

Historically, both Mexican presidentialism and the PRI as the former ruling hegemonic party have exercised concentrated political power.¹² The President has been the major and centralized decision-maker in that country, subordinating and benefiting from a weak judiciary and Congress ever since the different stages of the

Mexican revolution came to an end. The main real formal limit of the power exercised by the President has been the length of presidential incumbency, as it is limited to a six year term without any re-election possibilities. However, as a crucial situated agent in context, the President has continuously influenced and been influenced by the changing strategically selective context he finds himself situated in. It is not my purpose to engage in a historical discussion here; rather, I concentrate on key characteristics of the contemporary period from the milestone of the early 1980s to the present day. In particular, I focus on the increasing degree of political autonomy granted by the spread of the exercise of relational power, which has made changes more noticeable.

Ever since it was created, the PRI has had a symbiotic relationship with the government, especially with the President.¹³ Despite its different incarnations, its main goal had always been to provide a national base of political support for the government, and to prevent a major political opposition coming into being, by incorporating threats and threatening the actors caught in different corporatist webs and entangled in bureaucracy (Hansen, 1971; Levy, 1990; Levy and Bruhn, 2001).

¹² For a theoretical discussion of the strengths and weaknesses of presidential and parliamentary systems, and their contrasting conduciveness to democracy, see Linz, 1990.

¹³ President Calles founded the National Revolutionary Party (Spanish acronym PNR), in 1929. It was a civil institution, crucial for making the transition from a military to a civil constituency in the post-revolutionary period. Not only did it gather different groups and factions identified with the Mexican revolution, but it also delivered some political arbitrage that facilitated the move from the rule of 'caudillos' to the legality of institutions. A few years later, in 1938, President Cárdenas modified the structure of the party and changed its name. The Party of the Mexican Revolution (Spanish acronym PRM), adopted a sectoral structure to dilute the strength of regional leaders. In addition to the military, there were popular, labour and peasant sectors. Perhaps more importantly, the unwritten and informal autonomy of the six year presidential term became a watershed in Mexican politics, when President Cárdenas expelled former President Calles from the country. The second time that the former hegemonic ruling party changed its name was in 1946, when the current label of Institutional Revolutionary Party (Spanish acronym PRI), was adopted along with some internal modifications (Medina Peña, 1995; Krauze, 1997a; Hansen, 1971).

Such a strategy of political engagement and control worked remarkably well for several presidential terms.

By engaging and controlling interest groups and channelling their demands through quasi-governmental institutions, the PRI served the presidency from 1929 until 2000, when it lost the presidential elections for the very first time. Being a key component and subject of the political system in Mexico, the role played by the former ruling hegemonic party in the process of political liberalization and democratization contributed towards shaping the patterns of continuity and change there as well. Still, one issue which should not be overlooked is the fact that the PRI also served as an arena where negotiations among diverse economic actors and their respective agendas took place. The selection of strategies was not randomly chosen, and responded to political challenges. Hence, governments' financial policies were channelled to deliver economic benefits to specific groups, networks and constituencies in exchange for renewed political support. Threats to the party's dominance were addressed by supporting the interests of those actors on whom the political survival of the former ruling hegemonic party depended (Kessler, 1999).¹⁴

Corporatism and the former ruling hegemonic party delivered political stability mainly by controlling actors and their interests, as they were not represented but cooped up. This blurred the separation of powers, as the legislature and judiciary

¹⁴ For example, threats from the 'left' as social instability and changes in the political contexts during the 1970s, were followed by ones from the 'right' during the 1980s by the business sector. From the late 1980s the challenge for the PRI was to recast its social bases and to regain electoral trust and credibility. A few years later, from the mid 1990s on, priorities moved to the bank bailout and the assertion of legislative power (Kessler, 1999). In each and every stage, material and economic resources were provided to groups which somehow threatened the party's political dominance. Since the former ruling hegemonic party lost the presidency in 2000, and can no longer make open

were, in practice, subordinated to the executive; while the federal system was, in practice, heavily centralized and the states' governors similarly depended upon the presidency (Casar, 2002). It is under such political subordination and the agenda of the dominant party that the judicial and the legislature provided sources of legitimation which permitted the dominance of the rule of legality, or a flawed rule of law, at least as operative discourse (Domingo, 2000).

Putting the political agenda second after the economic and financial agenda, the processes of political liberalization and democratization since the early 1980s have moved at a slower pace than the economic reforms. The political reforms have not been treated as rigorous self-induced enforcement mechanisms but the economic reforms have. However, more gradual and controlled though the processes have undeniably been, there have been some key changes which point towards increased political autonomy and de-concentration of power. Clearly, the need for independent checks and balances to limit the arbitrary exercise of presidential discretionary power has turned to the use of formal institutions (Elizondo Mayer-Serra and Nacif Hernández, 2002a; Ward and Rodríguez, 1999; Domínguez and Poiré, 1999). Insufficient as they have been so far, they still have contributed towards putting in motion the dynamics of respecting guarantees and abiding by the rules, however imperfect, in more careful and consistent ways. Yet institutional details such as these cannot guarantee the success of the policies or the achievement of the goals towards which they are oriented. Perhaps more importantly, the fact that sometimes they aim to facilitate dynamism, mobility and innovation, does not stop them at other times from favouring stagnation, atrophy and the status quo. In short, institutions are never

discretionary use of economic and financial resources, the current scenario has brought an end to the

neutral and their impact is heavily dependent on the use which situated actors make of them within strategically selective contexts.¹⁵

It is important to bear in mind that there was a relevant paradox in the Mexican political system. The former ruling hegemonic party delivered continuity, though not homogeneity, by different means. These included the capacity to access to and succeed in power in an institutionalized fashion, while displaying and implementing an expansion of the population's political support (Serrano, 1998; Elizondo Mayer-Serra and Nacif Hernández 2002b). Not only were these strategies flexible enough to tolerate and set limits to a different kind of political participation, but they were also strategically selected to encourage the concentration of power which the President relied on.

It was precisely this concentration of power that in turn allowed ample room for discretion and manoeuvre to the President. Facing neither real opposition, nor an effective system of checks and balances, presidential initiatives often led to unsustainable and inconsistent policies. Consider, for instance, that since the 1970s the push for changes promoted by the executive led to a serious rise in government debt and public expenditure, soaring levels of inflation, huge devaluations of the currency and the nationalization of the banks. Regarding the political realm, the

former period.

¹⁵ Consider for instance that the Constitutional prohibition against re-election has the unintended consequence of detaching politicians from their constituencies, exerting incentives for short-term planning and weakening the monitoring, transparency and accountability of those holding office. No re-election also contributes to cycles of incomplete and unsuccessful projects, as the tendency to abort programmes and policies and replace them with ones imprinted with a distinctive seal that breaks with or differentiates them from the previous administration are a common and widespread practice (Ward and Rodríguez, 1999; Mitchell, 2001). However, one important issue to bear in mind is that the length of the terms varies. Presidential, state governors, and Senate terms are six years; while Deputy and

Mexican political system has not been exempt from pressures to democratize, to provide a level playing field, and to deliver political autonomy for an increasing number of actors. A watershed in the transition to more democratic conditions was the 1968 student movement, demanding the defence of constitutional reform, rooting out corruption and encouraging the development of democracy. The brutal massacre at Tlatelolco, in Mexico City, would forever symbolize the government's repression of dissidents. A few years later, the desire and efforts to revitalize the student movement were shattered with another brutal repression on Corpus Christi Day (Hellman, 1978; Aguilar Camín and Meyer, 1993; Aguayo, 1998; among others).¹⁶

The authoritarian strategic selectivity, in a path-dependent way, did not allow the efforts to democratize Mexico's political agenda to flourish; they were postponed time and again on the name of stability. The economic difficulties of the late 1970s and early 1980s were, in turn, narrated and discursively appropriated by the government. It is, therefore, imperative that, before engaging in a deeper scrutiny of the political autonomy in that country, I give an overview of the 1982 economic crisis, as it represents not only a milestone in the contemporary history of Mexico, but also a strategically selective context within which the setting of the agenda for democracy was systematically delayed. Additionally, I also examine the tangled webs of the period woven by technocrats and the finance sector.

other positions are held for three years. Re-elections on a six-year term would mean twice as much time for those in office, the equivalent of four three-year terms in other countries.

¹⁶ The memory of repression is very much alive, as the 'dos de octubre no se olvida' Mexico City graffiti recall the 1968 October Tlatelolco massacre. The Corpus Christi massacre happened in June 1971.

MOMENTS OF CRISIS AND INTERVENTION: THE ECONOMIC RESTRUCTURING

One crucial international factor which needs to be taken into account for the genesis of the commodification experience of Mexico's economic restructuring is the changing role of the United States. What used to be one of the principal capital exporters and creditors since the end of the Second World War, during the 1970s and early 1980s, it found itself unable to sustain its financial and productive superiority and became a net importer of capital. The main reason for this qualitative change was the need to finance both its trade and fiscal deficits with external credits (Gilpin, 2000 and 2001). In the second half of the 1970s, the United States started to have a negative balance of trade, due to an increasing quantity of imported goods into its economy. The second half of the 1980s saw a further increase of imported goods, which after a short recovery has spiralled uncontrollably since the early 1990s. The urge to consume imported goods has not been matched by the growing number of exports, widening the trade deficit every year to levels never reached before. Hence, capital investment in the stock markets has served as an important financing source for the US trade balance deficit.

The direction of capital flows and the function of the transnational banking system was substantially altered as a consequence of financing US trade and fiscal deficits by external credits. While rises in interest rates aimed to attract increasing volumes of capital inflows, the magnet of US markets and financial instruments delivered a more attractive financial profile for capital flows and the transnational banking system,

which hardly any other economy, especially in the developing world, could compete against (Dussel Peters, 2000).

Within this international context, macroeconomic mismanagement was the root of the 1982 economic crisis.¹⁷ In order to finance expansionary policies, the Mexican government during the previous decade had made use of international credit. Since the economy at that time depended heavily on oil exports, problems arose when the international oil price dropped in the early 1980s, placing Mexico in a position where it could no longer sustain its external debt, mainly to banks from the United States (Lustig, 1998). The involuntary moratorium on the external debt triggered the devaluation of the peso. The aim of this was to generate a balance of trade surplus. As an international debt crisis unfolded the government nationalized all banks operating in Mexico. Domestically, the exchange rate of the peso soared from 25 per US dollar to more than 1500 five years later. Internationally, within a year from 1982, more than

¹⁷ For the purposes of this thesis it has been stressed that since the late 1970s, but particularly since the early 1980s, a crisis milestone implied a decisive moment of intervention in the processes of social change in Mexico. Even though the reorientation of economic priorities has been evident, it is not the same thing as to say that a rupture with past models, policies and programmes happened overnight. Rather, the new emphasis was based on previous achievements, and some overlapping, as countertendencies to a main trend also coexisted. This is clearly evident in the case of the economic reforms in Mexico since the early 1980s' debt crisis. Although the import substitution industrialization was criticized and singled out as the core of the economic problems in the country, from an historical perspective it was the pillar of Mexico's modernization process through industrialization (Villarreal, 1990). At first glance it may appear that in historical terms the inward looking and the outward looking economic strategies are opposed to each other; nevertheless, in reality they have played a more complementary role than is generally recognized.

It is important to recall that, helped by the Strategic Relational Approach framework, it was in Chapter One that the import substitution industrialization model was identified as more or less parallel to the strong presidentialism and corporatism's political engagement of the period, in the historical trend of the processes of structural change in Mexico. The economic strategy could also be considered as part of a political and social consensus which had the objective of protecting the domestic industrial structure, facilitating a specialization in manufacturing commodities through different forms of State intervention. The specialization of the model was in the production of consumer and intermediate goods provided by domestic private firms; while transnational corporations concentrated in relatively more advanced manufacturing branches.

The problems were that a 'truncated' pattern of industrialization developed which was heavily dependent on imports and also on external financial resources, mainly from agriculture and tourism. The situation was aggravated during the 1970s as import substitution industrialization was carried on

a dozen other economies were experiencing the same type of fiscal and foreign debt crisis, spreading economic stability concerns throughout different latitudes (Adams, 1997).¹⁸

During the summer of 1982 an emergency loan of US 4.55 billion dollars was arranged and led by the United States government and the International Monetary Fund, in which commercial banks agreed to reschedule the Mexican debt. For the financial assistance of 1982, the US Department of Agriculture provided a loan in exchange for a guaranteed purchase of surplus maize resulting from its agricultural policy. An oil credit guarantee was more problematically agreed between the two governments. After offering a low price for the prepayment of Mexican crude oil for the Strategic Petroleum Reserve, the US Department of Energy proposed that the Mexican government should pay an initial transaction commission. Even though the final agreement conditions were not disclosed and they have been kept secret, the interest rate was close to 38%, more than twice as much as the market interest rate at that time. The US Federal Reserve and the Treasury Department complemented the financial resources from the United States, whereas some other developed countries did the same through the Bank of International Settlements (Lustig, 1997a). In short, the rescue package proved more satisfactory to the US government and to the banks as well, as the latter avoided collapse. It has been argued that their survival depended on keeping Mexico afloat (Adams, 1997). Although all loans were fully paid the year after, the scarce funds allowed only for a comparatively slow recovery, imposing high

external borrowing and dependent on petroleum. Despite direct support and indirect subsidies, the dependence on intermediate and capital goods was not overcome (Dussel Peters, 2000).

¹⁸ During the early 1990s, the Mexican government changed the currency, replacing one thousand old pesos by a 'new peso'. The use of this label was only temporary, as the adjective 'new' was dropped

social costs on the Mexican population, since the losses of the crisis were socialized (Lustig 1998; Dussel Peters, 2000).¹⁹

Following the 1982 crisis and throughout the decade, neither external conditions, nor domestic ones were favourable to the compelled adjustment of expenditures, output reorientation and the search for ways to foster growth. High real interest rates, unfavourable terms of trade and scarce credit made for an adverse international context. During this period, Mexican international trade surpluses were used to pay the interest on foreign debt, since it was difficult to attract investment. This situation translated into a net resources transfer from Mexico to international lenders which precluded stabilization and renewed growth. The domestic conditions were no better either, because the crisis was absorbed domestically: the fall in real incomes and the rise in poverty levels provide evidence of the deterioration of social indicators. On top of that, rampant inflation, increasing capital outflows and decreasing international reserves further complicated the scenario (Lustig, 1998).

The implementation and adaptation of different strategies aiming to attract trade and investment flows became a self-induced priority for the government in office at the time. The moment of decisive intervention was seized at the international level and at the domestic level in order to impose a new trajectory on the orientation of economic policies and the role of the State. The 1980s witnessed significant changes as

shortly afterwards, and the former denomination of the peso replaced the transitory label. It is important to bear this episode in mind, especially when dealing with current value data.

¹⁹ It is important to acknowledge, however, that events such as the 1985 earthquake could not be anticipated at all, but had an undeniable impact which further complicated the challenge of economic restructuring. Moreover, the international context was no better either, as the declining international price of oil constrained this important source of income for the Mexican government afterwards.

governmental efforts were channelled towards opening up the economy.²⁰ Crucial for those purposes was the change in the industrialization model, as the new priority became an export oriented strategy which had a core component in the inbound industries originally concentrated along the border with the United States, which later spread to some other regions of the country. So were the programmes of divestiture of government owned enterprises, and the liberalization of formerly protected economic sectors. A key element consisted in central bank autonomy. This aimed to attract portfolio investment. Thus, there was a clear emphasis on increasing commodification as the trajectory of the State traced in Chapter One and Four showed.

Nonetheless, contrary to some expectations, the depressed real wages translated into economic recession rather than rapid restructuring. One of the issues illustrating the social embedded character of the markets in the Mexican experience is that the economic adjustment costs were internally absorbed without any serious political or economic disruption. Undoubtedly, the unique cohesion and control of the PRI, as the former ruling party's corporatist practices and mechanisms, were instrumental for the acquiescence of the labour force in accepting drastic cutbacks in wages.

It is important to bear in mind that throughout the long process of economic restructuring a major concern was to reduce State intervention and regulation. As this was done, the openness of investment opportunities and the building of business confidence required substantial legal and institutional modifications. The change in

²⁰ At this point it is important to recall that the Mexican President's discretionary power to decide the extent of government participation in economic activity was reduced by a constitutional reform introduced after the early 1980s' economic difficulties. Not only did the legal reform define which sectors were reserved for the public sphere, but it also provided guidelines for its participation, albeit not exclusiveness, in priority sectors. As further events demonstrated in the 1980s and 1990s, the

economic orientation and governmental policies gained increasing external support. The selling of several formerly government owned enterprises, including banks at a later stage, the strengthening of the economic partnership with the United States and the returns in the stock exchange, were all perceived abroad as favourable changes. As a response to the attraction of new foreign investment, some capital returned to Mexico. Within these contexts of the late 1980s and early 1990s, the government of the United States supported the decision of some international economic organizations in favour of its southern neighbour. For instance the International Monetary Fund facility was extended in 1989. Likewise, the International Development Bank increased its lending, while the World Bank facilitated a substantial amount during the period (Lustig, 1998). Attempts were made to tackle additional economic difficulties throughout the 1980s, such as the balance of payments crisis in 1985 which further devalued the Mexican currency, by contracting the fiscal and monetary policies, while accelerating trade liberalization as part of the stabilization and structural reform (Lustig, 1998).

It was also during the late 1980s that Mexico was taken as a 'pilot case' for external debt restructuring, due to its heavy dependency on international banks. To begin with, the 1986 Baker Plan introduced, for the first time, a contingency financing clause and the possibility of automatic relaxation of fiscal targets, should growth rates be less than anticipated. Expectations were not matched because the negative transfers of domestic resources characteristic of the decade continued to hinder the economic recovery, despite efforts to reverse them. Three years later, the Brady Plan took Mexico as the first country to sign clauses of debt and service reduction of medium

constitutional reform in practice has legitimized the government's decisions to withdraw from almost

and long-term debt with commercial banks. Neither plan could help Mexico to attract capital and investment on the scale required for recovery (Lustig, 1998). In order to reverse the negative transfer of capital there was a need for a reduction in the international debt service, the encouragement of capital repatriation and the attracting of new foreign investment. Without them no efficiency, equity and productivity could occur.

Despite economic restructuring, the efforts to stabilize the economy did not translate into the sustained growth which had been anticipated. Crucial domestic elements in the economic restructuring were the government-led pacts agreed with some corporatist sectors. Aiming to reduce inflation, they brought a de facto freeze on prices and wages. Following price realignment a freeze was implemented. Keeping the fiscal deficit under control and strengthening external accounts was also important. Like the privatization efforts, the reforms emphasized efficiency, regardless of an asset's ownership. Changes in name and various renewals did not alter their basic characteristics.²¹ Concerns about inflation were behind the strategies of these pacts, as wages and prices had to be kept under control, especially after

all but the strategic sectors, as already presented out in Chapter Four (Lustig, 1998).

²¹ Originally named the Economic Solidarity Pact (Spanish acronym PSE), it was later renamed the Pact for Economic Stability and Growth (Spanish acronym PECE) and renewed several times. The pacts' main features were first, the demand management component via fiscal primary surplus and the contraction of credit supply; second, incomes policies to break inertial inflation and stabilize expectations; and third, structural reform, paying attention to fiscal deficit control, trade liberalization and the divestiture of public enterprises (Lustig, 1998).

For an assessment of the most recent official programmes for poverty reduction and social development see the World Bank report *Poverty in Mexico*. For instance, CONTIGO is analyzed as a conceptual framework, and as a set of programmes that are particularly concerned with poverty reduction. As a conceptual framework CONTIGO recognizes multiple dimensions of poverty and the complementary domains of public action, including human development, income generation, physical asset accumulation and social protection. As a set of programmes, it embeds the framework within an understanding of well-being and poverty over the life cycle of individuals and households (World Bank, 2004).

inflation exceeded 160% in the mid 1980s. Restrictive fiscal and monetary policies were, therefore, oriented towards the restoration of price stability.

A more decisive push was provided by some other institutional changes. The proposal, launch of negotiations, and the ratification of the North America Free Trade Agreement provided an institutional framework for strong economic and commercial trends already under way. Needless to say, these tendencies have further deepened and accentuated since NAFTA first started operations in 1994. The trade agreement between the United States, Mexico and Canada would have not been possible for the Mexican side had it not engaged in the series of economic transformations which sought to match the market orientation and 'fundamentals' of the other members, especially the United States throughout the 1980s. In short, it evidences a clear pattern of strategic selectivity operation. Originally the United States of America and Canada signed a Free Trade Agreement in 1988. From this, the Mexican government took the idea of proposing a similar scheme to the United States. Shortly after, Canada was incorporated into the negotiations as well. The main focus of the North America Free Trade Agreement is directed toward trade and investment flows. Due to the huge size and leverage of the US economy, it represents the main and disproportionate source of foreign trade and direct investment in Mexico. NAFTA has clearly deepened and accentuated those trends.²² Since NAFTA took off, European and Japanese investment have comparatively decreased their share in Mexico. Despite governmental efforts to attract investment from some other parts of the world, the tendency towards concentration has grown further. Regarding trade liberalization, not

²² The United States' trade is more diversified with its main partners, namely, Canada, Mexico, China, Japan, and the European Union. Collectively, and individually in some cases, important growing deficits are being run on behalf of the US.

only have trade barriers been converted into tariffs, which in turn have gradually been reduced, aiming for the full liberalization of goods and services trade among the three countries; but also the initiative towards a Free Trade Area of the Americas is said to be the next step for a hemispherical elimination of barriers to trade and investment.

TANGLED TECHNOCRAT AND FINANCIER WEBS IN OPERATION

Having examined the characteristics of the infamous Mexican macroeconomic and fiscal mismanagement crisis, it may be helpful to have a look at a key development of the economic landscape at that time, which ended up proving critically important years later. The financial sector in Mexico became another source of mismanagement during the 1990s, due to over-reliance on inadequately regulated short-term capital flows. In this section I concentrate on the interaction between private and public agents. In so doing, I focus on the impact of the strategically selective context on the actor.

One of the elements which should not be overlooked when analyzing the contemporary processes of social change in Mexico is the professional profile of key government officials and decision-makers and the networks which they weave. Since the late 1970s and early 1980s, top government decision-makers in Mexico, especially those dealing with the economic agenda, received a neoclassical economic training in Ivy League universities in the United States.

Well known examples of top economic policy making positions held by technocrats include former President Salinas de Gortari, from Harvard University, and former President Zedillo Ponce de León, from Yale. Former Minister of Finance, Aspe Armella, studied at the Massachusetts Institute of Technology MIT. Former Minister of Trade, Serra Puche, went to Yale, as did the former Central Bank Director, Mancera Aguayo. Regarding the Fox's administration, the Central Bank Director, Ortiz Martínez, graduated from Stanford, and the Minister of Finance, Gil Díaz, qualified in Chicago (Camp, 2002; Babb, 2001). Such training was in many respects similar to their counterparts in international organizations and even US officials (Camp, 2002 and 2003; Centeno, 1994; Torres Espinoza, 1997; Babb, 2001).

Therefore, it comes as no surprise that the characteristics of the process of economic restructuring in Mexico match the general guidelines and concerns of international financial organizations such as the World Bank and the International Monetary Fund. For example, the concern to reinvigorate economic activity so as to resume rates of economic growth which the 'Washington Consensus' originally aimed to tackle, could be identified in the profile of policy recommendations and economic prescriptions those organizations presented in their strategies during the 1980s and early 1990s. Interestingly, since the second half of the 1990s the 'market friendly' and institutional agenda has become even more discernible as the economic advice and programmes have presented an institutional turn. Since I am not paying attention exclusively to the material realm, the impact which ideas have is one of the major analytical lines of this thesis (Watson, 2000, 2003b; Blyth, 1997 and 2002). The changes in assumptions, agendas and ideas characteristic of paradigm shifts are also part of the processes of commodification under scrutiny.

It is not an exaggeration to say that the international financial organizations were co-participants in the economic restructuring experience of several countries, although they would not admit co-responsibility.²³ Due to an adverse context associated with the external debt crisis, Mexico reached a point at which it became chronically dependent on financial resources and advice from the Bank and the Fund, as alternative private sources of credit were cancelled. The emphasis of the financial restructuring programmes and the IMF's letters of intent pointed emphatically to macroeconomic stabilization and inflation control. However, it is important to note that the characteristics of these documents reflect evolutionary political advice and aims, as they also incorporated a range of issues different from the original economic agenda. For instance, the initial concern to lower inflation and correct balance of payments imbalances, addressed in 1982, saw an increased scope of the agenda as other issues such as strengthening the banking system and the privatization of government owned enterprises, were also included in the last documents as well (Fischer, 1997; Letters of Intent and Memorandum of Economic Policies, 1999 and 2000; Rosas, 1999). The letters of intent signalled specific stages of the current punctuated evolutionary processes through which the Mexican economy has moved, but also the new character and concerns of the institutional agenda. Even though the insights about the relatively new emphasis on institutions discussed here focus on the World Bank, they can also be extended to the International Monetary Fund. In addition to the technical and economic terms in which the letters of intent are agreed, there are additional elements such as political will and trust, which affect the decision

²³ It is this unaccountability aura which has been heavily criticized in Bretton Woods organizations. Therefore, it has predictably become one of the banners of anti-globalization campaigners, critics of

of governments to engage in an International Monetary Fund programme (Vreeland, 2003).

If the first Letters of Intent were oriented more towards the use of macroeconomic policies to reactivate growth, as the 'Washington Consensus' pointed out, the last ones evidenced the institutional turn discussed through this thesis, as Chapter Seven shows. Furthermore, the International Monetary Fund exerts a degree of leverage that might influence, although in neither an overbearing nor a deterministic way, the orientation of certain policies, even without any specific reference. Unsurprisingly, it has been found that IMF borrowing is related to the opening up of economic processes in emerging markets, especially favouring capital inflows (Minushkin, 2001b). Economies which depended on international financial organizations in general and the Fund's loans in particular, during the 1980s and 1990s, are more likely to implement financial liberalization measures. The more dependent the economy is on foreign investment, the deeper and wider the opening of domestic financial markets (Minushkin, 2001b).

However, this does not mean that agencies have no room for manoeuvre and taking their own initiatives. On the contrary, the financial liberalization of the Mexican financial markets, first initiated in the late 1970s, was mainly a domestic process in which some diversification was sought to counterbalance the leverage of the banking sector. The provision of financial non-banking services and products was encouraged, although the process could not consolidate as it was halted by the eruption of the 1982 debt crisis. Nevertheless, technocratic networking developed, strengthening its

the World Bank and those of the International Monetary Fund (cf. Chossudovsky, 1998; George and

position and gaining influence. While the banking sector was nationalized in the aftermath of the crisis, some non-banking financial sectors were not. By the end of the decade, they played a key part in promoting and resuming an endogenous initiative for the liberalization of financial services. The brokers' preferences, however, were not for a full and indiscriminate liberalization. Moreover, on the Mexican side, foreign participation in the domestic market was prevented, and even the negotiations of the North America Free Trade Agreement (NAFTA) were beneficial, as the Mexican financial sector was granted provisions and a long liberalization schedule (Minushkin, 2001a, and 2002). Clearly, financial sector preferences were taken into account, whereas some other sectors could not get such privileges. What this episode evidences is the role which agencies play in shaping the tendencies and countertendencies of the processes they take part in and hence the importance of networking. Yet, one of the unintended consequences of the mid 1990s financial crisis was that it completely altered the context and conditions which had previously prevailed. Nowadays, foreign investors are taking over Mexican banking and financial organizations by buying shares in them.

Having spelled out the economic conditions of the Mexican milestone of the late 1970s and early 1980s, it is necessary to examine in further detail what the efforts towards democratization have delivered, as they have not been running at the same pace as those for economic restructuring.

MOMENTS OF CRISIS AND INTERVENTION: SLOW MOTION POLITICS

Sabelli, 1994 among others).

As already discussed with the application of the Strategic Relational Approach in Chapter Four, the milestone of the early 1980s is associated with the commodification experience of economic structural adjustment and the modification of the trajectory of State policies since then. Economic details aside, not only did they mean seizing an opportunity to re-orientate the economic agenda and trajectory of the policies, but they also triggered, albeit relatively slowly, the gradual constraint and control of presidential discretion and excesses by opting for institutional guarantees. However, the restoration of trust and credibility in the economic reform took much longer than originally expected. The failure to attract enough foreign investment, on which the outwardly oriented economic model depends, led to a deepening and a widening of the original move. The lost decade of economic growth of the 1980s was followed by a similar disappointing performance in the 1990s. From the second half of the 1980s on, strategies included heterodox economic stabilization and adjustment policies and plans such as the Baker Plan and the Brady Plan. Even the North America Free Trade Agreement is considered to 'lock in' economic reforms. Despite the fact that the financial crisis was much bigger in the mid 1990s than in the early 1980s, trust and credibility did not take very long to restore. Crucial in this respect was the rescue initiative supported by international financial organizations and led by the United States government to protect its own interests (Lustig, 1997a and 1998; Adams, 1997).

The political system in Mexico, which has played a central role since the early 20th century, took steps towards the promotion of stability in policies and the rule of law. Because the Mexican government tried to exercise leverage and control over the

degree of openness to avoid altering the status quo, it has been characterised by some analysts as a stable civilian rule without democracy, or even a semi-democracy (Levy, 1990; Levy and Bruhn, 2001).

An important organizational innovation, the creation of the Federal Electoral Institute (Spanish acronym IFE) in the early 1990s and its gradual consolidation as an impartial authority have contributed to reshape the electoral and political landscape in Mexico (Serrano, 1998; Domínguez and Poiré, 1999). Due to their close links to the President and the former ruling hegemonic party, the organizations which preceded the IFE served mainly to legitimize frauds and control opposition, as they hesitantly paved the way for political liberalization. For instance, the 1977 Federal Law on Political Organizations and Electoral Process retained close government control. However, it gave some room to liberalizing procedures for recognizing political parties, introduced a few changes in electoral procedure and extended for the first time access to the mass media for political parties. Although further reforms in 1986 were also directed by the government, they allowed a modified proportional representation in the Chamber of Deputies, and gave more freedom, information and exposure to alternative positions (Levy, 1990). Yet, despite legalistic reforms the rigged presidential elections of two years later evidenced the gap between the spirit of the law and its observance.

In addition to allowing the Federal Electoral Institute to act as a body independent of the executive to deal with elections, modifications in the regulation of party finance and a more diverse and inclusive evolution of congressional politics were also of key importance for levelling the field for all contestants. Furthermore, even before the IFE

was established, the political and electoral landscape had suffered important changes. Not only has it been debated that the winner of the 1988 presidential election did not sit in the presidential chair, but also that the former ruling party had lost the capacity to make constitutional changes on its own.²⁴ Even though the PRI controversially held the presidency for two more terms until 2000, it did not win two thirds of the lower chamber seats, making political alliances and coalitions necessary. The government's main move was to approach and negotiate with the conservative National Action Party (Spanish acronym PAN), which ended up winning the presidency twelve years later. The left-wing coalition entering this election, which challenged the government, founded, albeit with some modifications, the Democratic Revolution Party (Spanish acronym PRD). Nowadays, it is regulated that no political party can occupy two thirds or more of the places needed for constitutional reforms (Elizondo Mayer-Serra and Nacif Hernández, 2002a).

At the turn of the 21st century, divided federal congresses, alternating governors, states' congresses, and municipalities amongst the main political forces, namely PRI, PAN, and PRD, have become a common scenario. There is increasing room for political autonomy in Mexico. Such an important trend is supported by stronger and more independent institutions which have moved away from the heavy concentration of presidential power and discretion. Since a democratic and representative rule is better exercised by federal practices which aim to provide non-centralized

²⁴ Former Mexican President Miguel de la Madrid admitted in his memoirs that the 1988 election was rigged. As the PRI candidate was losing badly to the opposition leader, Cuauhtémoc Cárdenas, the government rather than reporting what the results were, argued that the computer system tabulating the votes had crashed. Furthermore, without any official ballot count the PRI declared himself a winner and even received a congratulatory note from the government of the United States. In 1991, a Congress dominated by the PRI and the PAN ordered the ballots of the 1988 presidential election to be burned, destroying the only hard evidence of the fraudulent elections (Aguilar Camín and Meyer, 1993; Aguayo, 1998; Fernández de Castro and Domínguez, 2001).

representation, the decentralization of state governments has allowed them to regain political autonomy and, in some cases, to innovate in public policies (Ward and Rodríguez, 1999; Domínguez and Poiré, 1999). Moreover, the asynchronicity of elections for states, congresses and municipalities increases the likelihood of juxtaposition and different combinations of political membership at the different levels of government (Elizondo Mayer-Serra and Nacif Hernández, 2002b).

Nonetheless, the increasing room for political autonomy and the transition to, and consolidation of, a narrow concept of democracy is not exempt from difficulties. Clearly, electoral reforms are just means, never an end, in the construction of a more egalitarian democracy. Risks such as granting privileges to political parties or any other actor, at the expense of not properly strengthening the citizens' formal capacity and resources to exercise their rights, and to demand transparency and accountability must be avoided. For no political franchise is more valuable or important than the goal it aims to achieve, especially in a country where democracy with equity is badly needed.

Even though the consideration of an independent judiciary has historical roots which go back as far as the 1857 Constitution, the fact that the legal system is influenced by the political context has heavily conditioned the degree of judicial independence. This is because the current 1917 Constitution, sticking to a rule of legality, rather than to a proper rule of law, has historically determined the judicial system and its organs such as the courts, especially in its relationship with the President. Clearly, maintaining a low political profile in order to avoid conflicts with the executive, all in the name of political stability, meant that alignment was achieved through strategies which bound

the judiciary to the presidency, therefore limiting the principle of separation of powers (Domingo, 2000). Yet, it is important to note that such a scenario was achieved without upsetting the constitutional order. If political liberalization and democratization has been subordinated to the economic priorities, which have resulted in increasing commodification, then reforms to the judiciary rank third in turn, subordinated to political considerations.

Still, there has been a pair of Constitutional reforms during the mid 1990s which could serve as preliminary steps towards an increasing degree of democratization and political autonomy for the political agents. Firstly, the 1994 reform tightened criteria for the selection of candidates to the Supreme Court, stressing specialization and experience and at the same time detaching them from political profiles. Since the same year, two-thirds of the Senate have to be elected from a list of candidates presented by the executive. As life tenure was changed, individuals were appointed to the Supreme Court for a fifteen-year fixed term. Moreover, the judicial budget no longer needs approval from the President. Secondly, the 1996 reform extended the review powers of the Supreme Court to some electoral matters.²⁵ It is now possible to rule on the constitutionality of electoral laws at a federal and state level and jurisprudence has started to develop relating to inter-government and intra-government relations. Additionally, the establishment of a collegial citizen counsellor body in charge of the management of the electoral processes of the Federal Electoral

²⁵ The nature and scope of judicial review powers is based on the ‘amparo’ suit, which has worked as the main legal tool to contest the legality or consistency of laws, resolutions and judicial decisions with the 1917 Constitution. However, the main characteristic of the ‘amparo’ suit is that it protects only the plaintiff, or person who brings or appeals the legal action, without leading to the abrogation of the law or act in question (Domingo 2000).

Institute has strengthened its independence (Domingo, 2000; Ward and Rodríguez, 1999; Domínguez and Poiré, 1999).

Nonetheless, important as these reforms certainly are, there is no guarantee that the enhanced political profile of the Supreme Court translates into a better administration of justice. The impartial and predictable protection of rights and enforcement of rules is still an unfulfilled goal, as is the binding of all actors to place effective limits, checks and balances within the discretionary exercise of power of the executive in Mexico. The next section focuses on the importance of networking, whose crucial constitutive element, namely common and complementary agendas, will be discussed and initially sketched in the final parts of this chapter.

NETWORKING INVOLVES MUCH MORE THAN TECHNOCRATIC WEBS

The rise of a group of neo-classically trained economists during the last three PRI presidential terms of the 20th century, in which the last two even held office, has been the subject of a number of different analyses (Centeno, 1994; Camp, 2002; Babb, 2001). Although the composition of the cabinet of the next administration tended to be more diversified, it still preserved some positions for professionals with the same profile. It is striking that postgraduates in economics from Ivy League colleges in the US have not delivered the most efficient solutions to some of the key problems and issues for the contemporary Mexican agenda, as illustrated in Chapter Four. Nevertheless, it has been suggested that their contribution tends to be more symbolic than functional, as they earn approval and respect from the international and financial

community, whose concern is in no way polarization, nor the rising rates of domestic inequality (Babb, 2001).

‘Technocrat’ is a term used to describe, among others, professional individuals with expertise in the techniques of neoclassical economics, who have served in the Mexican public administration since the 1970s, and who have made use of institutions, networks and ideas to direct economic policies undemocratically. Benefiting from political stability, electoral bureaucracy mechanisms and the vertical authoritarian features of the political system, they paradoxically sought to reduce the economic functions of the State, while seeking to diminish the economic influence of politics. Working as a cohesive elite with interlocking networks of patron-client relations, they opted for the centralization of power within a group of State institutions to control their resources and impose their views, especially on economic affairs, from the top of the government departments down to the different social strata (Centeno, 1994).

It is important to bear in mind that one of the key technocratic features which have been highlighted is the fact that those individuals climbed the bureaucratic ladder, and even held key government posts, such as the presidency, (i.e. like Salinas and Zedillo) without ever previously holding a democratically elected position. Crucial for such stages was the blurred boundaries between the former ruling hegemonic party, the bureaucracy and the presidency in which technocratic networks were entangled (cf. Centeno, 1994; Camp, 1997, 2002, 2003; Torres Espinoza, 1997; Babb, 2001; Williams, 2001; among others).

Since my concern is not with networks themselves, but with networking, as has been stressed in Chapter Five, it is important to acknowledge that the relational interaction among actors in open and complex systems cannot be limited to particular constituencies. Rather, networking activities are also able to connect across a wide range of groups relying on formal and informal strategies. Important as the linkages within groups undoubtedly are, there seem to be some key actors who play crucial roles. Mentors in groups such as the politicians, intellectuals, the clergy, the military and business in Mexico have played vital roles for recruiting members, broadening contacts and expanding the reach and leverage of the network while introducing aspirants to the social practices (Camp, 2002). As networking practices are not restricted exclusively to professional profiles, personal ties and informal contacts may be helpful for reinforcing networking practices and, for the actor him or herself, for influencing opportunities at every step.

Still, networking should not be understood only as a government or elite resource. There are also grassroots networking initiatives which cannot be omitted from any serious analysis. Consider for instance the indigenous peasant uprising of 1994 and the transformations it has been through ever since. They have clearly been through a transformative exercise of networking. Not only have the Zapatistas changed from a guerrilla to a social movement, but they have also modified their revolutionary discourse. By the time they peacefully marched to Mexico City in 2001, their original confrontation strategies had been left behind. The fact that the San Andrés Larraínzar Accords were not put into practice, and the indigenous rights proposal was not backed

by the Congress either, does not defeat the validity of the causes or their agendas.²⁶ By networking across several different groups they have become part of a broader movement which is helping to push for a more egalitarian society. Such a task is one that moves forward, and is not constrained by the militarization and the changes in Chiapas, but one that is open and more inclusive at the national level and which mutually recognizes a common agenda in Mexico.

Both elite and grassroots networking is reflected in policy outcomes in two different ways. There are direct effects that can be easily attributed to some specific networking practices, such as the technocratic features discussed above, on the one side; and there are indirect effects for even the same and different processes on the other. Since networking functions as a vehicle for collective action, it is inaccurate to assert that the narrow electoral concern for transition to, and consolidation of, democracy in Mexico has been a government concession. For this is simply not the case. A great many grassroots organizations and movements have historically oriented their efforts toward this goal. Therefore, in such a common enterprise they must be credited with partial and indirect contributions as well. However, the still unfulfilled broader challenge of building an egalitarian democratic society cannot stop at electoral reform. As a target of collective action, numerous partial and indirect contributions are needed if the goal of a more equitable democracy in Mexico is to be achieved.

²⁶ The San Andrés Larraínzar Accords on Indigenous Rights and Culture were signed in 1996 by the Zapatistas with two intermediaries, the COCOPA (Spanish acronym of the Commission of Concord and Pacification) and the CONAI (Spanish acronym of the National Mediation Commission). The significance of those accords is that they laid the groundwork for changes in indigenous rights, political participation and cultural autonomy, previously overlooked in the Mexican political agenda.

In Chapter Five I argued, making use of the Strategic Relational Approach, that the never-static nature of networking opens up possibilities for further elaborating and updating a common agenda which delivers, or at least is expected to deliver, benefits to the actors who actively take part in it (Hay, 1998b; Hay and Richards, 2000).²⁷ In so doing, the situated agents in contexts are capable of building different sorts of coalitions and alliances. Forging these around mutual objectives captures a range of strategies of collective action for their execution or fulfilment. But the same is also true for their termination, failure or realignment. As either successful or failed attempts are put into practice, the relational character of power immanent in social interactions, reflects that the interactions among actors do not represent a zero-sum game, for the gains of one agent do not necessarily mean the loss to another.

It should be clear by now that the processes of commodification, on one side, and the current trends towards political autonomy and democratization, on the other, are currently under way, albeit not free of countertendencies and contradictions. What I find interesting is the fact that the dynamics identified with the political axis of the theoretical map presented in Chapter One, represent social and political challenges to the economic priorities. However, embryonic the stage which these trends have reached so far for a Polanyian ‘second movement’, there is no reason to deny the possibility that they might gather momentum and strength over time. The shaping of the context and the setting of political institutions are important steps towards increasing degrees of political autonomy, which open up windows of opportunity,

²⁷ Bearing in mind that networking practices could be of great help in complementing and compensating for market failures and government failures, it is still not my argument that networks should replace markets and hierarchies as modes of coordination. Moreover, the shortcomings of network exclusion could be compensated, in turn, by the other two forms of governance. The main

though these are not free of any constraint. Still, those institutions need to be put into operation. They could only be put to work mainly by interacting agencies, where the exercise of power is a relevant and unavoidable feature. In the event that the institutions are used to meet the networkers' common or complementary agenda, their utility rises. In the event that they are not suitable for the task ahead, it becomes obvious that they are never a sufficient condition for the social processes of change. This is why it cannot be taken for granted that institutions alone guarantee the attainment of any objective themselves. As they depend on the use which situated actors make of them, institutional failures should not come as a surprise, because they are always dependent on the use, or misuse, made of them by their operators.

As an increasing number of social and political actors, both individual and collective, are able to make their voices heard, to play loyally and remain within institutional or organizational limits, the room they are given is all that constrains their ability and capability to influence the contexts that surround them. Nonetheless, opting for an exit should the agents' strategic goals not be reached, or cannot be reached from within, has become an increasingly powerful strategy which widens the spectrum of possible outcomes and viable strategies (Hirschman, 1970).²⁸

point is to avoid over-relying in only one mode of coordination, because the strengths of one compensate for the weaknesses of the others, as already discussed in the previous chapter.

²⁸ In contrast to the agreement and setting of a common or complementary agenda, useful for identifying the best networking direction to go to in order to reach consensual objectives as presented here, there are alternative views of the purpose and characteristics of alliances and coalitions. Mainstream International Relations, rooted in positivist positions, suggest the existence of threats as the main reason for coalition building and alliance creation. Whatever exercise of voice, loyalty or exit, the formation of coalitions and alliances for networking purposes can be oriented towards the weaker side or the stronger side. In either case, the decision lies in the situated agents in each particular situation, the pursued agenda and the preferred strategies. In the first case, balancing against a prevailing threat or group could represent an option for being on the safe side, as it avoids being dominated by stronger or more powerful actors or groups. In the second case, alignment with the source of danger where the stronger side prevails, which could be preferred for either defensive or offensive reasons, is also known as 'bandwagoning' (Walt, 1995). It is in the last case that depending

The mutual or complementary strategic agendas which the networks aim to serve reflect the constant motion and dynamics, at the same time that networking plays a role in the dialectical transformation to which the actors refer for elaborating their agendas. This mutually constitutive influence opens up a wide range of possibilities from which wanted and unwanted outcomes may arise. Networking across various groups increases the uncertainty, uneasiness and unpredictability of the outcome. Furthermore, the capability for delivering changes lies in the hands of the actors and selecting strategies constitutes a crucial issue if their common or complementary agendas are to be met. Therefore, the exercise of power by situated actors within a strategically selective context delivers the capacity for change (see also Chapter Two). The importance of this cannot be highlighted enough, as it means the capacity to influence not only current situations but to effect potentially deeper, wider and more consistent future transformations.

Normative as these statements appear to be at first glance, they nonetheless, raise awareness about the importance of the identification of agendas or core issues which must be fulfilled. On the basis of these Strategic Relational Approach theoretical considerations, and with the backup of the arguments presented in this thesis, it is time to present two contrasting agendas for Mexico to which I now turn in the next sections of this thesis.

DÉJÀ VU: INCREASING COMMODIFICATION

on the conditions granted for access and cooperation amongst the members may enhance the degree of

Regarding the international context, the relationship between the World Bank and Mexico has evolved through different phases. Initial contact and relations go back to the late 1940s. However, it was not until nearly four decades later, due to the set of economic reforms undertaken by the Mexican government during the last quarter of the 20th century, that it became one of the most important borrowers of the bank. The World Bank's membership is conditional on prior joining of the International Monetary Fund. Both international financial organizations' loans and conditions exert influence on many aspects of investment, institutional development and public policy.

During the first twenty years of its loans, Mexico made use of sectoral adjustment funds for electric power supply and irrigation projects. The influence on the design of economic policies dramatically increased from nothing during the 1980s as a consequence of the debt crisis, and the structural adjustment programmes characteristic of the period, which included debt reduction, trade liberalization, the design of poverty programmes, and deregulation (Urzúa, 2000). The financial crisis of the mid 1990s inaugurated another era, in which the World Bank's role and influence moved towards institutional advice, consistent with the latter's agenda. Such emphasis on institutions is further discussed in Chapter Seven of this thesis.

The concept of the State, and the agenda which the World Bank promotes in accordance with the orientation of the post Washington Consensus, are specified in detail for specific cases. In Mexico's contemporary circumstances at the turn of the 21st century, diagnoses and policy recommendations tend to orientate towards

control of some actors over others.

ratifying the commodification efforts currently under way. Because the World Bank agenda summarises the orientation of the trends currently observable and because it also matches the self-induced priorities of the government, it deserves careful analysis. Still, in this section I am not arguing that the World Bank dictates what the Mexican government should do, or should refrain from doing. Bearing this caveat in mind, and because of the close relationship between the latter and the Bretton Woods organizations, the recommendations need to be analyzed through the Strategic Relational Approach. The World Bank's development agenda for Mexico stresses the following five points: a) to consolidate macroeconomic gains, b) to accelerate growth through enhanced competitiveness, c) to reduce poverty through human capital development, d) to balance growth and poverty reduction with protecting natural resources, and e) the achievement of those goals by means of an efficient, accountable and transparent government (Giugale, Lafourcade, and Nguyen, 2001).

There is nothing new in the World Bank's agenda for Mexico. The economic priorities of sound macroeconomic management and the need to strengthen its structural fiscal position by means of a comprehensive tax reform are no novelty. It is also argued that the removal of exemptions, the management of public sector liabilities and the purge of government finances need to be accompanied by a countercyclical fiscal policy which would place Mexico in a better position to consolidate the macroeconomic gains (Giugale, Lafourcade, and Nguyen, 2001).

Similarly, the recommendation for increased competitiveness for the financial sector, infrastructure and the rural economy point towards sustainable long term accelerating rates of growth if achieved through foreign markets. It is important to point out that

back in the mid 1980s some of the economic indicators caused anxiety. For instance, the fiscal deficit reached approximately 15 % of Mexico's Gross Domestic Product, while inflation soared to over 160%. At the turn of the 21st century, these macroeconomic variables no longer represent a problem. Both of them, the fiscal deficit and the inflation rate, are under control and match international standards. Regarding the financial sector, the advice is to strengthen and deepen the reforms to ensure stability and soundness. Private funding and better regulation, we are told, are required for specific sectors such as electricity, telecommunications, gas and oil, water supply, and highways. Furthermore, the financing of infrastructure services is supposed to put more emphasis on operational efficiency and pricing without overlooking public and private finance. The constitutional amendments and the new legislation provide the legal framework for the privatization of ports, railways and airports, although an independent transport regulator is needed.

Mexican agriculture has faced drastic reforms such as trade liberalization, subsidy elimination, the constitutional reforms of land tenure and a new programme of land titling. This last item is problematic. Not only do increased levels of poverty affect one fifth of the labour force, causing it in turn to generate only a small share of Mexico's GDP, but also open competition with the North America Free Trade Agreement is due in 2008. The rural sector seems to be in an unfavourable position to compete with the United States' agricultural sector, which enjoys heavy subsidies. However, the World Bank's orthodox recommendations for the rural sector focus on the liberalization of grain subsectors, the establishment of regulatory frameworks, and an increase in the efficiency of the public support programmes (Giugale, Lafourcade, and Nguyen, 2001).

Important as all those recommendations are, they clearly emphasize macroeconomic gains and growth as the goal of development. Development of equitable growth, however, is not merely an economic concern. It is a more complex and multifaceted issue than it would appear at first glance, as the seminal work of Schumpeter made clear (1934). As discussed in the opening section of this chapter, González Casanova pointed out that people sharing income levels, culture and power are basic necessary conditions for achieving the goal of democracy. Furthermore, the equitable distribution of costs and gains, the growth of national accounts, and the rise in living standards, all refer to moral and political dimensions as well (1970). The dimension which is defended in this thesis is the political relevance of all collective social activities, independently of their organization and categorization. Therefore, the all encompassing spectrum of politics which the Strategic Relational Approach adopts reveals that the perception of economic imperatives is by no means irresistible, but highly political and open ended.

It has already been discussed in Chapter Four, above, that the sharing of income has been problematic, especially since the early 1980s, in which the orientation of a new economic model was accentuated. The gradual outward orientation of the economy, in addition to the emphatic implementation of liberalizing economic sectors and also the deregulating of economic activities, has contributed to polarize the wealth distribution in Mexico.²⁹ Moreover, it is crucial to stress the importance of the widening income

²⁹ The unequal income distribution in this country is by no means a novel phenomenon, and it is not exclusively due to neoliberal reforms or to the commodification process. Even though it has been present in all the different historical periods and stages ever since the nation gained independence from the Spanish crown in the early 19th century, it clearly goes beyond the scope of this thesis to engage in the historical research and analytical treatment of this particular topic. For a discussion of the widening

distribution gap during the last decades (World Bank, 2004). Unevenness has accentuated the process of making the worse-off the most vulnerable sectors of society. The unequal concentration of wealth in the richest deciles of the population, in the context of the deterioration of the poorest ones, has gradually made evident there is an increasing need for a governmental role regarding redistributive policies.

The problem with the commodification strategies is evidenced in the social costs currently facing some sectors of the Mexican population, as already analyzed by the application of the Strategic Relational Approach in Chapter Four. It is a cause of concern that there is an increasingly uneven distribution of wealth among the social groups and the economic sectors to which they are related. The widening gap between the better-off and the worse-off reflects an unfulfilled promise of recovery of real wages and the already large and expanding informal sector (Williams H., 2001; World Bank, 2004). What is considered to be the most important part of the World Bank agenda is the consolidation of macroeconomic gains and the promotion of growth through enhanced competitiveness. However, such priorities have adversely impacted upon labour. More importantly, social and environmental concerns are not top of the agenda, since they are considered secondary to the first two points of the World Bank's development agenda for Mexico. The World Bank argues that crucial to the development of human capital is the quality of the public provision of education, health, social protection and other human capital forming services so as to close the gaps in social protection. The provision of security, the building of opportunity and the promotion of empowerment represent a challenge ahead. Broad social policies for security, health, education, job training and housing require the

income gap in the context of contemporary commodification processes in Mexico, please refer to

Mexican government to play a decisive role. A similar case can be made about the increasing commodification which the environment is going through. It is becoming urgent first to stop, and second to reverse the mining exercise which has been depleting natural resources. According to the World Bank the removal of subsidies, the clarification of property rights and decentralization efforts are required. An evaluation of the environmental situation by the government is a relatively easy task, especially if compared with the challenge of providing adequate incentives to stop environmental degradation without affecting communal preferences and structures (Giugale, Lfourcade, and Vinh, 2001).

The reduction of poverty levels and the protection of natural resources cannot be achieved simply by following a market rationale, since redistributive efforts are needed in order to counterbalance the tendency towards concentration which markets often evince if left on their own. It has been argued that there is a need for the government to intervene and to play a decisive role in balancing market imperfections, as discussed in Chapter Two. The challenges ahead for environmentally sustainable practices are not merely economic in nature, as indeed they never have been. They are also social and political, due to the fact that markets are embedded in broader socio-political structures.

A strong political commitment and deep institutional coordination is required if the protection of natural resources and poverty reduction are to be seriously addressed. Since these areas neither have an immediately profitable impact, nor are they prone to the spectacular raising of revenue as some speculative activities are, the role which

the government plays is, thus, crucial for redistributing resources in a more balanced way. There is no argument that special attention needs to be granted to the most vulnerable sectors of society. Yet, experience shows that palliative policies which target only specific groups or small sectors have not achieved anything but delaying a proper solution to the polarization problem. They will not do anything more than this, unless a change in the priorities and their matching strategies provides adequate levels of protection, based on the idea that exchange relations are not to dominate.³⁰ Overlooking production and distribution relations depreciates the value of labour and praises overvalued exchange transactions in the final stages of economic activities (Watson, 2003b). Therefore, a more balanced attention is needed to all the different phases of the provision of goods and services. An approach in which the natural resources are neither unsustainably extracted, and in which labour is not perennially condemned to low-wage and low-skill tasks, requires to place equivalent incentives on each part and component of the whole economic cycle. At the same time, it clearly needs to place disincentives on the emergence of inequalities and on the overvaluation of partial activities as if they were disconnected from the rest, for they are not. In short, costs and gains need to be equally shared and their value must be better balanced throughout the whole process.

³⁰ According to the World Bank the building of an efficient, accountable and transparent government is the last priority for the Mexican development agenda. It becomes evident that the commodification emphasis stresses commercial and financial imperatives and scrutinizes the fiscal and macroeconomic performance of the government. There have been, however, some criticisms of the way in which decentralization has been carried out, as it has been argued that a proper model is not clearly defined. Furthermore, the judicial system is plagued with inadequacies and in need of a major overhaul; and decisive initiatives and actions are also required to reduce the incidence of corruption in the governmental sphere. Propelled by the imperative of reducing costs and increasing efficiency levels, the orientation of the recommendations points to a less centralized type of government. This in turn

PRELIMINARY SKETCHES FOR AN ENHANCING AGENDA OF REFORM

Due to the historical characteristic of the federal level having primacy over the state, the concentration of power in the Mexican President and the former ruling hegemonic party, plus the subordination of the legislature and judiciary, it is not surprising that networking in Mexico has been primarily political and concerned with specific policies. Still, this is not the same as saying that we should dismiss the utility of an approach which focuses on networks and the transformation capabilities of networking operating beyond such a realm. On the contrary, as I have shown in Chapter Five, key for the operation of networks and the functioning of networking is the identification of common and complementary agendas. It is not restricted by any means to the character of partisanship or policy. Since networking is such a flexible strategy, network formation could bring up unintended economic issues, or affairs of any other nature of relevance to the situated actors.

Authoritarian regimes typically leave a difficult economic legacy due to their lack of accountability and democratic deficits; since one of the effects of democracy and political autonomy is that, in a sense, they make uncertainty more likely, the transition to, and consolidation of, democracy set up the likelihood, without determinism, of further transitions (O'Donnell, Schmitter, and Whitehead, 1986). A crucial one, if not the most important one, goes beyond the making of citizens, and concerns the reduction of polarizing inequalities and the provision of equal benefits to the population from the goods and services generated by the society. Such a fundamental and ultimate objective, normative as it is, constitutes in itself a highly desirable goal

aims to facilitate increasing private decision making, while government intervention would only be in

whose attainment should suffer no further delay. Although the road for such a Polanyian ‘second movement’ is very likely to be full of unpleasant surprises and difficulties, it is an enterprise worth embarking on, rather than leaving the attainment of a better world to chance.

The processes of political liberalization and the struggle for democratization are by no means a novel phenomenon in Mexico. The current processes and dynamics owe much more to opposition, whether formally organized or not, than is officially acknowledged. The historical gestation has been lengthy and not exempt from risks, difficulties and challenges (Aguayo, 1998). Opposition threats have triggered changes in the former hegemonic ruling party, the electoral procedures, institutions and practices, and even in the reach, transparency and accountability of the executive. The costs of legitimacy have contributed to undermining the conditions and viability of the former symbiosis between the Mexican President and the former ruling hegemonic party. Incomplete and unfinished as these trends still are, they deliver a vivid example of the power of agencies to influence the strategically selective contexts in which they are situated. For the Strategic Relational Approach, the ever-changing dynamics in motion provide a spectrum of different possible outcomes. For example, the last two terms of the PRI in office saw opposition parties win an increasing number of seats in the lower chamber. They became the majority during the last few years, along with an increasing number of governors from opposition parties, including the one in Mexico City.³¹ As PAN succeeded in overtaking the former ruling hegemonic party in the struggle for the presidency in 2000, it is

regard to public goods (Giugale, Lafourcade, and Nguyen, 2001).

³¹ Since the very first time that democratic elections were held for the post in 1997, the Partido de la Revolución Democrática (PRD) has held office.

currently facing similar scenarios of divided government and juxtaposition at all levels.

Nevertheless, those scenarios tend to be more democratic, representative and inclusive than the seven decades of PRI rule, as they make use and push for increasing political autonomy and the further spread of relational power immanent in social interactions. Historically shifting from induced consensus to compromise and negotiation is not an easy and unilinear process; it varies spatially and temporally. What is important, however, is to orientate the efforts, constraints and opportunities which increase the level of political autonomy in order to capitalize on shared governance. Achieving such a goal, with an increasing capacity to attract and incorporate as many actors from civil society as possible into the decision making process, would be critical in forging a more consistent, solid and strong process of democratization in Mexico. The opportunity has yet to be taken.

Without pretending to deliver a prescription of economic policies or a programme of what I perceive ought to be done, I want merely to draw some very broad and tentative sketches for action in Mexico, which I consider must not be postponed any longer. As been suggested in Chapter Four and the present chapter, there is no need to present specific policies of reform or to prescribe substantive alternatives. Still, making use of the Strategic Relational Approach, it is possible to restore agency and the causal constitutive role of ideas to the analysis of otherwise structuralist and deterministic processes. Therefore, what I can do is to sketch a few non-hierarchical suggestions to reinvigorate the role of actors and ideas for broad areas of reform which could be discussed and included in a common and strategic agenda for Mexico.

Networking could help make the agenda for a more equitable social, political, and economic scenario real, both as an enhanced whole and in its individual and constitutive elements.³² Disaggregation into smaller and complementary agendas could increase the likelihood of the viability and success of the whole enterprise. Needless to say, the following points neither constitute a government programme, nor are they policy prescriptions and must not be considered as such.³³ Rather, consistent with the argument presented through this thesis, I also maintain broad trajectories of reform perspectives in the propositions presented below.

1. Bear history in mind. Historical experiences are crucial for understanding where we stand, and are of great help in identifying where we want to go. They help in bringing consistency to the agenda. Historical lessons must not be ignored for the sake of short-term goals. The perspectives and insights which history brings cannot be replaced in any form or sense.
2. Aim for endogenous equitable growth. Keep sound public finances in sight, and a long-term consistent implementation of progressive economic environmentally friendly policies, attentive to their social impact.

³² In some cases networking has been associated with corruption. This can be the case if the members of the network set such an objective in the agenda. However, corruption can be eradicated with transparency, accountability and the sharing of information. Therefore, the importance of the agenda for networking practices and potential is vital, as it orientates the efforts of the participants in the network. The capacity and feasibility for transformation which this mode of governance can deliver make it an optimal complement for markets and government, due to the transformative powers which the members of the network can infuse in it. Since there is always a risk of failure, networking dialogue cannot guarantee success, but neither can hierarchic command or decentralized and anarchic exchange.

³³ I am grateful to Matthew Watson for discussing and providing insight into the relevance and presentation of the agenda. For sketching what the tasks ahead are, see Aguayo, 1998; Calva, 2000; Dussel Peters, 2000; Domingo, 2000; Giugale, Lafourcade and Nguyen, 2001; González Casanova, 1970; Moctezuma Barragán and Roemer, 2001; Stiglitz, 1998c; and World Bank, 2004; these among others, were useful references.

3. Broaden democratization. The concept is by no means limited to electoral affairs. As an open-ended process it delivers windows of opportunity for a more inclusive and egalitarian society, economy and political life.
4. Articulate domestic economic activities without subordinating them to international imperatives. Domestic market activities must be reinvigorated, not only to reduce dependency and vulnerability on foreign markets, but also to promote endogenous conditions for growth with equity.
5. Protect the environment. Sustainable economic activities are not mining practices where the environment may be used as a site for the assimilation of waste and pollution. It is not only necessary to stop the depletion of natural resources, but also to reverse the current environmental degradation now in progress.
6. Forge strong and sustainable commodities and service chains, strengthening forward and backward economic linkages between firms and within sectors. Industrial policies which foster exporting goods and services not based on low skill and low wage assembly chains are needed. They must add value and strengthen the complementary articulation within firms and sectors and across the economy.
7. Promote further political autonomy. Facilitate the conditions for greater degrees of autonomy, paying particular attention to decentralized finance and regulatory frameworks, would help to empower actors. This is a prerequisite for a more balanced social, cultural and political representation.
8. Create and strengthen quality clusters of innovation. Encourage and facilitate the creation, development, acquisition, selection, and adaptation of sensible technology which would serve and enhance added value market niches.

9. Set and operate further checks and balances to the excessive discretionary exercise of power of the President. Even though there have been some steps taken in the separation of powers among the presidential, the judicial and the legislative government branches, it is still an unfinished task.
10. Develop human capital. Reinvigorate the potential and capabilities of individuals. Health, nutrition, education and training guides and facilities should be available through the whole territory, paying attention to regional and local needs and resources. Social learning which could be scaled up would be optimal.
11. Make public and private posts and management accountable and transparent. If the problems of imperfect information, incomplete markets, inefficiencies and disruptions are to be tackled, both public and private sectors could benefit from less corruption. Adequate incentives for a career in the civil service are required to terminate the hijacking of the agenda for electoral constituencies and patronage practices. An independent judiciary is vital.
12. Rescue social policies from their subordination to economic policies. Improve the quality of jobs and eliminate sub-employment and unemployment. Promote adequate welfare provision and policies which aim at reducing the income distribution gap and target the most vulnerable social sectors.
13. Move away from the rule of legality and encourage enforcement of the rule of law. The abolition of privileges and exemptions that undermine the letter and the spirit of the law, pointing towards a credible and independent judiciary, must not be postponed.

14. Facilitate conditions for improving domestic saving and investment rates, lower dependency from international financial flows, avoid economic and financial crises with recessionary impacts and improve the fiscal system.
15. Set independent judicial and legislative branches. Make the rapid progress which is crucial for delivering stability on the social and political front, and on the economic one as well. Respect for property rights and political representation would be of great benefit.
16. A long-term vision for a more egalitarian society is required. Getting consistency between the broad objectives and the specific policies and strategies is vital. Setting goals must not be subordinated to a short-term agenda. Clearly, the latter cannot dictate the former.
17. Reduce dependency on imported capital goods and technology. There must be no delay in formulating the strategy for an efficient and integrated industrial policy which help the production of capital and consumer goods for the domestic market.
18. Facilitate broader and more representative political participation by society. If actors have the freedom to choose among different options for making their voice heard, intending a loyal transformation from inside, or challenging from outside when exiting, the exercise of political autonomy could serve to forge feasible options ahead.
19. Maintain consistent and sound non-inflationary economic policies. Keep sustainable and equilibrated external accounts with an exchange rate favourable to productive economic activities. Inbound industries and financial speculation must not guide such policies.

20. Encourage the decentralization of public administration and economic activities. Foster real federalism, targeting the correction of regional inequalities. Policy design, supervision and implementation must pay more attention to the specific need of the states, municipalities and areas.
21. Make use of a pragmatic trade policy reflective of industrial policies which promote balanced and domestically articulated markets and firms. Aim to reduce inequalities and foster economic activities and sectors which influence and impact on outcome, investment, employment and income.
22. Acknowledge the democratic challenge posed by differences. It is not enough to legally recognize social and political differences. Accept that cultural and economic differences matter to individual and collective actors. Therefore, it is crucial to move away from passive acknowledgement to more proactive strategies to avoid a scenario in which intended inequalities worsen.
23. Build consensus, but never impose it. An inclusive approach which seeks to enhance participation and the social 'ownership' of projects, goals, policies and institutions could increase the likelihood of their success if grass-roots opinions and concerns are properly included.
24. Build transparency. Clear information disclosure is a public good and is vital for the identification of key issues which could encourage and enhance broader participation from society. It is also crucial for eliminating corrupt practices.
25. Set the vision of a broader democratic transformation, where the elements of the transformation are not confused with the objectives. Spelling out, monitoring and updating the details of preferred strategies and participation, help to improve the feasibility of those visions.

26. Encourage social ‘ownership’ and participation. They are key ingredients for political and economic transformations. Institutions and incentives can complement strategies, but no element on its own is sufficient.
27. Opt for inclusive strategies, where public sector, private sector and all members of society play a role, as there are incentives for them all to take part. Adequate sets of incentives could encourage wider participation.
28. Democracy and development mean a transformation of society. None of them can be reduced to merely technical adjustment, as broader perspectives require strategies and policies which match tasks with means.
29. Consolidate democratic practices. Do not sacrifice them in the name of stability. What to do becomes more relevant when the ways of how to do it transparently serve the purpose at which they are aimed.
30. Consistency in the aims and coherence in the strategies are crucial for reaching the objectives in an inclusive fashion. Successful partnerships could excel in networking as a flexible mechanism aiming for further social, economic and political inclusion.

FINAL REMARKS

The Strategic Relational Approach differs from competing analytical frameworks in the weight which it gives to material and ideational elements, and also to the situated agency within a strategically selective context in spacio-temporal placings. Due to its realist ontology, it does not incur into deterministic and functionalistic descriptions of regularities in its analysis. Rather, it acknowledges the open-ended nature of social,

political and economic processes, as it does with further possibilities of transformation which have been discussed here regarding social change in Mexico. The above points can be considered an example of the ample room for manoeuvre which exists and the unfinished tasks ahead.

As must be clear now, the use of the Strategic Relational Approach, enables us to argue that the processes of democratization and transition to democracy cannot be narrowly confined to electoral terms. Important as the ballot box is, the notion of democracy defended in this chapter is a normative one which favours notions of equity, social inclusion and participation. It is also one where ideals and values must play a causal constitutive role for bringing them into being. Such an enterprise is not merely an elite concern but entails a broader transformation of society.

After having discussed features of presidentialism, its symbiotic links with the former ruling hegemonic party and the corporatist practices of political engagement and control mainly concerned with stability, I discussed the need for a system of checks and balances in Mexico. However, according to the theoretically informed perspective defended here, no matter how important institutions are in limiting the President's discretion, they are by no means neutral and their impact depends on the use which situated actors within context make of them.

The application of the Strategic Relational Approach also allowed us to see that the early 1980s' moments of crisis and intervention seized an opportunity to embark on a trend of economic restructuring in Mexico, from which the current process of commodification took off. Technocratic and financier networks did not limit

themselves to ‘technical’ issues and agreements. Rather, economic activities and policies were shown to be embedded within larger broader contexts as the differences between the banking and the non-banking sector during that period of time made evident.

Since the turn in economic restructuring is very significant and political indeed, the self-induced priority it was given contrasts sharply with the slower pace at which political and judicial reforms have been enacted. Nevertheless, there is increasing room for political autonomy in Mexico, and for stronger and more independent institutions that are not subject to presidential discretion. My theoretical lenses allowed me to see that moving away from the subordination to the executive, however, along with qualitatively changing from the rule of legality to the rule of law, are still incomplete and unfulfilled tasks.

The Strategic Relational Approach contends that networks as a coordinated mode of governance can complement markets and hierarchies. Yet, they must not be conflated with structures. The *sui generis* configuration of the political system in Mexico provided a specific context in which technocratic webs were entangled among the former ruling hegemonic party, the bureaucracy and the presidency. This, in turn, allowed members of those webs clearly to take advantage and benefit from the Mexican authoritarian system.

Furthermore, according to the application of the theoretical perspective adopted here, networking opens up possibilities for social, political and economic transformation. Key for the orientation of such efforts are the elaboration and updating of common

strategic agendas which set the goals and guide the efforts towards which the members contribute. As networking practices are socially embedded and rely on formal and informal strategies, it must be highlighted that they should not be understood as a merely government or elite resource.

In this respect, the agenda for increasing commodification, as has been suggested by the World Bank, is insensitive to the fact that markets are embedded in social and political structures, and that building an egalitarian and democratic society is a complex and multifaceted issue, and thus has fallen short of its recommendations. If in addition to the consolidation of macroeconomic gains and the acceleration of growth, the reduction of poverty and balancing of growth supported by an efficient and accountable government are to be reached, there is a great need to broaden the scope of the narrowly conceived and economically driven agenda.

Building on the analysis based on the application of the Strategic Relational Approach, some preliminary sketches for an enhancing agenda to secure a broader and more equitable social, political, and economic transformation were presented. Highly desirable goals as they truly are, nevertheless, no point of the suggested agenda should be conflated with specific government programmes or policy prescriptions. The sketched aims only point towards broad trajectories of reform, and must be complemented by more specific objectives if they are to be reached. To sum up, the challenge ahead is to re-politicize in an inclusive fashion the process of social change in Mexico.

CHAPTER SEVEN

Globalization, Regionalism and the Post Washington Consensus:

Challenging the Logic of Inevitability

FOREWORD

So far, the argument presented in this thesis has focused on the theoretical particularities of the processes of social change currently under way in Mexico. Emphasis has been placed on the situated agent in context, in order to stress the importance of the actors in the processes, as they dialectically influence, at the same time as being influenced by, the conditions which surround them. In addition to the material circumstances, the role of ideas has also been stressed within specific historical moments and geographical limits. Being able to trace different trajectories of reform, which, in turn, are concurrent with tendencies and countertendencies at play, has proved beneficial for stressing the socially embedded dynamics, where power interactions contribute towards the contingency of open ended systems which do not follow deterministic law-like regularities.

The philosophically consistent, theoretically informed and empirically grounded claims which we have made forcefully show the strong explanatory power of the Strategic Relational Approach. It clearly allows us to highlight the importance of relationships which are not amenable to direct observation. Even though this approach is capable of delivering a complex account and explanation of social, political and

economic phenomena, I am not claiming that it is only through its lenses that complex explanations can be delivered. The Strategic Relational Approach is, however, extremely useful for the purposes of process-tracing, as should be clear by now. Then, it is precisely for such a purpose that there is still one more task needing to be undertaken to provide a critically comprehensive analysis of the processes under scrutiny. This chapter is devoted to the broad material and ideational international strategically selective context which has influenced, but never determined, the pace, scope, and depth of the contemporary social, economic, and political transformation in Mexico. Clearly, the international contexts and dimensions cannot be ignored, and need to be carefully scrutinized.

Hence, the main topics of this chapter include a critical examination of broad material and ideational contexts such as globalization, regionalism and the two different generations of reform promoted by international organizations. Making use of the Strategic Relational Approach, the opening section briefly examines the globalization processes and the phenomena associated with it. Particular emphasis is laid on a critique of the widespread belief that the unstoppable forces of international supply and demand are the ones commanding the allegedly inevitable global trends. Such a misleading notion, based as it is on the prioritization of social relations of exchange, is further discussed in relation to contemporary tendencies and ideas of regional economic integration and multilateralism. Economic exchanges are unquestionably important, but it is crucial not to think of them as the only force in play and, therefore, the only programme to be met. For, exchange relations in general, and trade and investment flows in particular, are submerged in a broader social context and can never fully represent a much bigger, complex, and dynamically changing socio-

political mosaic that has never been, and will never remain, the same as it is now. As a way of coping with the uncertainty of the social processes of change, there has been an emphasis on institutional reforms to complement the economic restructuring of developing countries. Yet, the deficiency of the post-Washington Consensus lies in its inattentiveness to the pivotal role played by actors, its recommending a deterministic notion of convergence and, its assumption that abstract economic equilibrium will deliver growth with equity. It is difficult to believe that this will happen, as the second generation of reforms assumes that if equitable growth has not been reached, it is because of the incompleteness of the undertaken adjustment, rather than bad advice. Without further delay a critical analysis of globalization is presented below.

GLOBALIZATION AND ITS MARKET DRIVE DELUSION

It has been suggested that the anonymous and unstoppable forces of globalization push decisively towards a convergence of market oriented economic policies, against which resistance is futile because it reaps no fruits at all. This is the hyperglobalist position (Held, McGrew, Goldblatt, and Perraton, 1999; Hay and Marsh 2000). Hyperglobalists also contend that, in such a world, the role played by the State becomes increasingly irrelevant because of the arrival of a new global age of a borderless world (Ohmae, 1990 and 1996). Moreover, it is even argued that, consistent with the overwhelming economic dictates, power is being diffused in the world economy, leaving the State no option but to retreat (Strange, 1996). Appealing as this may seem at first glance, it is highly problematical to portray an increasingly interconnected world where different flows of various natures such as migration,

technology and information, trade and investment, images and ideas have blurred all the boundaries. The inaccuracy of the hyperglobalist portrait of neoliberal policy convergence, Welfare State retrenchment and footloose capital cannot explain the emergence and consolidation of economic regions and trade blocks which not only present national and regional variations, but also diverge from the suggested orientations (Hirst and Thompson, 1995 and 1996; Berger and Dore, 1996; Boyer and Drache 1996; Weiss, 1998).

Nevertheless, empirical scepticism, most welcome as it is, cannot decipher the complex interactions of the phenomena associated with globalization. We must also focus at the conceptual level on the conflation between tendencies and countertendencies which make up the processes of globalization and the differentiated impact on various contexts of specific actors and phenomena. Crucially, we must hold open the possibility that, if contingent convergence exists, it has much to do with the undiminished capabilities of actors (Hay, 2000a, 2000b, 2000c, and 2001; Hay and March, 2000; Held, McGrew, Goldblatt, and Perraton, 1999). In other words and in agreement with Hay, agency needs to be restored to processes, of which globalization is but one example. Equally importantly, it is also vital to acknowledge the highly political character of allegedly economic compulsions (2002b, 2002c, 2003c).

As should be clear by now, the Strategic Relational Approach is capable of analyzing the complex configuration of causal logics in which material and ideational elements interact and are used by the situated agents in context. Globalization, in this respect, is no different and, therefore, it must be understood and assessed as the continuous reconfiguration of multidimensional processes, where a range of distinct social

phenomena occur in specific spatio-temporal fixes and are conditioned by specific actors. Contrary to many hyperglobalist discursive claims, globalization is never a structured, ahistorical, single condition against which no alternatives can be offered. Regarding this presumption of inevitability, Watson attempts to suggest why the political discourse of globalization is often presented as an economically driven homogenizing force. To do so, he focuses on its roots in orthodox neoclassical economic theory. According to him, the General Equilibrium model can be considered as a precursor of the globalizing assumption that markets are unaffected by institutional differences and social determinants, as markets are presented as intimately linked at all points of time and space (2003b). Without remembering that the assumptions of such analytical models are unrealistic, and the fact that equilibrium is only a property achieved within the model, it has been used in an ideological fashion, prescribing political and economic courses of action. Economic jargon and technicalities of the model aside, the reconstruction of a pure exchange economy under conditions of perfect competition is invoked in simplistic and misleading portraits of globalization, establishing popular frameworks of mental habits which have spread beyond academia (Watson, 2003b).

The problem with the inapplicability of the General Equilibrium model is its mismatch with reality, as it is with most of the mathematically minded orthodox neoclassical models which are based on abstract assumptions, positivist ontology and deductivist inferences (Lawson, 1997 and 2003). Chapter Three has discussed the problematic issues of positivist ontology. Suffice it to say that it is prone to deterministic analysis in social science because of the impossibility of conducting closed system experimentation. Unlike natural science, the social sciences revel by

their lack of experimental control the inexactness of their findings. Equally problematically, deductivism makes inferences from the general to the particular, formulating laws in terms of constant conjunctions which are simply considered to be universally valid. Moreover, another critical issue with the equilibrium models in particular, and mathematical modelling in general, is that they are incompatible with a focus on the intentionality of actors. Not only is this issue not considered but, the assumption that there is only one rational course of action and, therefore, only one ‘rational choice’, denies the capability of any agent to decide which alternative to take. By ruling out the significance of actors’ intentionality, indeterminacy is injected into the processes, but this in turn is the only mechanism which guarantees that the conditions of equilibrium are not violated (Lawson, 1997 and 2003). Because the Strategic Relational Approach is built upon a realist ontological and epistemological position, its distinctiveness allows it to acknowledge the open nature of social systems where the situated actors in context interact and exercise power relations with each other, opening up possibilities for transformation, as shown in Chapter Two.

Following Polanyi, I have presented the argument that economic activities are submerged in broader social relations, and that they are not reducible to exchange transactions. Production and distribution are also key components of economic cycles and processes (1957). Furthermore, it has also been argued that the artificial commodification of labour, money, land and knowledge, provides a context which is biased toward certain political outcomes. It is upon the commodity myth that many contemporary economic trends are based, namely, the idea that money should be supplied by self-adjusting mechanisms, the creation of labour markets, and the

promotion of free trade (Polanyi, 1996).¹ Such economic delusion has been forcefully defended by orthodox neoclassical economists, who, by emphasizing market exchanges as dominant transactional modes, have paid little attention to issues of production and redistribution.²

For the embeddedness of economic activities within broader social contexts, it becomes clear that economic actions are nothing but varieties of social actions which are socially situated. It comes as no surprise that institutions of all kinds have the common denominator of being social constructions (Granovetter and Swedberg, 1992; Granovetter, 1996a, and 1996b; Swedberg, 1996 and 1994). Therefore, regarding this ideational dimension, market exchanges can be considered as social constructions which tend to reproduce the idea originally suggested by Adam Smith that it is the propensity of man ‘to barter, truck and exchange one thing for another’ (Swedberg, 1994; Smelser and Swedberg, 1994). Despite the fact that there was a historical absence of the motive of gain, those assumptions laid the foundations for the contemporary emphasis on exchange relations. These, of course, are relations which orthodox neoclassical economists have historically and repeatedly taken for granted or defended as beyond question. It is such assumptions of the propensity to exchange that feeds the delusion that globalization is merely market driven. It is also one which has had enormous material impacts ever since it was formulated, hence

¹ Polanyi does not mention knowledge as another fictitious commodity. For him, commodification takes place when man and nature are considered to be available for sale, and when the operation of markets for land aim to extract rent from it. Likewise, the market for labour produces profits in the form of wages, and interest is considered the gain which can be obtained from money markets (1957). All these considerations are discussed in Chapter One of this thesis.

² Benefiting from an anthropological perspective, Polanyi argues that there are important ways in which an economy has historically been organized, such as reciprocity, redistribution, exchange and householding. All of these organizing principles of behaviour follow social arrangements and make use of different patterns such as centricity and symmetry, autarchy and market. For some ancient societies,

contributing towards shaping the world we live in. As the contemporary concern for trade and investment flows rises, it is important that I turn to the discussion of multilateral and regional ideas and scenarios in the following section.

MULTILATERALISM AND REGIONALISM TRENDS

Nowhere else but in the works of orthodox neoclassical economists on regional or preferential trade areas are the emphatic assumptions that relations of exchange drive the social process so blatantly evident. Since Viner wrote about trade diversion and trade creation in the 1950s, the debate has evolved through different phases (Bhagwati, 1999; Panagariya, 1999a; Serra, et al, 1997; Mansfield and Milner, 1999, and 1997).³ The original issue discussed was trade creation, or welfare improvement, among members of a regional or preferential trade agreement, which encourages the production of goods where costs are more competitive. Thus, it shifts imports from inefficient to efficient sources. Conversely, the trade diversion issue shifts imports from an efficient source to an inefficient one. Moreover, it assumes that the gains for a country come from a reduction in the partner's trade tariffs, otherwise welfare is reduced. On top of that, the protection against outsiders is considered to be relative to the size of the external trade barriers.⁴ Hence, the country which liberalizes most is

the reciprocal and redistributive practices in particular were organized to guarantee order in production and distribution (Polanyi, 1957, 1992 and 1996).

³ Viner's influential publication was entitled *The Customs Union Issue*. His emphasis focused on the immediate effects of market integration, and was deemed as a 'static time-path analysis'. In contrast, 'dynamic time-path analysis' is deemed to pay more attention to trade creation and trade diversion effects through time (Bhagwati, 1999; Bhagwati and Panagariya, 1999; Bhagwati, Greenaway, and Panagariya, 1998).

⁴ The issue of the external trade barrier is significant, as there are important differences which need to be taken into account. The members of a free trade area individually set and maintain their own external tariffs, whereas, in a customs union, there is a stronger harmonization, as members apply a

deemed likely to face a loss, considering that benefits can only come in the form of a preferential access to a partner's market, whereas by granting the partner a similar access to its own market the country might be hurt.

Furthermore, it has been argued that not only may trade flows face diversion or creation, but also investment flows may face similar conditions (Serra et al, 1997). Neoclassical economists contend that Foreign Direct Investment (FDI) and trade play mutually supportive roles. They argue, in particular, that growing trade and FDI flows allow specialization and a more efficient production of goods, the reason being that both trade and investment benefit from an increased functional mobility of capital and technology supply.⁵ As with trade, the legal and institutional arrangements on investment are covered in multilayered rules which encompass diverse approaches and rules, at the national, bilateral, regional, plurilateral and multilateral levels (World Trade Organization, 1996).⁶ Yet, regulatory frameworks aside, it is evident that FDI is

common external tariff on goods imported from outside countries. A deeper stage of integration is reached at the Common Market level where additional internal factor movement includes not only goods and services, but also capital and people, within the area defined by the member States (Bhagwati, and Panagariya, 1999). A monetary and economic union, such as the European Union (EU), requires a greater degree of harmonization of economic policies to set a common currency amongst the members. Even though the Euro has not been adopted by all the members of the EU, analysts consider it may merely be a matter of time before all the 15 members of 1995 adopt it. For the 10 brand new members recently admitted in 2004, though, it might take longer.

⁵ Foreign Direct Investment takes mainly the form of assets acquisition by an investor in a host country, with presumably the intention of managing these assets. It is important to highlight that the asset might be a firm, a parent, or an affiliate, or a subsidiary. The investment can take different forms such as equity capital, reinvested earnings or even the borrowing and lending of funds between main firms and affiliates (World Trade Organization, 1996).

⁶ The different layers of legal frameworks include specific bilateral treaties; the Organization for Economic Cooperation and Development investment instruments; the General Agreement on Tariffs and Trade instruments such as the Trade Related Investment Measures (TRIMS), the Trade Related Aspects of Intellectual Property Rights (TRIPS), and the General Agreement on Trade in Services (GATS); regional agreements such as the North America Free Trade Agreement and the European Union; and even domestic organizations and multilateral agencies (Serra et al, 1997).

A contrasting approach to the contemporary convergence criteria and push for harmonization was the Calvo Doctrine. This was named after an Argentinean diplomat, who argued that jurisdiction in international investment disputes lies with the country in which the investment is located. Thus, the investor has no recourse but to use the local courts and remedies, and must waive diplomatic protection from their home countries (Serra et al, 1997). Formulated in the mid 19th century, a period of time in which the relatively newly independent Latin American countries repeatedly faced threats, military

highly concentrated amongst the most developed economies of the world, which cluster in three main regions. They are Western Europe, particularly European Union members, North America, especially the United States, and East Asia, mainly Japan and China. Even though there has been an increase in the volume, value and frequency of Foreign Direct Investment outflows and inflows among specific developing economies, the biggest share remains clearly concentrated in the triad (Mansfield and Milner, 1999, and 1997).

Since the 1980s, trade liberalization in developing and developed economies alike has been accompanied by private investment liberalization. Although regional and preferential trade agreements do not necessarily harm non-members, they are not regarded as necessarily benign either. The association between trade and investment flows is presented as mutually supportive (World Trade Organization, 1996; Serra et al, 1997). Similarly to the creation vs. diversion arguments about trade, investors ‘create’ when they choose to invest in a partner country when otherwise they would have invested at home, or not invested at all. Yet ‘diversion’ is said to happen when investments in a country displace investments somewhere else (Serra et al, 1997). Therefore, the attraction of trade and investment flows, which has been one of the fundamental objectives of economic restructuring in developing countries and of regional and preferential trade areas consist of components of the same package of

interventions and wars against foreign States, it aimed to provide a legal shield against extraterritorial regulations from the foreign countries which tended to oversee the host national laws and rules. The Calvo Doctrine would prohibit the use of diplomatic intervention as a method of enforcing private claims before local remedies have been exhausted. Clauses of the doctrine can be found in constitutions, treaties, statutes, and contracts, as they are used chiefly in concession contracts; they attempted to give local courts final jurisdiction and to obviate any appeals to diplomatic intervention. Narrower in scope than the Calvo Doctrine, from which it grew, the Drago Doctrine, formulated by another Argentinean, maintained that no public debt should be collected from a sovereign State by armed forces or through the occupation of its territory by a foreign country.

reforms which contribute towards building the commodification process already discussed in Chapter Four.

The delusion of market inevitability is manifested in various other guises. No wonder that, in keeping the underlying assumption that exchange relations drive social processes, exponents of neoclassical orthodoxy have discussed whether regional or preferential trade agreements constitute building blocks or stumbling blocks in the creation of a multilateral trade order. Universal free and open trade is meant to be the ultimate goal, not only for governments, but also for international society. In strictly normative terms, the proliferation of trade agreements since the 1980s is perceived to be inherently discriminatory, as it is feared that they detract from true liberalization and, therefore, fragment the world trading system (Bhagwati, and Panagariya, 1999; Panagariya, 1999a).

Yet, making use of the Strategic Relational Approach, it is possible to see that such an unfortunate outcome is unlikely to ensue. It is necessary to take into consideration that different levels of negotiation, i.e. regional and multilateral ones, are not strictly speaking opposed to each other as the General Agreement on Tariffs and Trade (GATT) and the General Agreement on Trade in Services (GATS) make evident.⁷

Following those doctrines, some Latin American countries delayed entering international investment agreements until the 1980s. However, ever since, they have been to accept international arbitration to resolve disputes between investors and governments.

⁷ As part of the Bretton Woods agreements, the General Agreement on Tariffs and Trade (GATT) was meant to be a temporary accord until the proposed International Trade Organization came into force. Since the United States Congress failed to ratify this organization, the GATT as a multilateral forum for tariff negotiations had become the primary international trade agency based on the principles of non-discrimination, reciprocity, transparency and fairness, epitomized in the Most Favoured Nation clause. Five decades and various increasingly complex negotiation rounds later, the GATT became one of the key pillars of the World Trade Organization, which, in addition to trade in goods, also included the General Agreement on Trade in Services (GATS) for the service sectors; regulations for Trade in Intellectual Property Rights, involving patents, brands, designs, etc.; a dispute settlement mechanism which encourages members to settle their differences by consultation; and the Trade Policy Review

Regarding the trade of goods, the exception to the Most Favoured Nation clause is GATT's article XXIV, which entails permission to set customs unions and free trade areas. Even if it provides that duties and other regulations are not to be increased or made more restrictive than the ones previously in effect, it has been the subject of interminable controversy. Furthermore, part IV, added in the mid 1960s to benefit mainly developing countries, along with the enabling clause of the late 1970s, has also been criticised on the basis of inconsistency, controversy and overlapping which violates the letter and spirit of the accord.⁸ In addition to goods, the GATS article V on trade in services requires countries to refrain from raising the overall levels of barriers beyond the levels in existence prior to the agreement. It also provides for arbitration between parties (Bhagwati, 1999; Panagariya, 1999a; Serra et al, 1997).

The main difference between the regionalist momentum of the 1950s and 1960s and the one in operation since the 1980s, reveals key players in the economic processes. Of these, only the European Economic Community of the time, later reconstituted as a monetary and economic union, and the European Free Trade Association successfully emerged. Despite the fact that there were many attempts amongst developing countries to forge regional and preferential trade agreements, a large number of them were not fully operational. At this time, the United States preferred to follow multilateral moves, pushing for concessions within the GATT rounds. This position

mechanism which periodically scrutinizes the transparency of the members' trade policies; among other provisions. The idea behind the WTO as a more comprehensive organization reflected the dynamic character and growing complexity of international trade, which, in some cases, was completely absent and beyond the regulatory capabilities of the former GATT.

Nonetheless, there is one important issue to bear in mind. The Most Favoured Nation treatment must not be confused with total universalism, as it applies to members only. Thus, inclusive as it is, it falls short of being universal.

⁸ GATT's part IV and the Enabling Clause granted one-way partial tariff preferences from developed States to developing States; whilst the latter were also given the right to exchange two-way partial trade preferences (Panagariya, 1999a).

has changed with the revival of regionalism as the US has become actively involved in negotiating regional and preferential trade agreements, albeit without abandoning the multilateral commitment to the Most Favoured Nation principle, and by means of this strategy aiming to benefit from any reduction in trade barriers.⁹ Because the United States is such a big market, it comes as no surprise that it has truly international and relatively diversified trade and investment partnerships throughout the world (Mansfield and Milner, 1999 and 1997). In addition to the European Union, Japan, China, some other South East Asian Economies, the North America Free Trade Agreement members, Canada and Mexico are amongst their most significant trade partners.

Economic exchanges, typically exemplified by trade, are regarded as forces which, if open, deliver growth. Therefore, there is supposed to be a great incentive for most economies of the world to completely open their markets, although there is no conclusive evidence of this (Rodrik, 1999). Furthermore, *ceteris paribus* it is argued that such openings work as an integrating force bringing economies together. In this respect, it is sometimes associated with the idea of integration. Nevertheless, integration is not merely an economically driven phenomenon, a point which will be further discussed in Chapter Eight. With the benefit of hindsight, it is not difficult to observe that, in historical terms, free trade has been the exception rather than the rule. Protectionism has been a pervasive feature of the world economy, where the

⁹ The controversial trade policy of the United States has historically been unilateral. Discretionary acts were empowered by regulations such as Section 301 of the US Trade Act of 1974, which granted the provision for retaliation against foreign practices which ‘unreasonably’ restricted US exports. Moreover, the Omnibus Trade Practices Act of 1988 strengthened the 1974 Section 301 by introducing the Super 301 and Special 301 provisions. However, the World Trade Organization mechanism for settling disputes and the Trade Related Intellectual Property Rights reduced the scope for the application of the above mentioned provisions (Panagariya, 1999b). The Trade Act of 2002 currently regulates trade related issues of the United States.

champions of liberalism abroad restrict access to some of their specific and valuable markets and niches.¹⁰

Along with market concerns, there have also been experiences of policy driven regional integration with various mixes of motives in the European Union, the North America Free Trade Agreement, the Asia Pacific Economic Cooperation, etc. The Strategic Relational Approach allows us to see that limiting the explanation of contemporary regionalism to exchange relations can be quite misleading and provides a partial and deterministic picture.¹¹ For, it is the argument presented in this thesis that economic activities must not be considered in isolation, only leading the social processes. On the contrary, economic activities are part of these processes, because they are submerged in a broader social context. Although they are crucially important factors to take into account, this is not the same thing as saying that we can reduce our analysis of social and political processes to purely economic terms, as we run the risk of falling into deterministic accounts.

Amongst the extra-economic reasons presented by orthodox neoclassical economists for developing economies to pursue international trade and investment agreements, some of the political issues highlighted include security, bargaining power, cooperation and 'lock in' effects (World Bank, 2000a). Regional integration schemes deliver enhanced security to members, because growing international trade exchanges

¹⁰ For instance, agriculture has historically been one of the most complex and contentious cases in the GATT negotiation rounds. Some of the issues which nowadays tend to be associated with the trade agenda such as labour standards, human rights, the environment, and national sovereignty are not exempt from controversy, as such broadening issues are perceived as unacceptable penetration and expansion into domestic economies (Gilpin, 2001).

¹¹ It must be stated clearly that the approach selected in this thesis is not the only one capable of delivering complex explanations. Yet, due to the balanced assessment of a range of variables and factors, for the purposes of process-tracing, it constitutes a superb option.

are perceived to reduce the risk of military conflict between partners. Additionally, trade blocks are deemed to enhance bargaining capabilities which, in a collective negotiation with the developed economies, could enable them to reach fairer reciprocal deals.¹² Arguably, the terms of competition and economies of scale should have a positive effect on lowering prices and improving the terms of trade. Still, this is only on the proviso that there are perfect ‘self-regulating’ and ‘self-adjusting’ markets. Orthodox views have recommended channelling the political impetus for trade blocks currently visible in developing economies into new associations with developed economies.¹³ Complementing this view, it is worth taking trouble to ensure that as many agreements as possible are compatible, in order to avoid and reduce uncertainty among partners and investors (World Bank, 2000a).

Moreover, some additional political advantages of pursuing trade blocks are that benefits may spill over from exchange relations to issues where there might be more scope for cooperation and mutual gain, relying on mutual trust. Finally, another political advantage considered of relevance regards the perception of commitment from countries which have embarked on economic restructuring. By joining trade

¹² For the World Bank, an association featuring neighbouring countries is preferred, rather than a cartel (2000a). The former follows a more traditional format based on geographical proximity. For the latter, members may combine to control production and to avoid competing with each other, like the Organization of Petroleum Exporting Countries (OPEC). Even though the bargaining capacities of this organization are not as strong nowadays as they used to be in the late 1970s and early 1980s, their leverage is still of concern, as oil is still the main energy resource throughout the world.

¹³ Whereas an association amongst developed economies discriminates against developing countries, benefiting those members within the block which are the closest competitors at the expense of developing countries; a trade block integrated by developing economies helps its members to compete against the developed countries, which happen to be normally the highest income countries in the block. The World Bank claims that due to comparative advantages, North-North blocks result in increasing degrees of convergence, as they help these countries within the block to discriminate against their closest competitors from the South (2000a). Yet, regarding a South-South association, the outcome is the opposite, namely divergence within the blocks formed by developing economies. What happens is that by discriminating against the North, middle-income countries gain market share at the expense of the poorer members. Therefore, the advice for both developing and emerging economies, points towards concerted multilateralism and open access to membership of the main blocks of developed economies (World Bank, 2000a).

blocks and schemes of regional integration, it is argued that the economic adjustments could be locked in, inducing the countries involved to adhere to the new orientation of economic policies (World Bank, 2000a). As should be clear by now, what this means in most of the cases is the promotion of less intensive regulatory frameworks for economic activities, converting non-tariff barriers into diminishing tariffs, liberalizing trade and investment flows and implementing the privatization initiatives of government owned enterprises. Furthermore, those economic adjustments are now presented as incomplete and in need of being matched to institutional reforms. I focus on this institutional turn after the following discussion about the dynamic and open ended character of the regional social processes which sharply contrasts with the frameworks of closed system which are static and unrealistic.

THE POLITICAL CONTINGENCY OF REGIONAL SOCIAL PROCESSES

The assumption that the openness of an economy is correlated to its rate of growth is not backed by any conclusive evidence. Not only is there a weak association between trade barrier levels and long term growth, but it is also contingent on some complementary policies and institutions (Rodrik, 1999). Moreover, the concern for equity is non-existent and the systematic neglect of the role and capabilities of agencies renders neoclassical economic orthodoxy controversial and unrealistic, as stressed throughout this thesis, and supported by the Strategic Relational Approach.

Even though it is important to highlight the significance of investment and macroeconomic policies, the claim that the more open an economy is the greater the

rates of growth, is contrary to the empirical evidence of the lost decade of economic growth in Latin America and some other regions of the world. It is no secret that such inconsistencies have systematically been ignored by neoclassical economists. In addition, the series of economic and financial crises which have occurred since the 1980s have been seized as opportunities to restructure economies. In particular, they have been the premise for the introduction of a new 'free market' orientation, as defended originally by the Washington Consensus and, currently, by the post Washington Consensus. The controversy arises because, in many cases, the imposition or induction of detailed economic prescriptions on legitimate governments has gone beyond theoretical consistency or empirical evidence. However, there does seem to be a stronger association between an economy with strong rates of economic growth and the ability to attract trade and flows of Foreign Direct Investment (Rodrik, 1999).

Nonetheless, to leave aside issues of governance and accountability by privileging alleged market imperatives is problematic and irresponsible. A key deficiency of the former structural adjustment programmes, which themselves are externally induced and vertically implemented from the top of society to the bottom, lies in the failure to give consideration to the participation of social groups. Within a democratic decision-making process, the decision to submit to external disciplines runs the risk of being counter-productive, especially if unsatisfied domestic conditions and demands are relegated in order to meet other demands or objectives. Subjecting economies to an alleged market discipline, which constrains without determining the orientation of public policies, raises problems of democratic governance, because financial markets and actors are empowered over other social constituencies (Rodrik, 1999). Needless

to say, such a course of action is unaccountable, therefore undemocratic and unacceptable, both in terms of economic efficiency and for societal outcomes. As already discussed in Chapter Three, a former uncritical acceptance of neoclassical economic axioms is transformed into a domestic self-induced political priority. Since openness guarantees neither growth nor equity, the orientation of economic policies is clearly a political decision, because of the submersion of markets in larger social and political systems.

Without diminishing the importance of economic activities and exchanges, it is clear that they are not the only factor which explains the second wave of regional and preferential agreements. For regionalism, geographical proximity and contiguity are quite as important as the cohesion of the region. The latter can be understood in historical, social, economic, political, organizational, and even military terms. Since the limits of a region do not necessarily need to coincide with national boundaries, their multidimensional character is something which must not be overlooked (Fawcett and Hurrell, 1995; Mansfield and Milner, 1999 and 1997). As with globalization, regionalism is a process always in the making, in which tendencies and countertendencies interact, led by situated agents in context. Rather than being contradictory to international, global, transnational or national trends, regionalism is symbiotic and successfully coexists with other dynamic and open ended processes, such as local agendas, at the same time as it contributes towards their never ending modification. Therefore, regionalism is never an organizing principle for any system, because it constitutes only one of many pillars supporting an evolving international order.

Making use of the Strategic Relational Approach, we can see that regionalism has been a process originated from within society. It is a process from within and from below the particular regions themselves, indeed, much more so than has been acknowledged hitherto. It has allowed a significant role for agencies to engage and develop their own varieties of social, political, military, regulatory and economic environments, trends and counter-trends. One of the reasons for such dynamism lies in the comprehensive multidimensional processes by which social, political, economic and cultural formal and informal networking has developed. They are, clearly, in many important respects, not necessarily following their own governments. Consider the example of migratory trends; despite government efforts to halt the flow of migrants, to those who aspire for a higher living standard these trends are stronger and more numerous than the official disincentives to migrate.

Perhaps more accurately, an incredible spectrum of networking practices has been actively engaged in leading and shaping the processes. The flexibility of formal and informal networks has reached and impacted upon the levels of political cooperation among governments, as well as on the ostensibly 'self-regulating' and 'self-adjusting' market in many cases, by moving and adapting faster than they have. Thus, networking cannot be discounted in any serious analysis of governance. Examples abound. Non-governmental organizations, pressure groups and religious cults, rely, among other resources and strategies, on networking practices to spread the reach and impact of their agendas.

The dynamics of various dimensions, such as culture, security, economic policies and the political regime, are not only inherent in the processes of regionalization, but also

cause multi-level interactions. If issues closely associated with such dimensions, such as security, development and ecological sustainability are to be tackled, there is no way that the ill-equipped market driven delusion can face them. There is clearly political room for manoeuvre to decisively act in favour of crucial values, goals or agendas. Hence, the transformative capacity of the situated agents in context is undeniably crucial in the power interactions which continuously shape the social processes of change, at the same time as they are affected by the conditions which surround them.¹⁴

The characteristic degrees of regionness can be identified in geographic units within certain time spans (Hettne, 1999). The geography of natural physical barriers provides the areas where the relations between social groups can be organized in a range of different fields. They include, but are not limited to, culture, the economy, polity and the military. The interactions within society act as windows of opportunity and constraint where there is room for manoeuvre in communication, values, and agendas for the acting subjects. Hence, it is possible to identify current and prospective material and ideational conditions over which the transformative capacity of agency can be exercised. For instance, it has been argued that developmental regionalism, so long as it takes place within a large enough geographical area, allows viable economic practices with adequate resource management and effective articulation. Such a scenario, which additionally enjoys social stability, credibility, a peace dividend and

¹⁴ Limited space prevents me from further expanding on important areas here. For instance, the fact that the emphasis of the present work is on the non-violent punctuated evolutionary processes of change does not mean that military and security concerns are considered irrelevant. On the contrary, they clearly add a different dimension to the processes, as the multilayered interactions with them show distinctive features.

ecological sustainability is, therefore, a goal worth fighting for (Hettne, 1999; Hettne, Inotai, and Sunkel, 1999 and 2000).

Sadly, despite discursive and marketing strategies, a comprehensive approach attentive to specific social and political conditions is not the sort which is promoted by international organizations. Bearing in mind the leverage which these organizations have, the recommendations they make, the goals they aim for, the methods they use and the orientation of their policies, in a number of cases they tend to follow doctrinaire mandates, rather than tailoring appropriate suggestions. The controversy surrounding the second generation of economic reforms for several countries, which are either currently undergoing or have undergone structural adjustment programmes in the past, is of relevance. Due to the fact that they aim to emphasize the role of institutions as complementary tools for market mechanisms, they leave untouched key unrealistic and inconsistent assumptions and methods. Paying specific attention to the case of the World Bank, the next section analyses and illustrates the ostensible friendliness of ‘self-adjusting’ and ‘self-regulating’ markets alongside institutional frameworks, as they have been identified as exemplifying the influence of the post Washington Consensus.

ADDING FRIENDSHIP AXIOMS: MARKETS IN NEED OF INSTITUTIONAL COMPLEMENTS

The World Bank, as one of the most important international organizations engaged in helping member countries reach higher levels of development, has been heavily

criticised for the inadequacy of its recommendations and the ‘one size fits all’ recipes for its member countries. The ‘market friendly’ approach which this organization promotes is by no means unproblematic, as discussed in Chapter Three. Consider, for instance, the recommended strategies for matching the State’s role to its capabilities, on the one hand, and the advice to raise the State’s capabilities by reinvigorating public institutions on the other. We are told that the main task of the State is to find ways to narrow the gaps between the demands placed by its different constituencies and its ability to undertake and promote efficient collective action (World Bank, 1997b).

Using the Strategic Relational Approach, it becomes clear that the World Bank’s recommended strategy to match the State’s role to its capabilities is oriented towards commodification processes. It induces certain specific courses of action for the governments to operate as complements of markets, as it explicitly gives a recipe for delimiting actions, specifying omissions and advising on strategies. For the World Bank, the top priorities for developing economies include achieving and maintaining macroeconomic stability, the attraction of private investment, economic consistency among governmental policies, and the aim on investing in infrastructure and social services. Furthermore, it recommends establishing a foundation of law and protecting vulnerable sectors of society and the environment. In so doing, it not only gives economic advice but, most importantly, it also adds a more explicit political dimension to its recommendations (World Bank, 1997b).¹⁵

¹⁵ In order to reach the aim of raising the State’s capacity to undertake and deliver efficient collective action by reinvigorating public institutions, the World Bank believes that abiding by the rule of law is a necessary, but not a sufficient, condition for reaching the goal of sustainable development. The provision of openness, transparency and incentives to follow the rules and keep arbitrary action in check aims to avoid the ‘lawlessness syndrome’. The recommended reforms for the macroeconomic

Even though the World Bank pays attention to the role and potential of human agency, the difference is that there seems to be more emphasis on channelling or orientating the actors' capabilities towards economic imperatives. In this view, the inculcation of market oriented rationality habits could be considered as a core element of the unitary actor profile which is attentive to the institutional framework, on the one hand, but also of the State's set of strategies, on the other. Since economic rationality needs to be constructed, as it is not naturally given, the induced performances of the rational unitary actor legitimise the construction of positivist philosophical positions and the stance of neoclassical economic orthodoxy. Institutional reforms, such as the ones undertaken for the implementation of structural and sectoral economic adjustment programmes, are constructed as vital components of the context in which agencies are situated. Furthermore, the modification in the role of the State aims to reinforce the creation of economic rationality, inducing the making of 'homo economicus' within an institutional environment (Williams, 1999).

policies focus on exchange rates, fiscal and trade policies, whereas the reforms in the institutional structures pay attention to regulation, social services, finances and infrastructure (World Bank, 1997b). The message that the State should act as a 'partner, catalyst and facilitator', at the same time that it needs to reinvigorate the public institutions which provide the foundations of the markets, makes the World Bank adopt a structural perspective on the fluid dynamic of the processes of social change. Since it is contended by the Strategic Relational Approach that economic transactions and activities do not take place in static conditions, the social and political embeddedness of markets bring uneasiness, indeterminacy and contingency to the processes. Chapter Three argues, among other things, that the capacity for change lies in the way in which policies are implemented, because agencies have a role to play. The denial of their power to embark on and undertake processes of social change, undoubtedly, promotes, either openly or covertly, inaction, passive behaviour, submission and acceptance of the status quo. Although important as a macro-economic stable environment might be in the supposed justification for the attraction of trade and investment flows, social and political particularities need to be taken into account as well. This is not the same thing as saying that the context in which market players are situated determines the final outcome of each transaction. Rather, the point being stressed is that collective and individual actors alike have the potential to influence, promote and achieve changes, as already discussed.

In addition to the dissemination of the World Bank's structural view of the State, it places a heavy emphasis on the scope and importance of institutional reforms. From this perspective, it comes as no surprise that the set of formal and informal rules in a society which shape human interaction are crucial for economic performance (North, 1990a). According to the World Bank, the State should match its institutional capabilities and actions, if it is to provide a consistent implementation of policies. Moreover, it further contends that institutions and governments can play a role in ameliorating and narrowing technical knowledge gaps and information asymmetries, which is crucial for improving development and standards of living.¹⁶ Since it is acknowledged that institutions matter as one of the core elements of an inclusive social process which is responsive to changing circumstances, they are crucial for various tasks such as governance, negotiation, coordination and regulation (World Bank, 1999). Highlighting not only policies, but also processes, institutions are perceived by World Bank officials to be fundamental prerequisites for the achievement of sustainable economic development.¹⁷

¹⁶ We are told that know-how gaps and information problems could at least be improved or even solved by a focus from both institutions and governments on quality verification, monitoring and enforcing performance, ensuring disclosure and dissemination, and facilitating the acquisition, absorption and communication of knowledge (World Bank, 1998). Thanks to Matthew Watson for clarifying that one of the sources of this claim is Romer's work on endogenous growth theory (cf. Romer, 1986, and 1990).

¹⁷ The organizational leverage which international organizations display in the promotion of their 'market friendly' and institutional agenda cannot be ignored by developing countries. Consider, for instance, the World Bank's recommendations for building effective institutions. They include the advice to render complementary existing institutions, human capabilities and technologies. It is also recommended that successful innovation can help institutions work, even if some innovation efforts may not be successful. Additionally, flows of open information and trade are regarded as fundamental for connecting market players, while the promotion of competition among jurisdictions and diverse actors such as firms and individuals is highly ranked as well (World Bank, 2001). The picture we get from this is that institutional design is relevant for firms, government and society, and being a channel of information about market conditions, goods and participants is an important function for the State to perform. Another relevant issue is the definition and enforcement of property rights and contracts.

However, important as these arguments are, they leave out one important detail. They fail to recognise that institutions themselves cannot guarantee any specific outcome at all. No-one considers that the role played by agencies is crucial for the achievement of economic, political and social goals. It is explained in Chapter Two that institutions are never a sufficient condition for change, as they need to be processed endogenously by the situated agents in context. Furthermore, whatever the character of social change, in its economic, political and cultural dimensions, they must become part of the actors, either as individual or collectively. Only by endogenously digesting, internally incorporating and reproducing the dynamics of change can actors contribute to the ongoing tendencies and counter-tendencies featured in all social processes. Since power is immanent in all social interactions, the capability for transformation is not structurally determined by institutional features. Where a qualitative social, political or economic transformation is required, the political character of power as a core factor of change needs to be taken into account.

Influential and important as international organizations are, their opinions are formulated with the assumption that the existence of a profit rationale is sufficient for all social activities. Even though it is no doubt important for private firms, when it comes to the public sector, concerns other than economic objectives are relevant. As has been discussed in previous chapters, according to Polanyi, the expansion of markets and economic activities creates the need for a guarantee and expansion of social protection from the markets (1957, 1992, and 1996). It has also been discussed that, for Schumpeter, the cyclical fluctuations which foster the continual emergence of new economic and social forms are never exclusively economic (1934, 1954, and 1996). Unlike labour and land which are naturally given, money and knowledge are

socially produced, but have also been commodified. In so doing, they are incorporated into a discursively induced trend modelled on asocial and ahistorical assumptions and axioms.¹⁸

With the benefit of hindsight after various decades of monitoring and evaluating a range of different experiences associated with the processes of economic restructuring, the World Bank has attempted to incorporate political and social insights into its analysis, as the last series of its reports shows. For instance, without downgrading the importance of ‘economic fundamentals’, the inclusion of social and political insights for attacking poverty emphasise the promotion of economic opportunities, the facilitation of empowerment and the enhancing of security for the worst off. This is an issue which should not be postponed any longer. Nevertheless, the World Bank affirms the role of institutions and their interactions with some other social and political factors, such as their power to help in reducing the vulnerability, lack of voice, power and representation that feature in poverty scenarios (World Bank, 2000). The World Bank, echoing the claims of many neoclassical economists, has stressed the ‘creative’ side and potentiality of institutions as helpful devices for achieving stronger rates of growth and, supposedly, of development as well.

¹⁸ For instance, it is assumed in World Bank reports that sustainable economic development requires institutions. There is also recognition that no explicit guarantee exists that institutions themselves would deliver not only growth but equity as well, despite the usefulness of institutions for making clear what the rules of the game are. Not only are the sets of formal and informal economic rules never formulated on perfect information, but they are put into practice in incomplete markets, where they are confronted by inefficiencies and disruptions. Following Stiglitz, I have explored in Chapter Two the common character of market and government failures. Contrary to the assumption that minimal governments can do no harm, it becomes evident that due to their weaknesses, they can do no good either. Rather, it has been explained that government intervention complements the distributive failures of markets, just as the latter delivers more efficient non-strategic goods and services. On the one hand, as market competition increases, it raises incentives which contribute towards the attenuation of public failures. On the other hand, due to its central role in economic activities, the State’s monopoly of the power of compulsion facilitates the satisfaction of social needs and the enhancement of openness and competition (Stiglitz, 1989, 1994 and 1998b). Furthermore, as discussed in Chapters Five and Six,

However, scarce attention has been paid to the ‘destructive’ side of institutions if they are poorly implemented and inadequately organized. Making use of the Strategic Relational Approach, it becomes evident that weak institutions are not neutral with respect to their surrounding social and political contexts, as they tend to favour specific sectors and constituencies. Furthermore, the iterated repetition of poor institutional practices not only hurts people who do not benefit from any privilege, but also due to its path-dependent character, it increases the degree of difficulty which challengers encounter when they attempt to break the inertial and harmful formal and informal rules and practices.¹⁹ Nonetheless, its Bretton Woods sibling, the International Monetary Fund, sticks more firmly to ‘self-adjusting’ and ‘self-regulating’ assumptions in its work.

However, it would be unfair not to recognize that there has been an evolutionary lesson with regard to development processes for the World Bank. Originally, the emphasis was put more on growth, whereas nowadays equity concerns have broadened the agenda. The emphasis on institutions is now reflected on the post Washington Consensus which was built upon them. It is precisely to the institutional perspective presented and promoted by the Bretton Woods organizations and the Washington Consensus that I now turn in the next section of this chapter, where I

networks can compensate for market and government failures as well, as this mode of governance, comparatively speaking, puts more emphasis on redistribution than the other two.

¹⁹ The mutually reinforcing international development goals which the World Bank wants to see achieved by 2015 include the promotion of gender equality, primary and secondary school enrolment, and health services, along with a reduction of poverty, infant and maternal mortality rates and the rate in the loss of environmental resources (World Bank, 2000). After decades of lost economic growth and development and pervasive deterioration of living standards, not only in the least developed countries, but also in some of the emerging countries, the goals appear harder to achieve than originally expected. The implementation of some current economic policies, de-contextualised from the rest of social and political processes, tends to favour a concentration of economic profits in a few hands, as historical processes all over the world illustrate. It is no secret that the unequal redistribution of wealth has reached dramatic proportions in sub-Saharan Africa, South Asia and Latin-America, where I have paid special attention to the Mexican experience in particular.

engage in an exploration of the first generation and second generation of economic reforms in Latin America, as perceived and promoted in Washington.

MACROECONOMIC AND INSTITUTIONAL REFORMS: STILL MISSING SOMETHING

The economic reforms which have been implemented in Latin America since the early 1980s have been discursively constructed as a response to the international debt crisis. However, for the purposes of the argument regarding economic restructuring, it should be mentioned that the 1982 crisis is considered as a milestone, having its origins in the oil crisis which, with some other events, preceded it in the 1970s, as discussed in Chapters One, Four and Six. The international debt problems were regarded by neoclassical economists as mainly insolvency difficulties. Therefore, other neoclassical economists, working within the Bretton Woods organizations, pushed for structural adjustment programmes where economies were perceived to have failed, while pursuing import substitution industrialization programmes. Since major banks in the United States were mainly affected by the insolvency of some Latin American economies, finding themselves unable to redeem their international debt, the Federal Reserve applied pressure to prevent damage to the US banking system and to prevent the crisis from spilling over to other debtors. Using a case by case approach, the pragmatic renegotiation of debt rescheduling was followed by the implementation of different strategies such as the Brady and Baker plans and the

modification of International Monetary Fund conditionality.²⁰ The former, for instance, focused mainly on structural adjustment, placing particular emphasis on stringent reforms aiming to achieve balance of payments adjustment. IMF conditionality started to expand from macroeconomic concerns to agendas which came to be known as the Washington Consensus and the second generation of economic reforms.

Even though the promotion of prosperity is considered to be the main goal of the International Monetary Fund, by confining itself to neoclassical economic models which tend to focus solely on observed factors, its performance has fallen short of its goals and its *modus operandi* remains controversial. It has been argued that political will and trust from the IMF's members are key factors in the selection of loan candidates, as well as in assessing their performance (Vreeland, 2003). In some cases, reaching an economic agreement with the International Monetary Fund can provide a government with an external justification for imposing domestic economic reforms, shifting the blame for austerity to the Fund. In this way, unpopular policies are tied to external conditionality, increasing degrees of leverage and raising the costs for national constituencies of rejecting them. Since the responsibility for the implementation of the economic programmes lies with a government which reaches an agreement with the IMF, there is always room for manoeuvre to decide what policies to adopt, with what severity and when (Vreeland, 2003). Thus, the role of agency remains crucial, despite discursive allegations to the contrary.

²⁰ The 1985 Baker plan was followed by the 1989 Brady plan and, some years later, for the low income countries, by the 1996 Heavily Indebted Poor Countries Initiative, launched by the World Bank and the

The IMF programmes discourage growth, worsen inequity and hold a mixed record on the promotion of stability. The implementation of their agreements by a number of countries shows patterns of deceleration of economic growth and increasingly inequitable redistributions of income, benefiting the better-off at the expense of the worse-off (Vreeland, 2003). Typically, stabilization and economic adjustment programmes, as designed by the IMF, have historically tied loans to different sets of conditionality. Furthermore, the fact that the International Monetary Fund only reaches agreements with Ministries of Finance in member countries bypasses the approval of some other branches of the government, as no ratification is required *ex ante*.²¹ Yet, in agreements with the IMF, the required policy changes are made *ex post* and the resources which are lent to the member countries are made available over the course of the agreement, but only if the observed policy changes are considered to be sufficient and satisfactory. The pragmatism of these mechanisms means that ratification or the approval of other branches of the government, if required for specific policy changes laid out in the agreement, need be of no concern to the International Monetary Fund. It is only the executive of the country which needs to deal with them (Vreeland, 2003).

The Washington Consensus has been associated with the ideological agenda of neoliberalism for which such economists as Friedman and von Hayek were noted, along with the economic programmes implemented during the 1980s and associated

International Monetary Fund. At the turn of the 21st century, some grass-roots campaigns were aiming for complete debt relief or forgiveness for the least developed economies.

²¹ The International Monetary Fund's formal accountability follows a vertical chain of command which is out of reach of the populations where the restructuring programmes are put into practice. A handful of countries control nearly half the votes, with the United States having a veto power over decisions which require a significant majority (Vreeland, 2003). In practice, however, the IMF is easily influenced by the preferences of international financiers. Such a non-official mechanism is, in turn, the target of incisive criticisms.

with Prime Minister Thatcher in the United Kingdom and President Reagan in the United States. The label was originally intended to describe a set of economic policy reforms and instruments that reached a certain degree of agreement among officials at the United States Congress, international financial institutions such as the IMF, the World Bank and the Inter-American Development Bank, economic agencies of the US government, the Federal Reserve and think tanks (Williamson, 1990). However, the consensus was acknowledged as one for countries other than the United States to follow. The main goal of the Washington Consensus was the reactivation and promotion of economic growth in Latin America, precluding any concern for redistribution.²² The set of economic policies became guidelines for the governments of the region to implement, providing another example of the causal and constitutive role of ideas which impact upon and transform the material realm.

In practice, some points such as financial liberalization were eagerly implemented, whereas others such as tax reforms fell short of the original aspirations.²³

²² The policy instruments considered included: a) the elimination of fiscal deficits, b) the redirection of public expenditures towards primary education, health and infrastructure; c) the broadening of the tax base; d) positive but moderate interest rates; e) the use of a competitive exchange rate to induce growth in non-traditional exports; f) progressive replacement of qualitative trade restrictions by decreasing tariffs; g) abolition of foreign direct investment barriers; h) privatization of government enterprises; i) deregulation for the entry of firms and competition and; j) provision of secure property rights (Williamson, 1990).

²³ A key controversial aspect of the implementation of the Washington Consensus was the emphasis on financial liberalization. Attracted by the promise of higher rates of productivity and growth, governments in different latitudes embarked on a series of reforms of their financial sectors. The advice to free markets from 'financial repression' was supposed to work in economies with imperfect capital markets, by increasing the demand for money, which would help expand the monetary system. The rise of expected returns no higher than interest rates would deliver more efficient bank lending (McKinnon, 1973). In order to achieve a consistent process of economic liberalization, it was argued that the first steps should be oriented towards fiscal control and sound government finances with a broad tax base. This would help the government avoid inflation. Furthermore, it was also stressed that the privatization of public enterprises would be more beneficial the more mature and well developed was the fiscal system in existence. Following from this logic, a core feature of the opening of domestic capital markets was meant to be substantial real interest rates, after inflation rates were brought under control and fiscal deficits eliminated. Parallel to the liberalization of domestic finance, the recommendation went, runs the liberalization of trade, converting non-tariffs into diminishing tariffs. They were, in turn, taken as prerequisites for the last stage of liberalization of the foreign exchange.

Nevertheless, the overall results for the Latin American economies after years of implementation of economic restructuring are still highly disappointing even today. Not only have the desired rates of economic growth not been reached, but even negative rates have been delivered in some years since the 1980s. Although acknowledging that adverse circumstances, such as earthquakes and hurricanes, which are beyond any human control, had affected the region as a whole and some countries individually, the sustained growth promise remained still unfulfilled even for the better off economies during their comparatively best periods. Moreover, an unintended consequence seems to have been the dramatically widening income distribution gap, which has made the region in general, and some countries in particular, quite polarized.

The original expectations of the ten points of the Washington Consensus were that capital inflows and export growth would promote the development of labour intensive sectors. As such expectations fell short in reality, poor institutional design was singled out as the main culprit. Following the language of the markets, a growing demand has been heralded for institutional reform in Latin America and the Caribbean. As a response to trends of financial integration, stronger and better institutions are considered to be critical for macroeconomic stability. Such an

Once domestic capital markets were fully liberalized, or liberated from any 'repression' for borrowing and lending, and price levels stable, free international capital mobility could be permitted (McKinnon, 1991). Those broad and general guidelines for the optimal order of economic liberalization were put into practice in the emerging markets during the final two decades of the last century. Still, in some cases, they failed and led to spirals of crisis. It is not my argument that the above listed recommendations inevitably entailed economic catastrophe. The causal and constitutive role of reckless financial liberalization had a critical unexpected consequence after the severe financial crisis which adversely impacted beyond the financial sectors in countries such as Russia, Brazil, Argentina, Indonesia, South Korea, Thailand and Mexico during the late 1990s and the early 21st century. Nowadays, even former proponents of financial liberalization make a plea for more prudential practices in various forums. Enthusiastic advocates of the idea of liberalizing capital markets in developing economies from any 'financial repression', have subsequently recognised that prudential

approach aims to reinforce and maintain the macroeconomic adjustments which most countries in that region have gone through during recent decades. Accordingly, it is stated that institutions matter because they constitute a set of “...formal and informal rules and their enforcement mechanisms that shape the behaviour of individuals and organizations in society...” (Burki and Perry, 1998, 11). Their relevance for the sake of stability is highlighted. Nonetheless, stability, in turn, is perceived as irremediably threatened by technical and political challenges in the region, where information and enforcement problems are significant. The post-Washington Consensus is nothing but the promotion of legal, technical and political convergence, where the optimal scenario would be that laws, regulations, constitutions and contracts on the formal side would harmonize with informal practices based on trust, ethics, values and political norms. As a result, all these formal and informal institutions are supposed to determine the efficiency and existence of both markets and organizations. Regardless of their public or private character, they are expected to provide clear, widely known, coherent, universal, predictable, credible, properly and evenly enforced rules (Burki and Perry, 1998). The recommendations do not stop there, however. Some guidelines even suggest empowering beneficiaries from institutional reforms and compensating losers, at the same time as building political support for prospective reforms and providing incentives to keep the reforms on track. Needless to say, such a grand vision of predictable certainty is extremely unrealistic, as it insists on deductivist modes of inference and positivist closed systems assumptions which do not match reality, as is argued throughout this thesis.

financial regulations should be observed for economies in the contemporary ‘dollar standard game’ (cf. McKinnon, 2002).

Orthodox neoclassical explanations for the poor economic results and benefits in the countries where the first generation of economic reforms was put into practice tend to focus on improper and incomplete implementation. From the same perspective, it is also argued that the original emphasis, mainly on economic growth, was too narrow and, therefore, needs to be complemented by completing the economic restructuring and by pursuing a second generation of institutional reforms. Along with such packages, the new agenda includes provisions to reduce the likelihood of crisis and social equity concerns (Kuczynski and Williamson, 2003). Reforms which are expected to be completed include the deregulation of labour and product markets, further trade reforms and the privatization of State owned enterprises, reduction of the informal markets, and access to developed markets via the World Trade Organization (WTO), as well as the proposed, and still under negotiation, Free Trade Area of the Americas (FTAA). For this orthodox neoclassical view, building the institutional set of reforms includes the modernization of the political system, features of the civil service, the judiciary and the financial sector.

Even though I cannot say that there has been a dramatic shift in the economic agenda, the current emphasis on institutions is presented as an attempt to broaden the narrow concern for economic growth. The theoretical lenses of the Strategic Relational Approach allow us to see that equity was never a priority for the Washington Consensus. This is a claim in line with similar critiques addressed to the Washington Consensus (Kuczynski and Williamson, 2003). Despite some acknowledgement of the importance of institutions to achieve growth and equity, without taking into account the social embeddedness of markets and economic transactions, it seems that the initiatives and proposals are not strong enough to achieve sustainable and equitable

rates of growth. Though it has one of the most unequal distributions of income and assets of the world, the objective of reducing poverty and improving equity without sacrificing growth in Latin America is now discussed in international organizations, government bodies and academia, as a new and overriding objective. For most of those economies, the 1980s and 1990s were clearly decades of economic restructuring and disappointing results, especially as regard economic growth, poverty reduction, income distribution and social conditions. The challenge of building more visibly just societies via concrete economic instruments is one to which no small number of analysts channel their professional efforts.²⁴ Not only has it been acknowledged that poverty and inequality act as deterrents to growth, they also strengthen and reinforce undesirable patterns of polarization and misery. For the second generation of economic reforms, some of the institutional economic tools for social equity which are now promoted keep the emphasis on economic efficiency, such as maintaining fiscal discipline, lowering subsidies to rich people for higher education and reducing tax evasion. Additional concerns include keeping an eye on equity issues, such as more public spending on social safety nets, protecting workers' rights and tackling discrimination practices (Birdsall and de la Torre, 2001).

Yet, issues that are beyond the reach of domestic economic and institutional reforms are trade barriers on commodities and manufactured goods from developing economies, as encountered in the biggest and more profitable markets of the world. For instance, protectionism against textiles and agricultural imports in the United States and the European Union tend to aggravate patterns of poverty, reinforcing inequality in countries whose main exports cannot gain and benefit from access to

²⁴ cf. Kuczynski and Williamson, 2003; Birdsall and de la Torre, 2001; Burki and Perry, 1998; and

developed markets. Therefore, the reduction or preferably the elimination of support policies in the Organization for Economic Cooperation and Development (OECD) markets would shift production towards lower cost producers in the developing economies and would constitute a step towards a more equitable situation in these countries (Birdsall and de la Torre, 2001). These demands are by no means new.²⁵ They have been on innumerable negotiating tables and, even now, constitute an unsolved and, therefore, sensitive issue in trade talks between the United States and the European Union. Particularly sensitive in this respect have been subsidies and protectionism in sectors such as agriculture, steel and labour intensive services. It is no secret that market access is crucial for the outward orientation of economic practices and institutions in developing countries.

The Strategic Relational Approach is able to identify the problem: that the institutional agenda and reforms, if either poorly implemented or put into practice in a way which reinforces existing patterns favourable to inequality, would make such goals unattainable. Concisely stated, the danger is that the aim of sustainable and equitable growth will not be achieved. Constant repetition of commodification practices can only deliver increased commodification, no matter what the change in discourse and rhetoric is. If the economic practices, conditions and institutions are changed and oriented to serve more equitable purposes, then this could only be considered as a preliminary step. As has been shown in Chapter Four, the implementation of economic strategies and the use of outwardly oriented economic

World Bank reports of the last few years among others.

²⁵ Several negotiation rounds of the General Agreement on Tariffs and Trade (GATT), which later turned into the World Trade Organization (WTO), have discussed features of protectionism. Similar agendas have been debated in talks within the United Nations Conference on Trade and Development (UNCTAD) and also in an increasing number of regional and bilateral contexts.

policies have favoured polarization, de-linking the domestic supply of inputs for exportable manufactured goods in contemporary Mexico. Moreover, since a handful of firms account for a significant share of the northbound and southbound flows of products, their overall impact on the labour market is quite low (Dussel Peters, 1997 and 2000). If the second generation of economic reforms is to be successful, a much stronger and more decisive emphasis on the domestic market must not be delayed, certainly if it is to deliver endogenous growth conditions. The risk of overemphasizing labour flexibility and inflation targeting is that this does not create as many high quality jobs as are needed, nor is it likely to do so in the future either. For, an insufficient number of new positions with negative wages in real terms cannot deliver sustainable endogenous equitable growth.

CONCLUSIONS

Since the processes associated with the inevitability of globalization are patently not market-driven, it is necessary to acknowledge the highly political character of allegedly economic compulsions. The conviction that the political discourse of globalization is an economically driven homogenizing force can also be found in the General Equilibrium model. Neither the globalization discourse nor the General Equilibrium model acknowledges the institutional differences and social determinants of markets, because they are presented as homogenous and convergent.

Based on these unrealistic assumptions nevertheless, the closed system properties of the model are used to prescribe political and economic courses of action. The problem

of the inapplicability of the mathematically oriented orthodox neoclassical models lies in the mismatch between theory and practice, non-realistic assumptions, positivist ontology and deductivist inferences. They tend to be asocial, ahistorical, reductionist and deterministic and at the same time they rule out the significance of actors to inject indeterminacy and uncertainty to the processes.

The concentration of trade and investment flows amongst Western Europe, East Asia and North America and their regional arrangements provide a more differentiated and more complex picture than the allegedly homogenizing forces of the market do. Different spatial scales such as global, regional, national and local are not incompatible between them, nor are they incompatible with the significance of actors in shaping the conditions which surround them. In this sense, international institutions such as GATT / WTO reflect such situations in their frameworks. Furthermore, regional blocks have strong political features which are extra-economic and include, but are not limited to security, bargaining power, cooperation and 'lock in' effects. Not only are regional processes political and contingent, but they also originate from within society. They originally start from within and from below the particular regions themselves.

As noted above, there is no conclusive evidence that the degree of openness of an economy is correlated to a strong rate of growth. However, the latter tends to work as a magnet for attracting trade and investment flows. For many countries, the uncritical acceptance of neoclassical axioms has been transformed into domestic self-induced political priorities. By promoting increasing degrees of openness in economies through capital inflows and export promotion and, being unaware of equity issues, the

Washington Consensus failed to fulfil the promise of greater rates of growth. Even when the emphasis on financial liberalization, along with the rest of the first generation of economic reforms, was in place, without their results matching the expectations of economic growth, the post Washington Consensus focused more on institutional reforms.

The second generation of reforms aims to correct the improper and incomplete implementation of economic restructuring by reforming the institutional frameworks of developing countries. The post Washington Consensus strategies include modernizing the national political systems of developing countries, along with features of their civil service, their judiciary and their financial sector. Provisions to reduce the likelihood of crisis and social equity concerns exist as well. The post Washington Consensus strategies also consider the lowering of regulatory frameworks for labour and product markets, further trade liberalization and privatization programmes, the reduction of informal markets, and increasing market access to developed markets.

The importance of institutions for tasks such as governance, negotiation, coordination and regulation has been highlighted as one of the flexible elements of social processes capable of dealing with changing circumstances. Nevertheless, institutions are in no position to guarantee any specific outcome at all, unless they are considered as a tool which the situated agents in context might employ. Institutional reforms are not neutral, as they display a strong political character which can have positive and negative impacts. Rather than being considered a goal, they are means on which the actors can rely.

CHAPTER EIGHT

Situating Mexico within Non-Deterministic Contexts

INTRODUCTION

Having discussed key structure and agency issues, as well as the material and ideational features of the international context, here I pay more attention to the strategically selective circumstances which affect, without necessarily determining, the social processes of change in Mexico. Building on the argument presented in Chapter Seven, which analyzes a broad panorama of the contemporary international context, the emphasis in this chapter is more on the regional scope, although it is by no means limited to it. The utility of the application of the Strategic Relational Approach for the contextual conditions of that country is that it can deliver important insights as well, as we shall see.

Relying on the Strategic Relational approach, in this chapter I discuss those elements of the material and ideational international context which are of direct relevance to the development experience in Mexico. It opens with a section on the relations between the United States and Mexico. Such a myriad of complex and multifaceted interactions, history and potentialities, has been, and will remain, of the utmost importance for both countries. Then I move towards analyzing the punctuated evolutionary economic trajectory of some emerging markets, which is followed by a

critical examination of the mid 1990s financial crisis. Despite the severity of the crisis, the orientation of the economic policies remained on track. The next part focuses on the North America Free Trade Agreement, which has unquestionably been successful in its own terms. Trade and investment flows have increased, and the ad-hoc dispute settlement mechanism has been operating in cases presented by each member. Yet, there are immense numbers of things that NAFTA cannot accommodate, as it has been narrowly conceived only as a trade agreement, albeit an expanded one. Those omissions are of key relevance and must be brought into the spotlight along with the relative successes of the agreement if a serious and informed discussion is to take place about the prospects of deepening NAFTA. Likewise, the current negotiations for the Free Trade Area of the Americas would mean widening its scope and membership. These are some of the key issues which have been present in the strategically selective context for the social processes of change in Mexico in the last few decades. There are also crucial challenges ahead. If there has been room for manoeuvre in the past experiences, there is a good chance that there will be more room in the future.

THE ASYMMETRIC AND DYNAMIC RELATIONSHIPS BETWEEN MEXICO AND THE UNITED STATES

The relationship between Mexico and the United States has experienced significant changes as it has moved through different historical phases. Ever since their early independent days, the degree of importance of the bilateral relationship has ranged from conflict to cooperation, as the opening chapter of this thesis suggested. Even

though I concentrate on the contemporary period, the weight of the past and the historical memory for both sides cannot be completely neglected. Equally importantly, the already large, but still widening, range of interactions has been informed by ideas, perceptions and myths which account for key unobserved factors (Aguayo, 1998).¹ They all have also played a causal constitutive role in material outcomes, as I hold throughout this thesis.

Using the Strategic Relational Approach, it becomes evident that the asymmetries between Mexico and the United States have been key constant variables which permeate all the different facets of their relationships. Contrasting availabilities of resources, military might, political organization and practices, diplomatic strategies, sets of values, cultural characteristics, and so on and so forth, which in the past were considered reasons for keeping a certain distance, over recent decades have been overtly endorsed as opportunities not to be missed. The different combination of elements of consent, coercion and hegemony present in the international system can be easily found in the annals of the relationship between the US and Latin American countries. Nonetheless, the contemporary period has tilted towards a range of methods and strategies to convince Latin America that it is in its interest to actively collaborate with the United States, as the scope of shared and similar objectives is increasing. Epitomizing the exercise of hegemony has been the US obsession with

¹ For instance, Aguayo argues that myths, such as the exceptionalism of the United States which sets them apart from the rest of the world, are completely inaccurate and misleading. Similarly, the claim that whatever course of action the US takes has only positive repercussions in the international arena is clearly discredited. So is the assumption that corruption and inefficiency are pervasive for the public sector, but absent from the private realm (Aguayo, 1998).

However, the misperception of Mexico as an insular, passive and nationalistic country could not be farther from the truth. Likewise, the identification of common interests between Mexico and the United States does not mean that divergent points of view are out of the question. Taking for granted that the orientation of Mexican foreign policy is only guided by principles such as self-determination, non-

political and economic stability beyond its borders. Features of international regimes in some cases were considered secondary as long as they did not threaten the interests of individual countries. Such was the case for the former ruling hegemonic party which held office in Mexico for seven decades, as already discussed in Chapter Six.²

Ever since the end of the armed phases of the early 20th century Mexican revolution there has been an evolving pragmatic understanding between the governments on either side of the Rio Bravo.³ Such pragmatism reflects the asymmetries and the ideas which each holds of the other. As they inform the courses of action taken and the strategies adopted, they yield a causal constitutive role in the material world. The role played by intangible elements such as ideas, information, perceptions and even myths in the complex and multilevel interactions between the United States and Mexico have been mainly, but not exclusively, used to maintain the relationship, not exempt from touches of hegemony, and also to maintain the established order (Aguayo, 1998).

As regards the democratic credentials of the former one party rule in Mexico, the United States did not worry unduly about the other's diplomacy. Mexico's political and economic stability represented a concern for the US, regardless of how good or

intervention in domestic affairs and the peaceful resolution of conflicts, portrays an idealistic approach which neglects its increasing degree of pragmatism (Aguayo, 1998).

² Another example is the one provided by Chilean history. On September 11th in the early 1970s, Allende, a democratically elected president, was overthrown and killed by the local military, with the support of the United States government. Pinochet went on to implement an economic programme more in tune with US priorities, and ever since has been portrayed as an example for countries embarking on economic restructuring.

³ The roots and original impulses of the pragmatic understanding between the United States and Mexico can be traced back to the late 1920s. After the re-elected President Obregón was assassinated in 1928, Dwight Morrow's US ambassador to Mexico supported Calles and reached a high level of understanding with him. During the late 1920s, Calles made important concessions to US oil companies in exchange for Washington's support in preserving his regime's nationalistic image.

bad its democratic model was. The principles which guided the Mexican foreign policy of non-intervention, self-determination and peaceful resolution of conflicts were not a cause of anxiety to the US, as the latter perceived the former to be frequently at odds with them only in matters of secondary importance. Regarding more important issues, some United States Department of the Army declassified documents stated that “...in case of war... (or any other critical situation) Mexico would be an ally of the United States...” (Aguayo, 1998, 56).⁴

The unwritten rules of the pragmatic understanding evolved after the Second World War on commitments to mutual support, established around shared interests. Further formal agreements between the two countries have been inspired by the informal and pragmatic understanding typified by former Mexican President Calles and former US Ambassador Morrow. Although it was never formalized in treaties or protocols, it became a tool of the utmost importance for the discreet resolution of differences. As the relationships have moved through different historical phases, the pragmatic and flexible understanding between the two governments has undergone gradual modifications. One of them has been the sometimes overt and sometimes covert,

Although the oil industry was later expropriated in 1938 by Cárdenas, the pragmatic orientation of the relationship remained and strengthened over time (Aguayo, 1998).

⁴ Nonetheless, in a recent case, the US did not get the unconditional support that it wanted in its self-proclaimed crusade against terrorism. Holding a temporary seat at the United Nations Security Council, Mexico, along with some other countries, did not back the United States' initiative to attack Iraq in 2003. Minor diplomatic skirmishes followed.

There is no room here for engaging in a discussion about this conflict, which has extremely complex historical, geo-strategic, military, religious, energy and political connotations. Suffice it to say that the recent open military involvement of the United States in Afghanistan and Iraq, in its self-proclaimed crusade against terrorism, was originally justified on the basis of faulty intelligence and too little evidence. Its closest ally, the United Kingdom, was also unable to defend the case for going to war. However, this was not an impediment to seizing more direct control over oil and gas resources from the region, despite its disclaims to have done otherwise. Those actions are radically transforming with unforeseen consequences not only the US relations with the Arab countries but with the whole world. In addition to the significance of the energy resources of that region, the US military involvement, along with the thorny issue of its overt and covert support of Israel in its conflict with Palestine, infuriates nations in this Islamic region, which may yet have serious consequences.

support of the US elite in pursuing the economic and political stability favourable to their interests in Mexico. In particular, it has supported the latter's civilian rule without democracy (Aguayo, 1998; Mazza, 2001).

Needless to say, the pragmatic understanding between the governments is not limited to the adoption of flawed models of government, nor to the increases both in the volume and value of economic transactions. Due to the asymmetries between Mexico and the United States, when there has been an exercise of coercion from the latter, the former has little defence. Regarding security issues, with a small number of armed forces and weapons, the pragmatic foreign policy succeeded in preventing Mexico from signing a military accord with the US, and from entering the continental military alliance embodied in the Rio Pact.⁵ Yet, the deployment of this strategy during the Cold War period faced modifications in the light of changing circumstances. A former security strategy of abnegation has been abandoned for a bandwagoning scheme. The first one entailed eschewing alliances with any rival of the United States and pursuing no foreign policy interests, which in turn, might be perceived as a threat by the latter; albeit with little cooperation. The second one has increased the degree of cooperation with the US over security issues such as drug trafficking, at the same time as it tolerates its unilateral actions and breaches of the bilateral scheme. The current strategy also considers building up a military capability to advance joint goals in combating narcotic gangs, which are almost unilaterally designed (Domínguez and Fernández de Castro, 2001).

⁵ Officially known as the Inter-American Treaty for Reciprocal Assistance.

It does not surprise anybody that the alliances which have been forged over drug trafficking respond more to US concerns.⁶ Taking for granted that supply creates its own demand, the United States has pursued unilateral moves to ‘certify’ countries in their induced fight against drug trafficking. This has, in turn, raised strong criticisms, as the US is by such means advancing the extraterritoriality of its jurisdiction without full prior negotiation.

Due to the fact that the United States deems international security issues to be highly significant, the strategy of bandwagoning is considered to be less cost effective for Mexico than the preceding one of abnegation (Domínguez and Fernández de Castro, 2001). At the dawn of the 21st century, the US crusade against terrorism is having serious repercussions throughout the world which go beyond the scope and aims of this thesis.⁷ Nonetheless, it has already become, and it is likely for some time to remain, a strategically selective contextual factor and key referent in the relations of the United States with the rest of the world. Therefore, it affects Mexico without determining its courses of action, as happened during the period of the Cold War.

⁶ Operations such as Intercept, Condor, Intercept II, Safeguard, Gatekeeper, Casablanca, Thunder, etc. have meant an increase in the influence of US activity within Mexico (Domínguez and Fernández de Castro, 2001).

⁷ After the 2001 terror attacks, terrorism has recently been added to the United States’ security agenda against drug trafficking. These two concerns have also been added to the original security agenda of Mexico, namely the US itself. The lowering of barriers to facilitate the flow of trade in goods and services, as well as investment, have contributed towards making it easier for illegal exchanges and transactions to occur. Hence, issues such as drug trafficking and migration, both legal and illegal, have profited from reductions in transaction costs which, in turn, have been facilitated by political and economic cooperation and institution building (Domínguez and Fernández de Castro, 2001). Still, as drug traffickers mainly act as suppliers to the biggest drug market in the world, the efforts to eliminate and suppress them in other countries have been as costly as they have been unsuccessful. Much worse, it denigrates nations due to the US ‘certification’, which is, in turn, conditioned to a great degree by non-drug considerations. As long as the incentives to get a share of such a profitable market exist, the only result is that more powerful and better organized cartels emerge to fill and to create vacuums left by former ones. Such a promotion of specialized cartels bears a high domestic price beyond the US borders. Not only does it contribute towards escalating violence to levels previously unheard of in

Tied by geographical proximity, the incessant and dynamic formal and informal networks on both sides of the border move faster than, and do not necessarily follow, government preferences and official discourses. Making use of the Strategic Relational Approach, it is possible to see that the levels of inter-societal cross-penetration taking place cannot be reduced to economic relations of exchange or political issues headed by the respective governments. The multiple layers of identity are the incontrovertible evidence that there are very strong social processes and dynamics which in its rich and ever-transforming trends and counter-trends narrowly defined free trade agreement is unable to capture. Intergovernmental cooperation has formalized and institutionalized what is in fact the leading role of the situated actors in context, significantly contributing towards changing the conditions surrounding them.

Due to the traditionally fragmented nature of the US policy, where different agencies deal simultaneously with sometimes overlapping and contrasting agendas and priorities, Putnam has suggested that, regarding international negotiations, there seems to be a trade-off between the domestic and the international dimensions. In particular, for a zero-sum game assumption, the importance given to either one level or the other means that the strength and impact of a bargaining position abroad could entail a weakening of its circumstances at home or vice versa (Putnam, 1988). Yet, the reciprocal interactions between domestic and international affairs for bargaining within a more centralized system such as the one in Mexico are not exempt from such bargaining scenarios. Furthermore, these dynamics at the national and international levels cannot be easily contained and are constituted by counter-trends as well.

those societies, but it also corrupts officials and profits from unsatisfied demands and impoverished

Consider, for instance, the increasing volume and depth of relations between the two countries, where the growing complexity and interactions of the multilayered tapestry of actors seem to follow patterns of decentralization at all levels. Such patterns respond to the rising numbers of actors involved (Domínguez and Fernández de Castro, 2001).

The current outwardly oriented economic strategies have enjoyed support and encouragement from Washington. Mexican technocratic governments have been praised while some big businesses have flourished, trade and investment flows have boomed and the income distribution has widened (see Chapter Four). In addition to the growing flows of trade and investment inbound and outbound, there are important social dynamics which continuously reshape the relationships between the two countries. They are neither merely attributable to the governments' wills, nor are they captured by the narrow framework of the North America Free Trade Agreement.

A discussion of these underlying issues is undertaken after a critical examination of the features presented in emerging markets, the Mexican mid 1990s financial crisis and some crucial unsolved difficulties of its banking sector. For they clearly provide a reference for the contextual circumstances where the demarcation between international and domestic scenarios becomes blurred. Though economic problems they truly are, they provide evidence that they are a constitutive part of broader social processes.

sectors within inequitable and polarized societies.

THE INCREMENTAL PUNCTUATED EVOLUTIONARY ECONOMIC TRAJECTORY IN EMERGING MARKETS

Pursuing the promise of economic growth, plus the attraction of trade and investment flows, has been presented by international institutions as the only viable option. It has also been domestically adopted as a key priority by emerging economies. In so doing, appealing to capital inflows has not only focused on Foreign Direct Investment, but also on financial investment. Assuming that financial markets are perfectly integrated at the international level, and that capital flows can freely move everywhere, the design of some financial strategies is supposed to be up to the challenge of borderless competition. Nonetheless, it has puzzled some neoclassical economists why capital is far less mobile than it ought to be in an ostensible borderless financial market (Feldstein and Horioka, 1980). Contradictory evidence to the unrealistic belief in a frictionless market exemplifies the inconsistencies of orthodox economics discussed above. Economic transactions and exchanges do not operate in a vacuum under conditions of perfect information and experimental control. Rather, they occur within a wider political context (Watson, 2001b). They are simply a socially embedded part of this context, never an independent and isolated component. Making use of the Strategic Relational Approach, it has been acknowledged that ideas can have a causal impact on the social construction of outcomes. From this, it follows that critical analysis must question the match between axioms and facts which tends to pervade neoclassical economics and its modelling propositions. For, if global frictionless markets do not exist and frictionless exchanges do not take place, then abstract economic laws cannot dictate the patterns of transactions. As such, there is a clear need to ‘add political dimensions’ to such inconsistent arguments (Watson, 2001b).

Perhaps more appropriately, a whole revision and challenge to taken for granted issues and assumptions is due. Hence, the role which agencies play is of key importance and must not be left out in the name of theoretical parsimony and elegance.

Relying on the attraction of investment inflows not only into productive activities, but also in relation to financial capital, a range of emerging markets has faced mixed experiences of success and failure. In some particular cases, i.e., South East Asia and Latin America, periods of expansion have ended dramatically with the eruption of crises and the drastic plummeting of financial prices. Since the 1990s, financial crisis in emerging markets have exposed the vulnerability resulting from over-reliance on investment flows, poor regulatory frameworks and high levels of debt, especially short-term foreign currency denominated debt, whether private or public. Although there are no specific indicators which would allow a crisis to be prevented with a high degree of certainty without incurring false alarms, for some neoclassical economists, there exist some conditions which might be perceived to increase the likelihood of a financial collapse.⁸ A sudden shock which might take different forms, such as a drop in real activity, or a slowdown in capital inflows, or the deterioration of the terms of trade, or a decline in asset prices, could impact upon the domestic banking system,

⁸ Such a combination of weaknesses as renders economies vulnerable might not be limited to high domestic interest rates and the real appreciation of domestic currency possibly contributing to overheating the economy and deteriorating export performance, especially if they are combined with very low levels of international reserves and massive speculative capital outflows. If, in addition to these, there are growing fiscal and current account deficits within a period in which a monetary expansion has occurred, the accelerated use of domestic credit could add pressure to the banking system following newly implemented financial liberalization and deregulation measures. Furthermore, raising short-term financial investment flows in response to high interest rates, which in turn base their appeal on the interest rate differential to developed financial markets, demonstrate that relative comparative advantage erodes easily when leading international interest rates rise. In a scenario of a reversal of financial investment inflows, a high short-term foreign currency denominated debt of either public or private holders could further increase the likelihood of a financial shock (International Monetary Fund, 1998).

triggering spirals of self-fulfilling prophecy crises (International Monetary Fund, 1998).

It is clearly beyond the scope of this thesis to explore the causes, characteristics and impact of financial crises in emerging markets. Although three of the most virulent, important and dramatic financial collapses have occurred in Latin America, along with some South East Asian emerging markets and Russia during the last decade or so, the orientation of this thesis prevents me from exploring them in detail.⁹ As was the case with Argentina's and Brazil's crises, which both happened after the Mexican financial crisis, the functional immobility of financial investment hindered the flow of funds into production, due to the increasing disassociation of the productive realm and the financial markets (Watson, 1999). The unrealistic assumption of the perfect mobility of financial flows, which could be used to compensate for current account deficits, proved quite costly in Mexico during the mid 1990s. Hence, the reliance on functionally immobile financial inflows and the impeding of investment flows into productive activities for those Latin American emerging markets presents a strong case for bolstering the regulation of financial markets.

⁹ Like Mexico a few years earlier, Brazil during 1998 and 1999 faced an overvalued exchange rate pegged to the US dollar, sharp losses in foreign reserves and current account and public sector deficits. The difference from the Mexican case was that the financial rescue package was timelier in comparative terms. It was put together by the International Monetary Fund which, along with some industrial economies, arrived before a collapse; and was offered in exchange for measures to eliminate the fiscal deficit. Hence, the impact of the crisis was not as harsh as in Mexico (Weintraub, 2000a). In the case of Argentina, suffice it to say that the 2001 declaration of sovereign debt default of over 80 billion US dollars meant the largest in history so far, followed by a critical renegotiation agreement with the International Monetary Fund. On top of an aggressive privatization of government enterprises, liberalization strategies aiming to attract trade and investment inflows, and the lowering of the regulatory frameworks, Argentina also fixed its currency to the US dollar. Because the 'convertibility' plan was also endorsed by the IMF, its collapse became a grim display of the risks of such practice and policy advice. The fiscal deficits, the poor institutional framework and the weak enforcement of the rule of law were identified as the main culprits. However, this offers no consolation in any future episode of exceptional severity in social and economic costs (The Economist, various issues). Along with Brazil and Turkey, Argentina absorbs a high proportion of the IMF's lending. This, in turn, raises awareness of the urgent need for both restructuring the international financial organizations and the regulation of financial markets in a broader perspective.

Regarding the Mexican case, it is important to bear in mind that, unlike the 1982 crisis, the later crisis showed that fiscal deficit problems were already under control. Unlike the crises which preceded it, that of 1994-1995 had its origins in macroeconomic financial mismanagement. Not only had the attraction of foreign investment been relatively more successful for capital inflows than for direct investment, but capital inflows were used as a mechanism to balance the growing current account deficit at the time (Lustig, 1998; Edwards, 1998; Burki and Edwards, 1996). The strategy, however, contributed to make the Mexican economy more vulnerable to external shocks. One of the reasons that capital inflows responded more vigorously to the Mexican government's policies and efforts to attract foreign resources, than direct investment did during the last decades of the 20th century, lies in the context in which investors were situated.

During those years, an important share of government expenditures was financed through the stock exchange, which delivered profits to both foreign and domestic investors. The accumulation of large fortunes and the forging of political alliances between some technocratic sectors of the government and domestic financial groups rose in importance (Kessler, 1999; Santín Quiroz, 2001). The series of reforms implemented in the financial sector in Mexico was supported by such conditions as the re-privatization of banks, the expansion and reform of development banking and the increasing autonomy of the central bank. All of these institutional changes delivered an attractive chance for portfolio investment.¹⁰ Nevertheless, aiming for

¹⁰ One of the pillars of the reform, namely the expansion of development credit, was ultimately reversed as large amounts of funds were not allocated and corruption scandals were made public. However, the two tier development banking system was preserved (Santín Quiroz, 2001).

increasing levels of efficiency within the financial system, the restructuring of the financial sector failed to promote strong and sustained rates of economic growth. The Mexican policy reform and institutional arrangements were not merely driven by the market, for they aimed to recast political support for the government during the late 1980s and early 1990s. Notwithstanding fiscal discipline, politically motivated redistribution did not cease, because it targeted pay-offs to social groups (Kessler, 1999).

Political contextual considerations aside, during the early 1990s the international capital markets were showing relatively small returns compared to the emerging markets.¹¹ Although limited space does not allow us to present a comprehensive picture of this phenomenon, suffice it to say that, for instance, the lowering of interest rates by the United States Federal Reserve from the late 1980s contributed to

¹¹ In addition to the changing international context, domestic political instability affected investors' perceptions and provided disincentives which slowed down the pace of financial inflows into Mexico. Not only was 1994 the year that the North America Free Trade Agreement entered into force, but it also saw an unexpected indigenous peasant uprising in the Mexican southern state of Chiapas. This took almost everybody by surprise when it took place on the first day of January. The Zapatista Army of National Liberation's (Spanish acronym EZLN) demands focused on agrarian and economic reform. The Zapatista challenge responded not only to the constitutional reforms of Article 27 regarding land tenure, but also added to the disappointment with the government for ignoring the peasants' demands, and for their declining economic status and exclusion from political processes. The armed confrontation lasted only a few days. Although most people disliked the original guerrilla tactic, they echoed and supported EZLN's demands. This favourable social context helped the Zapatistas to become important political actors in Mexico in the period since they originally made the headlines. Even though the Zapatistas and the Mexican government signed the San Andrés Larrainzar accord in 1996, its failure to implement it triggered a political stalemate which has not been satisfactorily sorted out, despite a 2001 constitutional reform aiming to incorporate indigenous rights.

Another factor which should not be overlooked is the fact that the Presidential elections of 1994 were preceded by signs of political instability. The candidate of the ruling party at that time was murdered, and so were a senior official of the Institutional Revolutionary Party and a Catholic Cardinal, namely Colosio Murrieta, Ruiz Massieu, and the Cardinal Posadas Ocampo, in that order. Especially in Colosio's case, due to the heavy concentration of political power and the president's leverage in Mexico, his assassination was a shock to the political system. In the annals of Mexican history there are records of political murders, one of the most notorious being that of President Obregón in the late 1920s, who breached the no-reelection revolutionary mandate. Although Colosio was not in office when he was shot, at that time no PRI presidential candidate had been beaten or had openly admitted his defeat at the polls ever since the party was founded. All those events adversely affected perceptions of political stability at home and abroad. Nevertheless, the PRI had a more transparent victory than in

providing investors with incentives to look for higher rates of return elsewhere (Lustig, 1998). Bear in mind that the magnet of US interest rates for capital flows cannot be overlooked. Any particular movement, either up or down, influences investment allocation decisions, affecting all international markets. This is exactly what happened this time. During 1994, the interest rates set by the US Federal Reserve rose on six different occasions from 3 %, encouraging the mobilization of resources to its capital market, and reducing the incentives to allocate funds in emerging ones, such as Mexico's. Following a more or less cyclical pattern, a few years later, by the turn of the 21st century, leading interest rates were slashed again, dropping to their lowest historical levels after the stock market bubble burst. Halfway through the first decade of the new millennium, concerns about deflation no longer seemed to be a risk and the United States Federal Reserve, along with some other central banks, started raising leading interest rates again, aiming to reduce a further surge in asset prices and debt, since cheap money encourages excessive borrowing and speculation. Although these measures target developed economies, the monetary policies have international repercussions as well.

Even though the 1994 Mexican crisis was caused by a combination of different factors, some of them, such as the rise in US interest rates and the political shocks, were beyond government control. Having briefly overviewed some of the contextual international and domestic reasons underpinning these events, I now concentrate on the economic account of the financial crisis. It did not happen all of a sudden, since there was a gestation process which was either overlooked or misinterpreted by the authorities. It is important to recall that, the previous year, the Mexican central bank

the 1988 presidential election, making the 1994 election its latest consecutive win since the party was

had been given increased autonomy and new legislation restricted the government from borrowing to finance deficits. The growing portfolio investment and the competition for capital inflows pointed to an increased need for international creditworthiness. As already mentioned in Chapter One, the Mexican central bank increased its autonomy, aimed at securing the stability of the peso's purchasing power (Maxfield, 1997). There were also mixed perceptions as international agencies such as Standard and Poor's and Moody's had given Mexico a favourable credit rating status before the financial crisis unfolded. The trade and investment patterns institutionalized by NAFTA were also favourable. These mixed signals exemplify not only how contingent these phenomena were, but also how important the never determining selective context was for the involvement and participation of actors. As should be clear by now, the Strategic Relational Approach is well equipped to deal with uncertainty, unpredictability and uneasiness of the social processes of change. The next section focuses on the Mexican financial crisis, and the fact that it did not translate into a derailment of the outward orientation of the economic model.

THE 1994 CRISIS AND THE RATIFICATION OF THE ECONOMIC TRAJECTORY IN MEXICO

Chapter Four already examined some features of the commodification processes in Mexico. An important part of this has been the initiative and implementation of financial liberalization, as it became a cornerstone of the economic strategy for attracting foreign investment. Portfolio inflows rose dramatically in importance

founded more than six decades ago at that time.

during the late 1980s and early 1990s and built a momentum which was shattered in December 1994, as no adjustment was undertaken by the authorities, who did not accept the need for timely adjustment of crucial variables (Weintraub, 2000a). The slow levels of growth from the mid 1980s to the mid 1990s were, among other factors, the result of the Mexican currency appreciation, on the one hand, and the poor investment rates and slow productivity growth, on the other. The substantial appreciation of the peso in real terms due to a rigid exchange rate was also affected by the trade liberalization policies as they shifted demand from domestically produced goods to foreign ones. Regarding low investment and productivity growth levels, these were affected by a lending boom which, when it slowed down, caused non-performing loans to accumulate (Lustig, 1998; Edwards, 1998; Burki and Edwards, 1996).

The volatility of hot money, which led to large investments in Mexican government securities in the early 1990s, must not be overlooked. During the last few decades of the former one party rule, the financial policy was deployed so as to channel financial resources to address the interests of domestic groups on which the government depended for political survival. An arguably unintended consequence was that the liberalization of the financial sector was seized by foreign and national investors to take advantage of the Mexican currency overvaluation. As some domestic and foreign investors initiated the run on the peso in late 1994, it has been argued that financial actors such as the Weston Forum pushed the Mexican government to further overvalue the peso and assume the risk, as this overvaluation would bring additional profits to these investors (Kessler, 1999). Participants in the Weston Forum included the Fidelity Investment Company, the Oppenheimer Management Corporation, the

Putnam Funds Management, The Soros Fund Management, the Salomon Brothers, the Namura Securities and the Weston Group (Kessler, 1999). However, had the peso devaluation been carried out, it is estimated that it could have had an undesirable electoral impact for the ruling party at the time. Since this was a politically unacceptable outcome for the government holding office, it worked hard to avoid such a scenario. Therefore, the political calendar in Mexico delayed the needed economic and financial adjustments, in the unrealistic hope and assumption that no major changes would occur, hazarding that the government would be able to hold its position without facing even minor consequences. This was a crucial mistake. For the Strategic Relational Approach, no doubt this constitutes a clear example of the fact that even though structures influence agencies, they do not determine the decisions which agencies make; since it is the situated agents who are able to shape, in a dialectical way, their own contexts.

The lack of democratic and inclusive practices, on the one hand, and hierarchical decision-making procedures, on the other, proved an explosive combination for the financial problems of the mid 1990s. When the government contrasted the series of assumptions which they had held about the performance of economic variables with a reality that did not match such assumptions, they were wagering that the situation could improve and begin to match their assumptions. Sadly, they were disappointed. Since economic decision-making in Mexico has historically featured secrecy and verticality, typical of an authoritarian regime, these qualities were routinely exercised during 1994. The praised technocratic circle deliberately excluded people with dissimilar credentials or points of view to those held by top officials, deliberately delaying democratic reforms. They were routinely habituated to the secret top-down

elaboration of key decisions, policies and courses of action, displaying arrogance, exclusivity, stubbornness and hegemonic control over the general population (Weintraub, 2000a). Supported by the hierarchy in the government, the bets that the reality would match the assumption of geographical immobility in financial investments, and of the power of officials to manipulate the price of the peso, never paid out. Thus, the lack of democratic culture and unaccountability were vital for such a scenario. The disproportionate bet to preserve the reputation of the leaving administration with a record of not depreciating the currency, proved extremely costly, risking the stability of the country and affecting the living conditions of millions of people (Weintraub, 2000a).

Regarding the economic variables, the level of international reserves in December 1994 dropped down to six billion US dollars. This amount was perceived as insufficient to face thirteen billion US dollars of Tesobono short-term debt due in the first three months of the following year. In order to tackle this liquidity problem a Mexican currency devaluation, which was followed by a switch to a floating exchange rate, triggered a panic response which converted it into a self-fulfilling crisis. After a failed attempt, the second financial rescue package of nearly 49 billion US dollars was led by the United States government (Lustig, 1998 and 1997a; Edwards, 1998; Burki and Edwards, 1996).

Yet, before opting to devalue the Mexican currency, the government made some weak moves in the previous months. Since they were neither strong enough, nor oriented in the right direction, not only the peso appreciation, but also the slowing capital inflows and the increasing current account deficit, did not change significantly. For instance,

in different stages, the exchange rate was modified from an original fixed type to a crawling peg, then to an adjustable band, which had its boundaries widened just before it was allowed to float. However, the downward trend continued and a financial crisis loomed. Nonetheless, before this scenario materialized, the monetary policy implemented by the government caused nominal domestic interest rates to fall, even when external rates were rising and expectations of devaluation were spreading (Lustig, 1998; Edwards, 1998; Burki and Edwards, 1996).

It is within this context that investors and holders of Mexican Treasury bonds switched to US Treasury bonds, affecting the composition of the government's domestic debt. Within twelve months Mexican Cetes peso-denominated dropped from 76.5 % in December 1993 to 14.2 % the year after. However, during the same period of time, US Tesobonos dollar-denominated rose from 4.8 % to 80.6 % by December 1994. Thus, a large share of government short-term debt was held by foreigners (Lustig, 1998; Adams, 1997). Concretely, it has been said that both direct and indirect investments, primarily in pension funds, were tied to the Mexican economy. According to some accounts, US residents held up to 90 % of foreign owned dollar denominated Tesobonos, worth over 16 billion US dollars. This massive change in the composition of the Mexican government short-term debt delayed an adjustment or devaluation before the presidential elections of August 1994 took place. The government, led by Salinas de Gortari, Mexican president at the time, pretended to avoid or postpone a currency depreciation, ruling out the possibility of a timely adjustment, which would not have been as costly if the decision had been taken then as the crisis which unfolded by the end of the year. Both the Mexican President and the Central Bank failed to heed warnings of peso overvaluation and maintained the

exchange rate at an unrealistic, artificially high level (Adams, 1997; Weintraub, 2000a).

Once the financial crisis unfolded south of its borders, the United States government at the time assembled a bailout package for Mexico, aiming to halt the run on the peso and to restore investors' and speculators' confidence by showing assertive evidence that there was international support led by the Clinton administration. The main components of the 1995 financial rescue package were the US-Mexico Framework Agreement for Mexican Economic Stabilization, which was signed on February that year; the Medium Term Agreement; the Guarantee Agreement; the Oil Proceeds Facility Agreement in Annex A; and the Economic Policy Memorandum in Annex C. For the latter, the Mexican government committed itself to comply with the International Monetary Fund programme and some additional US Treasury requirements (Lustig, 1998 and 1997a; Adams, 1997). A considerable amount of detailed economic information had to be provided to the IMF and the United States Treasury to help them follow the evolution of the economic recovery. The Mexican Central Bank and the government were required to report to the US Treasury on account balances, investment trends, inflation projects, money supply patterns, and to explain how the resources to cover US guarantees would be repaid (Adams, 1997).

The largest economic aid at that time since the Marshall Plan was agreed by the end of January. Not only did it bring the crisis to a halt, but it also prevented the crisis from spreading to other international markets. The amount of resources roughly

matched the Mexican government debt payments due in 1995.¹² Since the problem was one of illiquidity, not of insolvency, the rescue package also helped to restore Mexico's access to international capital markets quicker than at first anticipated (Lustig, 1998 and 1997a; Edwards, 1998). The fact that the loans were repaid ahead of schedule contributed to a positive perception of its economic adjustment.

The Oil Proceeds Facility Agreement provided a guarantee for the Mexican government to deposit the proceeds of oil export sales by *Petróleos Mexicanos* (PEMEX), the government owned oil company, and its subsidiaries in a pass-through special account at the Federal Reserve Bank of New York (Adams, 1997; Lustig, 1998 and 1997a). The legal vacuum on which the strategy guaranteeing oil exports proceeds was built complied with the fact that it is explicitly prohibited in the 1917 Constitution for any foreign exploration and control of petroleum leases in Mexico. Nevertheless, there is neither an implicit mention of, nor an explicit restriction on the use of proceeds from revenues derived from the export of crude oil and petroleum products (Adams, 1997). Thus, the government officials responsible for the negotiations seized the opportunity to implement a strategy which took advantage of the legal loophole. What this episode represents for the Strategic Relational Approach is the inducing, albeit not determining, of conditions which provide some room for manoeuvre for agencies to exploit. The importance of this resides in the never static

¹² Even though not all of the resources offered in the financial rescue package were immediately available, there were enough to tackle the illiquidity concerns that triggered the crisis. Additionally, in February 1995, the loans and guarantees offered by the United States government through the Exchange Stabilization Fund meant the largest ever use of this facility at the time. Likewise, the International Monetary Fund 18-month stand-by agreement was also increased. The unprecedented 688.4 % of Mexico's quota meant the largest ever loan, both in terms of its value and as a percentage of the country's quota. A few years later some other emerging markets' financial problems also demanded extraordinary resources from the IMF, exceeding the ones made available to Mexico. Typically, the standard IMF loan cannot exceed 100 % of its quota in a year with a cumulative limit of 300 % (Lustig, 1998).

reconfiguration of the conditions in which actors are situated, which can also be influenced in turn by the selection of the courses of action which agencies opt for. This is further illustrated below.

MEXICAN BANKING SECTOR INPUT TO INDETERMINACY

It was pointed out in Chapter Four that the crucial priorities for the processes of economic restructuring were, and still are, to liberalize the trade and financial sectors, the divestiture of government owned enterprises, the renegotiation of the external debt and the fiscal reform. Regarding financial liberalization, the processes introduced by the Mexican government at the time pretended to free the system from any ‘financial repression’ (McKinnon, 1973 and 1991). However, this became one of the most hotly contended initiatives of the administrations of the time, as some years later the sector experienced serious trouble and had to be bailed out using public resources. After the mid 1990s financial crisis, the rescue package for the banking sector, implemented by the Mexican government faced opposition in the Congress. Although auditing evaluations have found irregularities which have not yet been satisfactorily explained, with the benefit of hindsight some financial mistakes have been identified. A fundamental flaw consisted in the lack of adequate and effective supervision which should have accompanied the opening initiative. In addition, the banking system was not financially sound at the time, as became evident when the crisis erupted.¹³

¹³ The origins of the moral hazard problem, for which the Mexican government had to guarantee deposits, can be traced back to the reprivatization process undertaken in 1991 and 1992, when the lack of adequate prudential regulation and enforcement resulted in a weak banking system which constrained monetary policy a couple of years later. Inadequate regulation was perceived as an opportunity to expand consumer credit. However, this credit expansion also increased non-performing loans and contributed to an increase in the current account deficit and a decrease in private savings

For the Mexican case a crucial problem regarding the banking sector bailout has been having to deal with incomplete information. This is a pervasive feature of exchange relations, which was discussed in Chapter Two through the perspective of the Strategic Relational Approach. In Mexico, neither the banks nor the authorities disclosed adequate and accurate details of the non-performing loans which had been taken out by the government. Invoking banking secrecy laws, banks and government officials who were involved in the bailout process have remained silent about the profile and amounts of the transactions involved. The secrecy and the way in which FOBAPROA (the Spanish acronym of Mexico's Deposit Insurance Fund) and its successor IPAB (Spanish acronym of Deposit Insurance Institute) have been treated adds to the suspicion that, in a country where most of the population do not have access to credit, public resources were used to convert loans into public debt and protect some of the wealthiest individuals and richest firms operating in Mexico who otherwise should have gone bankrupt.¹⁴ Clearly, the closed, murky and unaccountable fashion by which taxpayers' resources are channelled has become one of the most

(Lustig, 1998). The lack of experience in managing the nationalized banks in 1982, when they were faced with a surge in capital flows, resulted in the mismanagement of the greater liquidity. The excessive expansion translated into a credit boom. Still, this happened within the context of less rigorous accounting standards than the Organization for Economic Cooperation and Development (OECD) countries had. This allowed the amount of non-performing loans to grow significantly. Moreover, the responsibilities for banking supervision and regulation overlapped among several agencies, all of them with little real authority. The Mexican banks' failure to develop experience and expertise in assessing the creditworthiness of the private sector, on the one hand, and the authorities' failure to develop supervision and regulation experience within a market environment, on the other, was an unintended consequence of the fact that, during the 1980s, the banking deposits were channelled to finance the fiscal deficit. Therefore, there were loose market incentives, which made banks and authorities relax their respective credit assessment, supervision and regulation (Lustig, 1998).

¹⁴ The original deposit insurance agency in Mexico, FOBAPROA (Fondo Bancario de Protección al Ahorro), was transformed into the institute called IPAB (Instituto de Protección al Ahorro Bancario), whose GDP share reached an estimate of 20 %. Before the latter was created some debt and banking programmes were implemented in 1995, such as the temporary capitalization programme for credit institutions (Spanish acronym PROCAPTE); in addition to a loan restructuring programme (Unidades de Inversión, UDIs); and a bank debtors programme (Agreement for immediate support of banking deposits, Spanish acronym ADE) (Huerta González, 1998a; Székely, 1999).

unpalatable and controversial issues since the mid 1990s. Two important auditing initiatives have been hampered by the banking secrecy laws which do not allow disclosure of the sort of information required for supplying details of the names and amounts of the transactions involved.¹⁵

The impact of the mid 1990s financial mismanagement crisis on the Mexican banking market was considerable. However, this is not to say that the banks were dragged along only by the crisis. There were some structural deficiencies prior to 1994. The main weakness of the banking sector before the crisis unfolded was the overemphasis on quantity lending, overlooking the quality of the loans. This crucial fragility of the sector made the banks unable to resist the violence of the crisis. The Mexican banks had gone through a process of reprivatization in the early 1990s, nearly a decade after they were nationalized by the government in the aftermath of the 1982 crisis. Nevertheless, the bad loans portfolios were bailed out by the government a few years after the banks were divested. Although the rescue converted non-performing loans into public debt, it avoided the collapse of the banking system (Adams, 1997). Such unpopular a course of action meant a de facto reinforcement of the process of commodification which further widened the gap in income distribution, redistributing wealth upwards at the expense of the worse-off.

The importance of the financial system cannot be overstated, because it plays an intermediating role between economic agents with surpluses and those with deficits

¹⁵ First, Mackey, an international accountant, was requested during the late 1990s to audit the banking rescue. Because of banking secrecy laws, the auditor could not access all the relevant documents and detailed information. Therefore, the report could not exhibit all names and individual amounts of bad debts. A few years later, González de Aragón, a congressional auditor, faced similar difficulties of incomplete information, as the banking secrecy laws were used again to prevent the investigation

and thus determines the efficient allocation of scarce resources. Therefore, the divestiture of the banking system in Mexico represented one of the most ambitious and important decisions for its economy. The banking sector in that country is heavily concentrated in a handful of banks, despite the moderate number of intermediaries. On average the sale price of the banks was more than three times the book price, and represented a very significant share of the total revenue of the second stage of the sale of public enterprises (Rogozinski, 1998). After the most violent, heavy and uphill part of the crisis, the adoption of the General Accepted Accounting Principles in 1997 aimed to harmonise the Mexican banking and accounting practices with international standards.¹⁶ Since both the financial problems and the banking difficulties discussed above occurred within the era inaugurated by NAFTA, it is pertinent to proceed to an overview of the key features of the treaty in the following part of this thesis.

A NARROW FRAMEWORK FOR BROAD PROCESSES: NAFTA

The trade liberalization and investment attraction strategies undertaken by the Mexican government have gone through different stages. Following the 1982 crisis and import restrictions, a gradual approach was undertaken, which allowed for the

accessing relevant information. Nevertheless, these audits exhibited some irregularities and improper loans that were reversed by the Mexican government.

¹⁶ Furthermore, the investment regulations were adjusted with the result that foreign companies were allowed to acquire not only up to 30 % specified in the 1993 Foreign Investment Law, consistent with the 1973 regulation, but permitted them to acquire from 51 % to 100 % ownership of any individual Mexican bank. Likewise, the aggregate market share was also augmented from 9% to 25 %, increasing the incentives for foreign participation in the Mexican banking and financial sectors (Adams, 1997).

Unsurprisingly, it did not take long for foreign banks and financial groups to dramatically increase their share of the markets. Banking and finance groups went through various processes of merger, acquisition, partnership or alliance with foreign counterparts a few years after they were bailed out by the government in the mid 1990s. Consider, for instance, the Banamex case with Citigroup; the Bancomer case with Banco Bilbao Vizcaya Argentaria; the Serfín case with Santander; the Inverlat case with Scotiabank; and the Bital case with HSBC, among others.

incremental deepening of the reforms which led to the General Agreement on Tariffs and Trade membership in 1986 and became an important component of the domestic economic pacts. They, in turn, paved the way for the North America Free Trade Agreement some years later. Import licence requirements were gradually liberalized, whereas import official reference prices were incrementally eliminated. Import tariffs were reduced stage by stage as the core component of the trade liberalization strategy (Lustig, 1998 and 1997b; Hufbauer and Schott, 1993).

It has been discussed at some length in Chapter Four that some of the conditions which have facilitated the implementation of the outwardly oriented economic model are by no means unproblematic. In the case of Mexico, it has resulted in an import prone export oriented industrialization for an important share of the manufacturing exporters. For the inbound industries, the benefits included macroeconomic stabilization, infrastructure provision, proximity to markets, especially that of the United States, labour availability, intra-industry and inter-industry investment and trade, satisfaction of quality standards, and just in time delivery, among other things. Nevertheless, the implementation of the outwardly oriented economic strategies has helped US firms to confront foreign competitors, leaving Mexico a sub-specialization in the lower end of the value added commodities chains (Dussel Peters, 2000; Gereffi, Spener, and Bair, 2002).

It is my argument that, if the costly social legacy of inequality and polarization of the crude implementation of the outward oriented economic model are to be corrected, the reinvigoration of the domestic market, on the one hand, and the promotion and strengthening of endogenous growth with equity conditions, on the other, call for

adequate redistributive policies, along with increased spending on education, health, and social infrastructure. A dramatic process of commodification has been the consequence of the economic structural adjustment and labour flexibility, either intended or unintended, and has meant a drastic decline in real wages for a major share of the population, which forced them to look for alternatives to compensate for the drops in their total income. The need to seek new or additional income generating activities contributed to a growing black market especially, but not exclusively, in the main urban areas. Likewise, more family members were sent into the workforce to get additional income.

Since the polarization and widening inequalities in Mexico have already been discussed, suffice it to say that in contrast to the negative impact of the economic constraints for the worse-off social sectors, the liberalization of capital flows allowed some of the better-off not only to protect their assets, but also to expand them by transferring them abroad (Lustig, 1998). If these problems are to be addressed, there is no doubt that the State has an important role to play in Mexico's future economic development. Due to the widespread prevalence of poverty and unsatisfied social needs, an enhancing agenda of reform which reassesses the importance of production and redistribution must not be postponed any longer. As Chapters Four and Six suggest, efforts need to be made to tackle destitution and promote social justice.

Nevertheless, problematic as the North America Free Trade Agreement is due to its poor design, the Strategic Relational Approach acknowledges it has been consistent and successful in its own terms. Ever since the very beginning, it aimed to eliminate trade barriers, to attract trade and investment flows and to provide a dispute

settlement mechanism between Canada, the United States and Mexico (Hufbauer and Schott, 1993; Lustig, 1997b). It is unquestionable that it has clearly succeeded in the narrow terms in which it was conceived. Trade and investment have soared, while the ad hoc dispute settlement mechanism has been operated and tested by all members. It has also had an impact on the production specialization of some goods and sectors, as the growing intra-industry and intra-firm trade flows indicate (Bulmer-Thomas, 2001a). The development of economies of scale and the promotion of efficiency standards are deemed to be key elements in easing economic integration within the three countries of North America. No less important, issues and sectors which the signatories wanted to ignore in the negotiations were deliberately set aside so that an agreement could be reached. Had sensitive issues been included at the very beginning, negotiators could have faced stronger domestic constituencies, leading to a radicalization of each country's position at the negotiation table. Thus, the US government opted to omit migration, as did the Mexican government with the energy sector, and the Canadians with cultural issues. As the relationships have evolved, this increases the likelihood that the special status granted by their governments might face modifications in the future.

The North America Free Trade Agreement goes beyond the typical free trade area. In addition to the multilateral compatibility requirements of the General Agreement on Tariffs and Trade article XXIV, analyzed in Chapter Seven, a key component of NAFTA which makes it a 'free trade plus agreement' is its Chapter 11, which refers to Foreign Direct Investment. Taking a wide definition of investment, it stipulates national treatment to investors from the member countries, and Most Favoured Nation treatment for both investment and investors, which must be compatible with

international law. There are also specific standards in the case of expropriation and losses due to armed conflict or civil strife, along with regulations on transfers and environmental matters. More crucially, there are provisions for dispute arbitration, where private investors can proceed against members of government (World Trade Organization, 1996; NAFTA official text).

Nonetheless, to affirm that NAFTA has been consistent in the narrow terms in which it was conceived is not the same thing as to say that there is no room for a critical evaluation. For, clearly, there have been some inconsistencies which need to be addressed, and the dispute settlement mechanism is a case in point. The mechanisms for settling trade and investment disputes, along with countervailing duties and antidumping, as well as some other aspects of the agreement, are considered in Chapters 19 and 20 of the agreement respectively. Yet, the capability to start a lawsuit against any of the North America Free Trade Agreement parties is not exempt from controversy, nor is the impact and pace of the ad hoc panel mechanisms. For example, the World Bank argues that the panel review mechanisms have had no significant impact on US antidumping and countervailing duties against Mexico and Canada. As the United States is the most important trading partner for those two countries, it is not surprising to find relevant cases there. Commenting on the adequacy of NAFTA, the World Bank draws lessons from which the rest of the Latin American countries may benefit. Among the ‘findings’ is improving the distorting character of the rules of origin, because it represents additional costs to firms wishing to use the preferences of their agreement for their exports. Reallocation does not become an option for companies based in any of the three countries if they are to satisfy the requirements

for exporting the final product to the US free of duty (Lederman, Maloney and Servén, 2003).

Regarding the ad hoc mechanisms for settling trade and investment disputes, if the lack of a permanent court which would have entailed a permanent bureaucracy has been highlighted as a key feature of the treaty, its operation suggests that more needs to be done to gain cumulative experience and expertise from non-permanent panellists. Furthermore, regarding investors' disputes, NAFTA's Chapter 11 allows private firms to sue governments for any changes since the agreement entered into force. Sensible as these steps might seem at first glance, this provision has backfired against some other NAFTA regulations. Specifically, it has been used against new environmental rules perceived as potentially harmful, or which could reduce investments, and were not in existence when the investors began operations. The problem is that the side agreement on the environment encourages a more rigorous upgrading of standards. Furthermore, the confidentiality of the court proceedings is clearly not the best procedure for dealing with these issues. Hence, there is a clear need to modify such practices to make the court procedures more transparent and also to narrow the scope of the provisions (Pastor, 2001). Let us next have a closer look at some other challenges, as preliminary approximations, which a deepening process of integration would entail.

THE CHALLENGE OF DEEPENING INTEGRATION: NAFTA IN THE FUTURE

The relative success of the North America Free Trade Agreement in its own terms for attracting trade and investment flows has significantly grown since the mid 1990s. Furthermore, the composition of trade flows features important degrees of integration evident in the volume of intra-industry trade. Of all the Latin American and Caribbean countries which exchange goods and services with the United States, it is Mexico that has reached the highest level of integration into the United States' commodity chains, pointing towards the construction of a single economic space (Bulmer-Thomas, 2001a). This cannot be exclusively attributed to NAFTA's success. Although the North America Free Trade Agreement did not represent the taking-off stage for trade and investment flows among their members, it served to institutionalize them. The economic process of trade and economic integration began several years before the agreement, as analyzed in Chapter Four. By the time it was signed, both the volume and value of intra-industry trade was already high. Moreover, the intra-industry trade which can be explained by a combination of product differentiation, economies of scale and imperfect competition, could also be extended to the service sector.¹⁷ Although considered typical of trade between developed economies, for the Mexican case intra-industry trade is a reflection of the high concentration of dozens of firms which are outwardly oriented. Those companies not only export considerable volumes but, at the same time, are also behind even faster growing imports. Therefore, it comes as no surprise that subsidiaries of Multinational

¹⁷ Intra-industry trade means that exchanged goods have comparable qualities or characteristics and could follow two different modalities. The vertical one is considered to be of a severe form and consistent with international trade flows, where a difference in factor endowments is the main determinant. For this case, a big difference in price between exchanged goods is evident. In contrast, the horizontal one entails small differences in quality and prices between the exchange commodities. Due to the asymmetries in purchasing power and income between Mexico and the United States, the contrasting features, qualities and prices of traded goods reflect vertical intra-industry trade (Bulmer-Thomas, 2001a).

Corporations account for an important share of these transactions, especially in the form of intra-firm trade (Bulmer-Thomas, 2001a; Pastor, 2001).

Nevertheless, for the Strategic Relational Approach there can be absolutely no argument about the fact that the North America Free Trade Agreement has been a catalyst for much more than trade integration alone. Since exchange relations do not occur in isolation from other activities and contextual issues, the failures of NAFTA relate to its stark omissions. Celebrated as a Free Trade Area in which a developing economy has joined two developed economies, it is striking that from the very beginning the North America Free Trade Agreement was negotiated as if there had been no asymmetries between the countries. Making no mention of the contrasting differences in the size and weight of the markets, it takes for granted that economic growth mainly depends on trade. Were there perfect competition, we should not have to pay attention to issues of monopolistic markets and imperfect information. It was neither impossible to sustain the unrealistic assumptions that the levels of economic development were similar and comparable; nor that there were no vulnerabilities in either member; nor that disparities were non-existent in their societies. Those unrealistic assumptions reflected an inattention to the socially embedded character of economic activities. Had such factors featured prominently in the negotiations, the various consequences of the elimination of trade and investment barriers would have been considered. They clearly range from the social to environmental and political impacts. The fact that the NAFTA side agreements on labour and the environment were partially considered as externalities reflects its narrow design, and unveils a challenge to amend its goals and refocus its emphasis and orientation (Pastor, 2001; Kingsolver, 2001; Poitras, 2001).

Short-sightedness is also reflected in the belief that it is only the governments of the countries that are capable of solving all problems which may arise, acting as leaders of their own societies. Likewise, the argument that the economic benefits would 'trickle down' to all social sectors from the 'free' market place is deeply ingrained in the position of neoclassical economics. Even though analysts praise the economic integration associated with the North America Free Trade Agreement, a great many of them fail to acknowledge the extraordinary complexity of the process. It is not restricted by any means only, or mainly, to exchange relations. The dimensions of the social processes clearly exceed the framework of the agreement. There is a process of social integration which has contributed towards bringing a historical coalescence of the three countries greater than any before (Pastor, 2001; Kingsolver, 2001; Poitras, 2001).

One of the explanations for the NAFTA framework's deficiencies, which is present in most of the routine contacts, is the lack of a genuine trilateral approach. The sum of two bilateral relations, namely the United States–Canada, on the one hand, and the United States–Mexico, on the other, does not make a trilateral mechanism (Pastor, 2001). Even though the Canada–Mexico relationships have recently become of more significance, they still constitute the weakest front of the association. Moreover, very little progress has been made in forging common policies; this can be attributed to the narrow original conception of the North America Free Trade Agreement. Partially because of the asymmetry between the US and the other members, and partially because of routine procedures which have prevented the recognition that a potential community is developing and could be further developed, NAFTA does not in any

way represent an integral strategy. In addition to the increasing degree of constant interactions, there are high rates of international migration, from which the people from Latin America in general, and from Mexico in particular, represent a big share of both legal and illegal immigrants to the United States. For a number of them, the rising degrees of polarization and widening income distribution at home makes them move to a place where they can raise their standard of living. As long as strong economic incentives for migration exist, the flow of people cannot be easily contained.¹⁸ There is a range of issues closely associated with the migratory trends. One of them is the importance of those whose remittances represent one of the most significant sources of income for Mexico, who has also grown in influence in politics. Since millions of latinos are eligible to vote in the United States, at the same time that their ineligibility to vote in Mexican elections from afar is being reconsidered, political parties from either side of the border are inclined to court them.

A comprehensive trilateral approach would reconsider immigration and income gaps as related manifestations of the same phenomenon. So far, most of the issues which Canada, the United States and Mexico deal with are considered in isolation from the rest, as if they were completely disconnected from their contextual circumstances. Such considerations are inappropriate in an extraordinarily complex process of integration. The process is currently taking place and is one which can be analyzed by the Strategic Relational Approach. If, as some circles have suggested, the North

¹⁸ Originally established for migrant workers during the Second World War, the Bracero Program permitted Mexicans to temporarily work in the United States, especially in low-skills and low-qualification activities. Its official ending and governmental abandonment during the mid 1960s had the consequence that migration became undocumented (Aguayo, 1998; Domínguez and Fernández de Castro, 2001). Despite the US preference for dealing with migration unilaterally, the promulgation of new regulations and a range of strategies for tightening control at the border, the flow of people has not decreased. The main noticeable change has been the induced selection of the routes which the illegal immigrants take.

America Free Trade Agreement should be deepened and reinforced, a preliminary consideration, especially strong in the Mexican case, but also of relevance in the other countries, should be to reduce and eradicate the degree of asymmetry. For the deepening of the current situation would also mean deepening the income disparities and inequalities. If this scenario is to be avoided in Mexico, there should be no delay in articulating and reinvigorating the forward and backward linkages of the economic activities, bringing together in a more integrated fashion the import-prone export-oriented sectors which have a low impact on labour due to the relatively low share of the economically active population which they employ and the domestically oriented firms in which most people work. Hence, tackling asymmetries is of the utmost importance if the experience of integration is to succeed.

Even though the Mexican government has been playing a timid role, by designing and implementing programmes which make use of articulated incentives to strengthen the inter-sector and geographical links, much more needs to be done. Indeed, stronger orientation of productive and redistributive economic activities towards more equitable practices requires urgent implementation. As this is a complex issue, disarticulated and partial approaches will not do. A consistently long and sustained effort is needed: one that is not aborted by the pervasive six-year, or even shorter, programmes which every administration puts in practice while in office. A consistent and sustained effort, which responds to an enhancing agenda of reform, like the one proposed in Chapter Six, requires political will and commitment. Following the Strategic Relational Approach, a broader and more equitable social, political and economic transformation along the sketched trajectories of reform, which makes use of networking practices, could be of great help for redistribution. If put into practice

in an open, inclusive and democratic fashion, it is more likely that consistent aims and coherent strategies could be developed, where transparency and accountability would be vital. Acknowledging that the social processes of change are by no means opposed to the idea of integration requires, in turn, recognition of the political character of the selected courses of action.

From the perspective of the North America Free Trade Agreement associates, it is worth taking into account one of the historical lessons of the European Union. The latter's members openly embraced the goal of reducing disparities and promoting development. In so doing they created social cohesion and structural funds which were available for the poorest countries and laggard regions (Pastor, 2001).¹⁹ The main idea of reducing inequalities and lifting living standards in a fair and equitable manner has contributed towards building a sense of community which is currently developing and gaining ground in the Western European territories. This is one thing, among others, which puts the European Union on a different footing from the less institutionalized, more restricted and narrowly conceived schemes of integration

¹⁹ The case of the European Union is extraordinary in this sense, and its historical experience illuminates the process of economic integration. Declaring the goal of reducing levels of inequality amongst their members, the main purpose of the European Social Fund was for vocational training and shifting jobs, while the European Agricultural Fund gave grants to farmers to help them develop rural areas. The European Investment Bank provided loans in lagging regions. After a reorganization of the funds and resources was introduced during the mid 1990s, the Cohesion Fund targeted the poorest countries. As increased income for spending on goods and services was made available, it was mainly used to improve infrastructure and for education services with the objective of enhancing the productive potential of the country where these resources were channelled. The benefits did not stop there, however. It was observed that they had multiplier effects because the cohesion funds contributed towards encouraging the attraction of foreign direct investment. The Structural Funds provided resources for adjustments in agriculture, fisheries and scarcely populated areas, along with regional development and social concerns. Lagging regional development, industrial decline, youth employment and training for workers were also considered (Pastor, 2001).

The Mexican government proposed an initiative for the laggard states in the Southern part of the country. The Puebla-Panama Plan targets the attraction of investment for infrastructure projects, which would, in turn, seek to improve the overall economic situation, and the creation of brand new jobs in Puebla, Veracruz, Tabasco, Campeche, Yucatán, Quintana Roo, Guerrero, Oaxaca and Chiapas. Moreover, the project goes beyond the borders as it considers the participation of Central American

which mainly privilege exchange relations of trade in its pursuit of economic growth. Though the EU has also been characterised as an essentially neoliberal project, it offers important lessons.

Following the neoclassical economic orthodoxy, it has been suggested that the accomplishing of soaring trade and investment flows could further benefit from greater reductions in transaction costs. Thus, monetary policies within schemes and processes of economic integration are of high relevance. It is unquestionable that the dominant currency in the region is the US dollar. The absence of an economy which could balance the weight and leverage of the United States in the Americas has led some voices to suggest various options for macroeconomic policy coordination and currency management. They range from allowing flotation, to pegging currencies to the US dollar, or adopting a common currency, or even replacing the national currency by the dollar (Pastor, 2001). Flotation is supposed to allow free movement of a currency. However, in reality, in many cases such schemes are distorted when a currency faces interventions from central banks which make for a 'dirty flotation'. Such is the current situation in Mexico.

The controversy about dollarization is that the benefits of financial stability which are conducive to diminishing transaction costs, on the one hand, and a steadier fiscal discipline which would lower inflation, on the other, are outweighed by the problems that such stability entails (Lederman, Maloney, and Servén, 2003). For a country to adopt the US dollar as its national currency would mean sacrificing its seigniorage capacity, depriving it of control and the profits from printing its own money. It would

countries at the same time: Guatemala, Belize, Nicaragua, Honduras, El Salvador, Costa Rica and

also represent the loss of a shock absorber mechanism, especially in times of recession and unemployment. Furthermore, it would take the form of a transfer of power to the United States Federal Reserve, which sets interest rates only in response to business cycles in its own country (Pastor, 2001). If Canadian and Mexican districts were added to the US Federal Reserve, the whole monetary policy would respond to US business cycles alone, not those of Canada and Mexico.

However remote it might seem today, it might be better in the long-term to work towards building a common currency (Lederman, Maloney, and Servén, 2003).²⁰ What this would mean is the project of forging a monetary union, with a central bank which would reflect the importance, weight and power of the members, but at the same time would allow some room for decision making and the management by each country of its national currency and seigniorage. If this is going to become operative, it needs to reflect the wealth of the three economies in a proportional fashion and the equivalences of the exchange rates (Pastor, 2001). Sensitive topic as it is, it must be addressed with caution in a genuine trilateral networking approach, otherwise it may be doomed to failure. It is important to bear in mind that a similar project took decades for the European Union to build. It might take even longer on the other side of the Atlantic. But in circumstances in which realistic positions are presented at the negotiation table, it would represent an opportunity for promoting the well being of the people, and also for forging a sense of community. Hence, such a project is certainly worth embracing. The complications of overtaking the current shallow integration process are most likely to affect both all the levels of society and government regulations, policies and programmes. For, if deepening is not going to be

Panama. Whether the plan fulfils its potential remains to be seen.

strictly limited only to exchange relations, the social processes of integration certainly require refocusing government policies in an inclusive, realistic, democratic and accountable way. Deepening integration is not only about trade and investment flows. It is a social, dynamic, open ended process, as the Strategic Relational Approach can demonstrate. Therefore, it must be acknowledged as such, and approached accordingly, because it might represent an opportunity for ‘double movement’ decommodification trends, along the lines discussed in Chapter One (Polanyi, 1957).

Unlike the European Union, the North America Free Trade Agreement signed by Canada, the United States and Mexico did not explicitly aim to create a community of people from the region. Still, it does not rule out the idea tout court (Kingsolver, 2001; Poitras, 2001). If this goal is to be incorporated, however, along with the explicit promotion of well-being in the population, in order to extend its original narrow agenda, it must be tackled in a trilateral fashion by making use of different networking mechanisms. It must also recognize the key features of current social processes, just as it did with the economic restructuring some time ago. In this sense, gradual, step by step approaches, such as the proposals for a migratory accord, or visa waivers for Mexicans who cross the border regularly, tend to timidly reflect the social dynamic of integration, in which the governments of the region lag behind the dynamics and tendencies set in motion by their own societies.

For it is clearly impossible to disassociate the praised benefits of economic integration, without realizing that such tendencies are constitutive parts of broader social contexts. Important as they are, economic transactions and relations of

²⁰ Such as the euro which is currently circulating in most of the European Union members.

exchange are merely one element in the processes and dynamics of social integration. Therefore, NAFTA's consistency in its stated trade and investment goals does not exhaust the broad range of interactions which, in an incremental and punctuated fashion, transform the contexts in which actors are situated. Making use of the Strategic Relational Approach, it becomes clear that, if social integration is to succeed, a long-term goal must be to embed a spirit of inclusiveness, openness and reciprocity oriented towards achieving and shaping a sense of community which is, in turn, respectful of differences. At the same time, it must seek to rule out unilateralism and bilateral tactics, thus making use of common approaches for addressing collective problems (Pastor, 2001). Such an agenda must be one which sets a vision of transformation and acknowledges that a basic prerequisite is the reduction of asymmetries, inequalities and polarization. The objectives must recognize the socially embedded character of economic activities, and the urgency of levelling the playing field. Complementary aims must be realistic and encourage consistency in actions.

Thus, the enhancing agenda or reform for Mexico, as proposed in the previous chapter, is highly compatible and complementary with an agenda which aims to forge a sense of community in Mexico, Canada, and the United States as a long-term goal. In the short-term, however, the project of a Free Trade Area of the Americas is currently absorbing the endeavours of these countries.

WIDENING THE NARROW FRAMEWORK MODEL: HEMISPHERIC TRADE UNDER THE FTAA

Since an Initiative for the Americas was launched by the United States government in the 1990s, the project for widening the shallow integration of NAFTA to the rest of the Latin American and Caribbean countries has been mostly welcomed in the continent.²¹ Based on the unrealistic assumptions of this treaty, namely, of non-existent symmetries, the promise of growth and development has attracted interest in one of the most unequal regions of the world. Needless to say, the proposed Free Trade Area of the Americas (FTAA) represents a daunting task, which should not be restricted to exchange relations alone, and which also exhibits a highly political character.

The invitation presented to thirty four democratic governments to consider participation in the project seeks to encompass almost the whole of the Americas by 2005.²² It purposely leaves aside Cuba on the basis of its different socio-political and

²¹ Yet, it should be borne in mind that the idea of integration in the Americas is by no means new. Dating back to the early 19th century when most Latin American countries were gaining independence from Spanish rule, Bolivar, the Liberator of South American nations, sketched ideas of integration in the form of a subcontinental federation or federative convention, as recorded in the Congress of Panama. Although unable to make these thoughts actual, his ideas of supranationalism and integration, even if restricted to Spanish American republics, gained notoriety and influence (Collier, 1983). Despite the fact that participants in Panama neither addressed Panamericanism, nor Latin American solidarity strictly speaking, the Congress is a key antecedent to the Conference of the American States of the 1890s, and the birth of the Organization of American States (OAS) six decades later (Mora, 1960). Arising from Americanist idealism, Bolivar's efforts remain a source of inspiration in his own continent, while lessons have been learned from his failures as well.

A different perspective is provided by the United States' foreign policy and Latin American history. For the US, a continent where all the nations not only accept, but also embrace the political, social and economic principles and practices endorsed by it, has been a historical aspiration.

The Monroe doctrine formulated in the early 19th century was an isolationist policy. It opposed extra-hemispheric intervention in the whole continent of the Americas. Nonetheless, it was amended through various corollaries and interpretations to allow the United States the discretionary and unilateral use of violence to deal with a wide range of scenarios in Latin America and the Caribbean region. Arguing against non-colonization, it contained a warning against meddling in Europe and a defence of non-interference or isolationism. It is a unilateral position based on limited knowledge lacking any consistent legal foundation which masks a rationale for US intervention, tailoring its interpretation according to a myriad of situations in specific countries, or in the region as a whole. It has been used to facilitate pro-US governments wishing to accommodate their economic interests, at the same time as it has provided a tool to eliminate those who sought more independent social, political and economic paths (Dent, 1999).

²² They are Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Colombia, Chile, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada,

economic organization.²³ The four main interrelated objectives listed in the Declaration of Principles of the Summit of the Americas favour the preservation and strengthening of the community of democracies in the continent, while also promoting prosperity through economic integration and free trade. The agenda is complemented by aiming to eradicate hemispherical poverty and discrimination, at the same time as seeking to guarantee sustainable development and the conservation of the environment.²⁴

Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Santa Lucia, Saint Vincent and the Grenadines, Surinam, Trinidad and Tobago, United States of America, Uruguay, and Venezuela.

²³ Limited space prevents us giving an account of the Cuban revolution. For the purpose of the argument presented here, suffice it to say that as soon as Castro took power, avoidance of the spread of communism in the continent became a security and foreign policy concern for the United States government. In addition to an economic, diplomatic and political blockade of the island, the US supports, both overtly and covertly, other regimes in South America and the Caribbean with a blood-stained history, invoking doctrinaire reasons for doing so. Nowadays, the memory of repression, killings and disappearances remains a thorny unresolved issue in not a few former authoritarian and military regimes. Whilst the United States has re-established relations and agreed to trade freely with Vietnam, the hostility towards Cuba runs much deeper. It staged one, if not the most critical episode of the Cold War during the missile crisis (Allison, 1971). The survival of the regime in the island, within such hostile conditions, has meant high costs, evident in the rigidity of its system and its dependence on its leader.

²⁴ The Plan of Action of the Summit of the Americas agreed in Miami lists twenty-three points which relate to the broad four objectives of the agenda. The guidelines for preserving and strengthening the community of democracies of the Americas include: 1) strengthening democracy, 2) promoting and protecting human rights, 3) invigorating society/community participation, 4) promoting cultural values, 5) combating corruption, 6) combating the problem of illegal drugs and related crimes, 7) eliminating the threat of national and international terrorism, and 8) building mutual confidence.

The points which relate to the promotion of prosperity through economic integration and free trade are: 9) free trade in the Americas, 10) capital market development and liberalization, 11) hemispheric infrastructure, 12) energy cooperation, 13) telecommunications and information infrastructure, 14) cooperation in science and technology, and 15) tourism.

Regarding the agenda which aims to eradicate poverty and discrimination in the hemisphere, particular points focus on: 16) universal access to education, 17) equitable access to basic health services, 18) strengthening the role of women in society, 19) encouraging micro-enterprises and small businesses, and 20) white helmets – emergency and development corps.

The last considerations of the plan of action committed to guaranteeing sustainable development and the conservation of the natural environment envisage the following partnerships: 21) for sustainable energy use, 22) for biodiversity, and lastly 23) for pollution prevention.

(OAS, SICE, http://www.ftaa-alca.org/ministerials/plan_e.asp April 2001).

The first Summit of the Americas took place in Miami, United States in 1994. It was followed by the 1998 Santiago Summit hosted by Chile, which, in turn, preceded the 2001 Quebec Summit in Canada. The fourth Summit of the Americas was held in Monterrey, Mexico, in 2004. All of them issued different declarations.

For the time being, it is too early to speculate on whether the project of the Free Trade Area of the Americas would, in the long run, tilt towards a Community of the Americas.

Relying on the Strategic Relational Approach, it becomes evident that it is a daunting task because it aims to incorporate in a continental format two of the richest countries of the world with some of the poorest and laggard economies, along with some middle-income countries. The size of the economies can hardly cover a broader spectrum. It goes from the biggest, most developed and most diversified in the world to the smallest and most vulnerable to be found. The FTAA aims to be compatible within the multilateral framework of the WTO / GATT, and also with the number of free trade agreements that the Latin American and Caribbean countries have subscribed to not only amongst themselves, but also with trading partners in other parts of the world. The widening of this big umbrella seeks also to reach the preferential agreements, unilateral preferential arrangements, general association and cooperation schemes, while reaching customs unions, and also other bodies of regional scope.²⁵ Thus, the Free Trade Area of the Americas is one of the most ambitious projects of integration ever attempted. Unlike previous free trade agreements and integration efforts, the United States is pushing the initiative forward. Nowadays, the US currently operates on three different economic negotiation fronts at the same time. It has not abandoned its preference for multilateralism and GATT/WTO negotiation rounds. What it additionally does is to put its weight behind the FTAA, while also reaching bilateral agreements.²⁶

²⁵ The Latin American Integration Agreement, better known by its Spanish acronym, ALADI, involves twenty members. During more than two decades of existence trade and investment flows have been low, although members have kept the initiative alive. Regarding the customs unions, the Common Market of the South, better known as MERCOSUR, is the strongest, especially if compared with the Andean Community, the Central American Common Market (CACM), and the Caribbean Community and Common Market (CARICOM). Brazil, Argentina, Uruguay and Paraguay are the four members of the leading customs union of the region, MERCOSUR, which was formally established in 1991. The Andean Community is built on the partnership of Bolivia, Colombia, Ecuador, Peru and Venezuela.

²⁶ Apart from NAFTA, the United States has signed free trade agreements with Israel, Chile, Jordan, Singapore and Vietnam. Ratification is pending for the Central America Free Trade Agreement (CAFTA), with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic. These Central American countries are not only already highly open and integrated with the US, but they also exhibit a high level of dollarization in their economies (Lederman, Maloney, and

Nonetheless, one of the problems which, at the time of writing, has hindered the negotiations for the Free Trade Area of the Americas, is the lack of a fast-track authority from the United States to show the rest of the participants a genuine level of commitment matching the one which it demands. A fast-track authority is basically a mechanism meant to provide certainty to foreign countries negotiating trade agreements with the United States.²⁷ It permits only either a positive or a negative vote from the US Congress, without allowing any amendments. It therefore substantially limits the amount of debate it could face (Schott, 2001; Domínguez and Fernández de Castro, 2001).

There is no question that, for the United States, the Free Trade of the Americas is a good deal, as it may require only a few changes in its current trade barriers, and legal and regulatory frameworks. The burden of the adjustment lies with the Latin American and Caribbean economies. The FTAA, it is proposed, will help to avert discrimination and offer opportunities for US firms to export and invest in these markets. It is expected that the lowering of barriers to trade and investment flows will benefit trade, productivity and the income of US workers. Furthermore, it is also perceived that the continental project could have spillover effects on the overall relations within the region on issues such as drug interdiction, environment, labour

Servén, 2001). CAFTA merely institutionalizes the strong current pattern. The US has also engaged in negotiations with Morocco, Australia and the Southern Africa Customs Union encompassing Botswana, Lesotho, Namibia, South Africa and Swaziland. Furthermore, it is very likely that the US will increase the number of free trade agreements in the future.

Regarding the free trade agreements which Canada has signed, they include Chile, Costa Rica and Israel. Since the Canadians also play an active part in regionalism, they are currently negotiating with El Salvador, Guatemala, Honduras, Nicaragua, the European Free Trade Association and Singapore. Moreover, it seems that CARICOM, the Dominican Republic, and the Andean Community will be added to the list in the short-term as well.

and education reforms. There is an aspiration that it could promote international cooperation among the parties on pressing social, economic, and political problems as well (Schott, 2001).

This might strike us as an irony, because the whole negotiation setting assumes that there are no asymmetries, and that the promised growth and development would trickle down to the members. Therefore, for the Strategic Relational Approach, the idea of widening the North America Free Trade Agreement entails widening the unrealistic assumptions on which it was negotiated, and under which it is currently operating, to reach more countries in the Americas. The incentive for most of the Latin American and Caribbean economies rests on the engagement of the United States. For a number of them, the US represents one of the most important sources of trade and investment flows, the main exception being MERCOSUR and Chile. In the former case its priorities are oriented towards the European Union (Bulmer-Thomas and Dunkerley, 1999).²⁸

It does not come as a surprise that some of the benefits of the proposed FTAA are identical to the ones suggested prior to the ratification and coming into force of NAFTA (Weintraub, 2000b). Hence, the suggestion of ‘locking in’ economic reforms and the provision of a sort of ‘insurance policy’ against protectionism at home and unilateralism abroad are not new at all. It is unlikely to protect all industries against unilateral antidumping practices. The Free Trade Area of the Americas approaches

²⁷ It was introduced by the United States Omnibus Trade Act of 1974 (Domínguez and Fernández de Castro, 2001).

²⁸ Even though MERCOSUR members differ in their particular positions and priorities, they speak with one voice in the Free Trade Area of the Americas negotiations. Reflecting the relative weight of their economies, the two biggest markets in the hemisphere, namely the United States and Brazil, co-chair the final stages of the negotiations.

uneven levels of economic development by making use of the strategy which was agreed in NAFTA. Thus, it follows a widened negotiation procedure which encourages countries to accept the whole set of common obligations, but makes allowance for negotiating different implementation schedules. Since each country can set its own external tariffs, they do not necessarily need to stick and bind themselves to a certain level, but they can choose what best suits them. The FTAA is presented as an indivisible package or single undertaking, where the decision making procedure is consensual.

Such an approach, which privileges the outward preference of economic policies, runs the risk, according to the Strategic Relational Approach, of further de-linking the import-prone export-oriented sectors from the rest of the domestically oriented sectors. Similar to Mexico, most of the Latin American and Caribbean countries may find that a handful of firms take the full benefit of the FTAA with a small impact on the labour force and the living standard of the population. Depending on the degree of integration with the US as the most developed economy and hub of the Free Trade Area of the Americas, intra-industry trade might increase, as might do intra-firm trade. If the worst case scenario of polarization is to be avoided, it is necessary to go beyond different tariff reduction schedules, in order to acknowledge the asymmetries between the negotiating countries in a more realistic fashion. Although it seems remote under current conditions, the hegemony exercised by the United States exemplifies features of power analyzed in Chapter Two. Yet, to rule out the possibility of a more equitable negotiation and final outcome is to fail to recognize the open ended character of the social processes of change. For, power is not only about decision making, agenda setting and preference shaping; it becomes evident in all

social relations where economic transactions are submerged in a broader social context (Lukes, 1974; Foucault, 1979, 1977 and 1976; Hay, 2002c; Polanyi, 1957, 1992, and 1996).

If the small and least developed economies seek to preserve themselves away from economic reductionism and deterministic logics, the task ahead for the small economies of the region, which amount to close to two-thirds of the negotiators, is challenging. The most critical cases are those where the countries are heavily dependent on foreign trade and investment and sometimes on one single commodity or service, and where they possess an underdeveloped physical infrastructure and a poor base of human and technological resources (Schott, 2001). Critical stages of commodification, along the lines suggested in Chapter Four, would mean that the desirable rates of economic growth and development would not come easily, let alone be likely to 'trickle down'. The situation would be even more serious when encouraged by improving 'readiness indicators', whereby international vulnerabilities might accentuate, becoming more responsive to changes in foreign supply and demand, thus affecting movements in foreign capital and the exchange rate market, and diverting them from the domestic sector.²⁹ In particular, this is similar to the synchronized aggregate economic fluctuations of Mexico with respect to the United States. This is likely to occur with a number of Latin American and Caribbean countries (Schott, 2001; Lederman, Maloney, and Servén, 2003).

²⁹ Schott proposes a benchmark for making estimates of the relative economic performance and capacity to compete of the various Latin American and the Caribbean countries. The 'readiness indicators' comprise three main indexes. The first one is formed by selected macroeconomic indicators such as price stability, budget discipline, national savings, external debt and currency stability. The second one considers market oriented policies and reliance on trade taxes as the main components of the market indicator. The third one assesses policy sustainability. Finally, the readiness indicator reflects the average of the main indexes. According to Schott, the indicators of the region as a whole, and for most of the individual cases, have improved since the mid 1990s (2001).

The standard advice of strengthening domestic economic reforms, and improving the institutional framework to help to create growth opportunities both in new and traditional sectors, provides a difficult panorama for the diversification of production and for the expansion of employment opportunities. This is because countries in Latin America and the Caribbean which are interested in joining a process of integration via the Free Trade Area of the Americas are left to cope on their own while ‘unilaterally’ undergoing a structural reconstitution of their economies. Their commitment to a shallow free trade area is not rewarded by acknowledging the urgency for reducing the sometimes abysmal inequalities. As the NAFTA model is exported to the rest of the continent, so are its omissions, such as the lack of social cohesion funds and structural funds. Had such features existed, they would have represented more realistic opportunities, and valuable resources for helping the whole hemisphere towards achieving endogenous equitable growth and a better distribution of income. In the long run, if the FTAA is to reap all those promises of development, its success will be heavily dependent on the reduction of inequalities within sectors, societies and regions. But it is never too late to readjust the course of action: the sooner, the better.

It is important to bear in mind that the proposed enhanced agenda for reform does not surrender international interactions and commitments. What it does is to propose more balanced goals and strategies between international and domestic agendas. For the Strategic Relational Approach, this by no means reveals the pursuit of radically opposite aims, since there is room for enhancing broader and more inclusive strategies for the preservation and strengthening of democracy. Similarly, in such an agenda of reform, with the socially embedded character of the promotion of

prosperity through economic integration and free trade, it is necessary also to be attentive and proactive to the eradication of poverty and discrimination. Needless to say, this must recognize as a priority the achievement of sustainable development and the conservation of the environment too. The pursuit of all these objectives of the Free Trade Area of the Americas does coincide with the sketched aims which would entail a transformation of society, by putting it back in control of the processes. However, it is likely that such a collective enterprise would encounter problems in its realization. Yet, if adequate strategies are selected, the goals will remain in the realm of the possible. Such is the opportunity that can be seized.

CONCLUSIONS

The main argument presented here is that the strategically selective context within which actors interact does not necessarily determine their courses of action, either already taken, or yet to be taken. The Strategic Relational Approach provides a powerful theoretical tool for situating the social processes of change. For, the material and ideational circumstances in specific geographic and historical limits are also, in turn, continuously reshaped by the situated agents in specific spatio-temporal context.

Since the previous chapters emphasized the relevance of the central role played by agency, the focus of this one was directed towards the circumstances which surround the social processes of change in contemporary Mexico. This is by no means an exhaustive chapter containing everything there is to say on the subject. Such is not its goal. Rather, it highlights key trends and countertrends which may help us understand

and explain the open ended and contingent nature of the socially embedded contemporary phenomena under scrutiny. Even though attention is paid to different aspects of the international dimensions, key features of the domestic level are also analyzed.

The selection of a few broad issues such as globalization, regionalism and the first and second generation of economic reforms promoted by international organizations presents a broad international panorama composed of non-deterministic dynamics. In order to fully appreciate the importance and composition of the process, economic reductionism and determinism are left out. The value added by this is a richer, more comprehensive perspective which attends to the social, political and historical tendencies and countertendencies, whilst they set the stage for the examination of issues and agendas which can be considered closer to the Mexican experience. Volumes have been filled examining its relationships with the United States, the emerging markets and the mid 1990s financial crisis. My emphasis is mainly on the discussion of current processes.

I do not stop there, however. Since a realist process-tracing exercise is undertaken throughout the thesis, I also hint at the crucial issues that lie ahead. Particularly important are the challenges of deepening the shallow process of integration which the North America Free Trade Agreement poses, on the one hand, and the widening of a hemispheric Free Trade Area of the Americas, on the other. The Strategic Relational Approach shows explanatory power at the regional level, which warns of the risk of increasing processes of commodification if the unrealistic assumptions on which NAFTA was negotiated are not revised. Although the agreement has been

consistent in the narrow terms in which it was conceived, its deficiencies must be urgently addressed. It is particularly urgent to incorporate as main goals the reduction of inequalities and the forging of a community. Furthermore, the theoretical tools which are used here also point to the daunting task which the FTAA represents and warn against an uncritical acceptance of unrealistic assumptions by the negotiators, which might have future intended and unintended consequences. Increased flows of trade and investment for the smallest and weakest economies might not have a strong enough desired impact on labour, for it would send more income to the rich and polarization might intensify.

CONCLUSIONS

Relying on the Strategic Relational Approach, this thesis has advanced a critical, political, analysis of processes of change, while identifying key tendencies and issues of contemporary transformations in Mexico. It has delivered a philosophically consistent, theoretically informed and empirically grounded political economist's account of the process of social, economic and political change in the country. Providing a balanced perspective between an analysis of the processes and the features of their material-ideational dynamics, their structure-agential dimensions, within specific spatio-temporal locations shows great explanatory power. Furthermore, if we are interested in applying such a theoretical framework to a specific case, the identification of milestones is of great use. Hence, the emphasis of this thesis is on a theoretically informed analysis in which the identification of underlying themes enriches the arguments, without falling into chronological descriptions.

Following a process-tracing strategy, commodification trends have been identified in Mexico. The insight that the Polanyian perspective delivers, in particular by illuminating those Mexican middle-range trends, provides evidence of the explanatory power of the Strategic Relational Approach. For analyzing the processes of commodification delivers a perspective which extends the analytical focus, while it permits a critical examination of the economic and institutional reforms in Mexico. To claim that the economic reforms have been consistent in their own terms is not the

same thing as to assert that they are unproblematic. Moreover, the analysis of the Mexican case illustrates the prioritization of economic goals over social concerns. More generally, this is also evident in the emphasis on exchange relations, at the expense of production and distribution. The disarticulation between the domestically oriented firms, sectors and regions on the one hand, and the outwardly oriented counterparts on the other, needs to be tackled if the patterns of inequality and polarization are to be addressed.

The application of the Strategic Relational Approach to the Mexican experience in this thesis has been informed by accounts of political economists and economic sociologists. In particular, Schumpeter and Polanyi argued for a non economic determinist analysis. The former's notion of crises as creative destruction and contributions to economic development still remains valid today. Even though the latter was mainly referring to the 19th century, when ensuring peace rested upon economic organization, the theoretical insight which he advanced has proved useful for contemporary contexts as well. However, he explicitly warned against the stark utopia of the 'self-regulating' markets. According to his view, if historical transformations are to succeed, they do not only depend on economic self-adjustments. Therefore, due to the socially embedded character of human activities, the success of both national and international processes of change is dependent on the society in which they are embedded (Polanyi, 1957).

This is precisely the reason why social process-tracing can greatly benefit from a critical perspective which moves away from neoclassical orthodoxy, as it acknowledges the highly political and social significance of the transformation trends

and countertrends. Such a view is consistent with and of great use for the theoretical position adopted in this thesis. Moreover, it exhibits a promise of analytical insight. The restoration of agency over the processes of commodification reveals a broader, more dynamic, more inclusive, more social, more political and more democratic picture. Nevertheless, neither the discussion nor the analysis should be considered definitive, as clearly they are not. The analytical exercise which borrows from Polanyi's propositions is yet to be fully developed and refined. Accordingly, this thesis could be considered as a merely preliminary exercise, where the application of the Strategic Relational Approach gains in strength and incisiveness for dissecting the social processes of change in contemporary Mexico. The potential for further research into the underlying themes could make important contributions to Political Economy in particular, and to the Social Sciences more generally.

This thesis asserts that the incremental punctuated evolution of the open-ended processes can also be identified within the margins of political autonomy and constraint. Such is the case for achieving a more democratic and egalitarian society which is not restricted to electoral competition and participation. The delay in addressing inequities and the scant attention granted to redistribution have precluded a more inclusive, democratic transformation of Mexican society. However, if such a qualitative improvement is to be gained, it becomes clear that the redesign and enhancement of the agenda of reform is a necessary, albeit never a sufficient, step, in this direction.

Taking the Strategic Relational Approach, one can recognize the importance of power, which is immanent in all social relations and which represents a core factor of

change. Moreover, acknowledging the centrality of agencies proves crucial for the analysis of unfolding economic and political processes. Accordingly, the design, selection and implementation of strategies must be attentive, but not exclusively subordinated, to market or to government. As market and government play complementary roles, networking could assist in the purposes of redistribution as well. From this point of view, the redesign and enhancement of the agenda of reform would represent a precious opportunity to create a democratic and egalitarian Mexico. Clearly, this is an opportunity not to be missed.

The application of the Strategic Relational Approach to the Mexican case allows us to see that the crucial dimensions of democratization, commodification and international integration are not limited to the exchange of goods and services between trading partners. Clearly, there are also neglected social and political dimensions of the North America Free Trade Agreement which have been subordinated to economic exchanges. However, it is clear that in the medium and long-term the success or failure of the integration trends will depend on the societies in which they are embedded. Therefore, it is imperative that the widening disparities between and within countries, regions and sectors must be halted and corrected. Such a prerequisite would, in turn, reflect the acknowledgment of the socially embedded character of economic activities. There is no doubt that in an optimal scenario, inequalities must be eliminated or reduced at least, to start moving towards the forging of a community in the region. What this would entail is acknowledging the leading role of the social and political features of the transformations associated with the processes of integration. Distant as this scenario might seem, it is the one which, in the end, will be

most likely to succeed, since the societies in these countries are the ones which ultimately dictate the success of the processes of change.

In addition to the discussion of crucial material features of the processes of commodification, democratization and integration in Mexico, the ideational dimensions are key references when applying the Strategic Relational Approach. Informative as ideal types can be, they should not rule out the open ended character of the social processes of change. They need not be deterministic. On the contrary, since contingency and indeterminacy are features of reality, it would clearly be beneficial to have ideal types that are flexible enough to recognize the open-ended unfolding of the processes. For, the proposition of ideal types can also be used to illuminate the highly political character of the social transformations, which are often explained in merely deterministic terms, taking for granted unrealistic axioms. Therefore, it is necessary to acknowledge the socially embedded character of political and economic transformations. Similar to the use of ideas for informing reality, where they have a constitutive and material impact on the real world, features of reality such as its open ended character and contingency must be recognized in the proposition of ideal types.

The application of the Strategic Relational Approach to Mexico's experience has hinted at interesting avenues for further research which emerge from this thesis. They can be divided into two main groups. One is for applied research. The other one is for theoretical expansion. The former suggests that it would be a valuable addition to the literature to try to 'operationalize' the suggested variables for process-tracing. By developing a model, or a set of models, which would necessarily incorporate official and unofficial indicators and data, the empirical findings could be used, firstly, to

contrast original propositions and, secondly, to further inform the theory. The objective of this would be to deliver a more detailed and accurate description of the phenomena associated with the processes. The findings of theoretically informed quantitative modelling and their subsequent application, could illuminate and be interpreted for particular cases, while they would also provide references for further research. Yet, such a strategy must be followed with particular care not to violate the realist ontological and epistemological positions of the Strategic Relational Approach, being certain not to claim law-like regularities, and not to over-stretch the deductivist mode of inference.

The latter group of further research avenues, namely theoretical expansion, suggests that there are middle-range avenues which have not been explored yet. Particularly promising is to focus on processes of integration and of regionalization, as they have not been fully explored and traced as some other processes, such as globalization, have been. Even though this thesis has hinted at the likely trajectory of the process of integration in the North America Free Trade Agreement, as well as what the Free Trade Area of the Americas might look like, there is still much more that can be done. As these two regional agreements unfold --one already formalized while the other is currently being negotiated-- they would provide an exceptional opportunity for updating developments and tracing their key features and issues.

Furthermore, since the processes of regionalization and integration display relevant characteristics, not only can the similarities be contrasted to illuminate experiences in other parts of the world, it would also be possible to explore some of the differences in more detail. In particular, this thesis identifies some issues and programmes of the

European Union which are totally absent from the North American Free Trade Agreement and from the proposal for a Free Trade Area of the Americas. They show the lack of a sense of community, and the scanty interest in forging it, on the one hand, and the inexistence of cohesion and structural funds, on the other. These are telling examples.

Moreover, there is an incredible ample fertile ground which could benefit from the sort of theoretically informed process-tracing analysis which the Strategic Relational Approach is capable of delivering. Particularly promising is the realm of political economy that offers both opportunities and challenges to scholars for contributing to the analysis of the dynamic social, political and economic activities and phenomena. For, undoubtedly, political economy is a field of study of tremendous significance which requires constant analysis, update, and assessment. It necessarily needs to pay particular attention to the constitutive role of material and ideational elements within spatio-temporal fixes. As this thesis has demonstrated, there is no doubt this is of great importance in informing not only particularities of specific phenomena and factors, but also in situating the processes in broader social and political contexts. Hence, the avenues for further research are so big and promising that they would require the sustained efforts and contributions from a vast array of individuals, whom it would be a great honour to join.

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