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The Mexican Democratic Quandary

TABLE OF CONTENTS

PAGE

There is nothing more difficult to carry out, not more doubtful of success, nor more dangerous to handle, than to initiate a new order of things. For the reformer has enemies in all those who profit from the old order, and only lukewarm defenders in all those who would profit by the new order.

-- N. Machiavelli, *The Prince and The Discourses*

PREFACE: MEXICO'S "THIRD REVOLUTION"

John F.H. Purcell

This essay by Luis Rubio, a distinguished Mexican political scientist, can be viewed as a political reform agenda for the next Administration. Dr. Rubio's views expressed in this essay are his own, but we publish them here because we believe that they will be useful for any long-term foreign investor in Mexico who wishes to better understand the challenges and issues that are likely to shape Mexico's political system and, therefore, the basis of economic policies over the next decade.

This is not a short-term market-oriented publication and is probably not of interest to some readers of Salomon Brothers's emerging markets research. It will, however, be worthwhile for investors wishing to probe deeper into the important forces that are bringing about and shaping Mexico's "Third Revolution" -- the reform of the political system.

Mexico's first revolution, which lasted from 1910-21, created the basis for political stability in Mexico and created institutions to guarantee this stability -- particularly the Constitution of 1917, a rotating Presidency and an all-encompassing political party, which ultimately became the Institutional Revolutionary Party (PRI).

Mexico's second revolution was the process of economic opening and reform following the debt crisis of 1982. The revolution was begun under the Presidency of Miguel de la Madrid and significantly deepened under the current President, Carlos Salinas. This revolution, too, has lasted nearly a decade and is still very much in process. In addition to dramatic changes in macroeconomic policy, deregulation, privatization, and freeing internal markets, it has changed the whole debate in Mexico regarding integration with the outside world and especially Mexico's sometime nemesis, the United States. The creation of the North American Free Trade Agreement (NAFTA) symbolizes and guarantees a vastly more outward-looking Mexico than could have been imagined in the early 1980s.

Mexico's third revolution, now under way, is the opening and modernization of the political system forged during its first revolution. As Dr. Rubio points out in his essay, the political institutions created to ensure legitimacy and representation of conflictive groups in the 1930s and 1940s have become less and less legitimate and representative as social change has produced new groups that remain outside the political system. As Mexican society has become more modern and outward-looking, the old corporatist structures of the party and the Government have not changed fast enough to keep up. This problem is exacerbated by the rapid economic liberalization of Mexico's second revolution. As the rules of the game in the economy become more free and more individualistic, any lack of such freedom in the political system will become a source of conflict and instability.

A series of events -- the Chiapas peasant uprising of early January 1994, the assassination of PRI Presidential candidate Luis Donaldo Colosio in late March and the Presidential and legislative elections of late August -- has brought these matters to a head, creating what many have regarded as a severe political crisis.

Dr. Rubio analyzes these tensions, not in the immediate short-term sense, but rather, he presents what he believes are the risks and challenges that the incoming Administration will face, and he suggests several lines of political reform that he

feels are necessary to confront these challenges. These include both reform of the judicial system and reform of the ruling party, the PRI.

Much is changing already. The PRI is a very different institution than it was ten, or even five years ago. Dr. Rubio, however, emphasizes that up to now, there has not been the concerted leadership in the sphere of political reform that has been evident in the economy. He believes that Mexico's next President must focus upon leading that process -- or become a victim of it.

We are optimistic about the outcome. Ernesto Zedillo, the likely winner on August 21, is a committed reformer and personally believes in a more open political system. The August election is likely to be the "cleanest" in Mexico's history and to be recognized as such by a large majority of the population.

In addition, some elements of the traditional system likely will enhance, rather than block, the development of a more open political environment. The political elite may be used to a more closed and authoritarian environment than the one that they now face, but Mexican politics always has emphasized cooperation, negotiation and compromise. These are cultural properties that can be put to good use in a modern democratic political system. Many traditional Mexican politicians find themselves able to adapt rather well to the rough and tumble of freer elections, as we are seeing in the run-up to the August vote. Mexican politicians, too, have been socialized to fear chaos and any conflict that threatens to run out of control. For this reason, we often see bitter enemies in Mexican politics making contact with each other (sometimes secretly) and drawing back from the brink, when conflict threatens to become irreparable.

Another element that fosters our optimism about the outcome of Mexico's third revolution is that Mexico's society is probably more democratic than many believe. It is our observation that the average Mexican citizen values a freer environment and more choice of leadership, if this can be had in a reasonably stable environment. During the 1980s and 1990s, Mexico became much more outward-looking and open to the influences from its democratic neighbors than ever before. In the 1970s, in Spain, for example, many scholars made much of Spain's supposedly "authoritarian culture." Yet almost as soon as the dictator, Franco, died, Spain transformed itself almost overnight into a full member of the club of European democracies. Because cultures change relatively slowly, there must have been a large component of myth in the concept of authoritarian culture, as we believe is even more true of Mexico.

In addition to attitudes, new institutions are flowering in Mexico. Nongovernmental organizations (NGOs) -- local, national and representing a variety of special interests -- have emerged in large numbers in Mexico over the past few years. Since the 1950s, scholars have regarded interest groups such as these as the very backbone of Western democracy. Dr. Rubio correctly points out that these NGOs must have appropriate political institutions to work through, but certainly, they enhance the democratic character of Mexican culture and society.

Dr. Rubio's purpose in this essay is to take a broad view of the current political situation in Mexico by analyzing the pressures for change, describing the process now under way, speculating about the course that political reform might take, and assessing the risks involved in the process. Chapter Two traces the evolution of Mexico's political system. Chapter Three analyzes the impact of economic reform on Mexican politics. Chapter Four examines the dynamics of political change and the institutional evolution under way. Chapter Five looks to the future, assessing

the prospects for a peaceful transition to a new and fully democratic political system.

The dramatic and tragic events of 1994, the Chiapas rebellion and the assassination of Luis Colosio, obscure the deeper forces shaping Mexico's politics, as the political system confronts mounting pressures for change. These pressures frequently contradict each other, sometimes cancel each other out and, on occasion, induce contradictory Government responses. Clearly, Mexico, one of the world's most institutionalized societies, rapidly is becoming less structured, which poses radically new questions for the future. In the absence of a visionary drive that builds on the impetus for change, while circumventing attempts to derail reform, Mexicans could ultimately experience much higher levels of political conflict.

The tentative process of political change now under way stands in stark contrast to Mexico's economic transformation, which has proceeded swiftly and decisively. Ultimately, however, this almost decade-long economic reform has a fundamental political impact. Reforming an economy inevitably affects deeply rooted economic, social and political groups that have a vested interest in the status quo. The vigor with which economic reform has been pursued over the past decade suggests that Mexico's political leadership is capable of developing a vision of the future and that it possesses the determination to carry it out.

An equally profound process of political reform may be launched and implemented gradually during the 1990s. However, the dynamics of such a process likely are quite different from the course of economic reform. In fact, in retrospect, economic reform may appear to have been the easier part of Mexico's overall modernization.

A key feature of Mexico's traditional political system is its extraordinary strength, flexibility and capacity to implement decisions, as embodied in the system's institutional structure. This capacity to make and carry out decisions enabled the Government to launch the economic reform of the 1980s and "stay the course" when the unavoidable negative social and political consequences of that reform began to appear. In reforming the political system, however, the very institutions that made it possible to implement economic reform will themselves be subject to reform, posing a much greater challenge to the strength and resiliency of Mexico's political system.

Mexico's current political system began to develop during the 1920s and was consolidated in the 1930s. Since then, it has rested on the twin pillars of legitimacy and control. The legitimacy of the political system derived from the fact that most politically active groups within society were represented within the party and the Government. Control was exercised through an impressive network of organizations and institutions that maintained stability within society. Both pillars have eroded considerably in recent years.

Many of the original groups and organizations that were part of the political system and its foremost constituencies have withdrawn from the governing party, undermining its legitimacy. More important, over the past 60 years, the range of groups and interests that make up Mexican society has grown exponentially, while the structure of the political system basically has remained unchanged. Splits within the traditional party system and the extraordinary number and variety of groups outside the system have seriously eroded the legitimacy that it traditionally enjoyed. In short, the political system no longer effectively

represents Mexican society. Hence, while President Salinas may enjoy a high level of popularity, the political system over which he presides does not.

One of the chief characteristics of the Mexican political landscape for most of this century was the continuous creation and development of institutions and of implicit and explicit rules for political behavior. Most economic and political entities -- including professions, unions, businesses, political groupings, and parties -- have been closely controlled through a variety of institutions ranging from confederations of labor to agrarian councils, chambers of commerce to professional organizations. Political participation has been actively encouraged (even if it was channeled into a narrow set of options and alternatives that controlled much of that participation). Rules of behavior, procedures, and proper and improper modes of participation were all part of a carefully articulated structure of political control. As the economy has evolved and society has matured, many of these practices have become increasingly irrelevant. Thus, many of the institutions that were crucial in maintaining political control in the past have eroded.

As legitimacy and control have begun to evaporate, the resiliency of the political system has been badly damaged. Because the political system was always geared toward attaining control rather than promoting citizenship and participation, the rapid deinstitutionalization of Mexican politics entails significant risks for the future. Clashes between organized interests about the nature of and need for political reform would, under other circumstances, suggest the development of a healthy political environment -- and one amenable to political liberalization. In the Mexican context, however, the rapidly weakening institutional network, combined with a lack of vision and determination of the sort that characterized the economic reform process, makes concerted political reform more challenging. The response to date has been inertia, combined with limited Government initiatives that may advance reform. With the exception of those on the electoral front, however, they are too modest to amount to significant change.

Political reform in Mexico probably will not stem from visionary leadership, as did economic reform. It is unlikely that, given the network of controls still in place, it will result from the defeat of the PRI, which is currently in power. The likelihood is that reform will occur incrementally through the accumulation of limited steps. Some steps will result from Government initiative; others will signify a response to social pressures or concessions to opposition parties; and still others will emerge from negotiations among political parties. Such an accumulation of relatively small steps will result in a gradual process of political liberalization. Whether or not the elections result in a Government with a minority in Congress, the ruling party is likely to negotiate significant reforms with the opposition parties.

Some conflict could follow election day (August 21). The question is whether the level of conflict will be manageable or whether electoral squabbles will lead to an uncertain political environment. Stability will depend largely on the willingness of all contending parties to decide through negotiation Mexico's future governing arrangements, including a system of checks and balances and limits on executive power. The issue at stake in Mexico today is whether it will experience a gradual, peaceful, negotiated transition to an open and competitive political system or become enmeshed in an uncharted process of endless confrontation. We will know a great deal about the path to be charted by December 1, 1994, the day that a new Government is slated to take office.

Many reforms have been carried out already in Mexico, particularly on the electoral front. Pressure on the political system means that there is no choice but to go further. (In fact, all political parties agree on the need for continued reform.) The question is, thus, not whether there will be reform, but whether it will be an intermittent process characterized by ups and downs, or the result of true leadership willing to negotiate, compromise and bring nondemocratic players into a democratic process.

In the absence of a well-defined path toward liberalization, disputes and conflicts are likely to slow the pace of political change and create new dilemmas for the process of economic reform. Mexico faces an exceptional challenge in addressing the intertwined processes of political and economic reform, but never before have circumstances been better for meeting such a challenge. How precisely to do so is the question that must be confronted in the coming years.

The reformers within the PRI were able to maintain their momentum this spring when Ernesto Zedillo was chosen to replace Luis Donaldo Colosio as the PRI's Presidential candidate, following the assassination of Mr. Colosio. This reflected not only their own political ability but also the strength of the constituency for reform. **Despite the political complexity of the current moment, several factors guarantee the future of reform:**

(1) There is a growing consensus among all candidates to the Presidency about the need to stay on the road of reform, both economic and political. (The PRI's new Presidential candidate has long been one of the toughest and most committed reformers within the party.)

(2) NAFTA serves to embed economic reform in the policies of future Governments by reducing their ability to alter the economic course set over the past few years.

(3) Most important, the best guarantee of reform rests with public expectations generated by the process of reform itself. These expectations, increasingly influential in Mexican society, can be satisfied only by a continual deepening of the reform process. While Mexico has a bumpy road ahead, its direction is firmly set.

Ten years ago, the idea that Mexico might need political and economic liberalization was rejected as reactionary. Today such liberalization is a reality in many areas and a growing likelihood in many others. The risks are evident, but the costs of not furthering and concluding the process of reform are higher still. It will take iron nerves on the part of every participant in this process, however, to get there.

The driving force behind Mexican politics since the end of the Mexican Revolution (1910-21) has been the pursuit of stability. The quest for stability resulted from more than a century of almost continuous coups, revolutions, uprisings, and endless disputes about the nature of the Mexican state. Mexicans had gained independence from Spain in 1821. For much of the 19th century, monarchists opposed republicans, federalists challenged centralists, and liberals fought conservatives. Political instability caused Mexico to lose half of its territory to the United States. In such an environment, it was virtually impossible to develop economically, to organize a civil society or to establish an effective system of laws.

Mexico's first period of postindependence stability -- 1876-1910 -- was the result of a heavy-handed Government that gradually subordinated local fiefdoms to the central leadership. The stability provided by the Porfirio Díaz Administration made possible early steps toward economic development: Railway lines were laid throughout the territory, mining and incipient manufacturing became major sources of employment, and oil emerged as a source of wealth. By 1910, however, a few individuals totally dominated the political system, undermining the viability of the Díaz Government, which faced challenges from those who had benefited under its rule and from those who had not. As Mexico's wealth increased and its middle class developed, Government critics became ever more outspoken. Peasants were willing to rebel, and political forces outside the control of the Government emerged. By the end of 1910, the Revolution was under way.

The Mexican Revolution destroyed much of the economic foundation that had been built up during the previous decades. More than one million Mexicans, out of a population of about 20 million, died during the civil war. In 1915, negotiations among the warring factions began, mostly around a proposed new Constitution. It took two years to reach agreement on the Constitution. By then, all major political and military forces had agreed to the future character of Mexican politics.

The Constitution of 1917 is a unique document. The Mexican Constitution is not a philosophical statement establishing basic rights, functions and responsibilities for Mexicans and their Government; rather, it is a collection of statements and definitions that are often incompatible with each other and, at times, outright contradictory. The 1917 document combines highly abstract statements (about individual rights, for instance) with extraordinarily specific and concrete definitions of who can own what, which sectors of the economy belong to whom, and so on. The combination of abstract and concrete provisions produced a political document that led to political understandings, but not to a consensus about Mexico's future. Everyone could live with the Constitution, but nobody saw it as more than what it was -- a tough political compromise that could be understood only within the context in which it had been negotiated and approved.

The purpose of the Mexican Constitution was not to establish an official philosophy of government, but to incorporate all political forces into the political process. The overriding goal was to end the military struggle. What mattered was that there be an effective consensus-building instrument that would make it possible to govern the nation. The incorporation of each major political group became the chief goal of the incipient political system. Not surprisingly, the resulting Constitution was an awkward document in which everyone was given

something, regardless of whether the concessions were compatible. Internal consistency was subordinated to what would become the foremost objective of Mexico in the coming decades -- the pursuit of stability.

The Constitution, despite its literary and analytical flaws, served its purpose by setting in motion a political process that led to the return of stability. Between 1917, when the Constitution was signed, and 1929, Mexican politics underwent an important transition. The country was gradually pacified, local armies and *caciques* (local political bosses) were made subject to Federal authority, and the key political forces came to understand (and were shown through both peaceful and violent means) that joining the political process was preferable to remaining outside of it.

In 1928, President Plutarco Elías Calles called for the creation of a political party that would create "a nation of institutions," as opposed to a hodgepodge of local fiefdoms run by *caudillos* (charismatic leaders). The National Revolutionary Party (PNR) was born in 1929 with two specific goals. One was to create a political system by incorporating all relevant political forces into a single party. The "party of parties" would include participants from unions, armies, political parties, and so on. It was thought that the unification of all key political groups within a single institution would compel them to abandon violence and allow for the development of the economy and reduction of poverty. The second goal was subsidiary to the first -- to organize a system of political succession that would guarantee stability during political transitions. Two rules would govern the succession process -- all members of the party could ally with or contest each other in support of any candidate to the Presidency, but the successful candidate would enjoy the support of all party members. Because all major political forces were present within the party, whoever was chosen as the Presidential candidate would automatically win the election and become President. The real political struggle would take place behind the scenes, with the elections themselves a mere ratification procedure.

The Constitution and the National Revolutionary Party (PNR) became two of the three centerpieces of Mexico's political system. The third component was an increasingly strong central Government that succeeded in drawing all political forces into the party with a combination of incentives and sanctions. The PNR became associated with a system of patronage that delivered extraordinary benefits to the political bureaucracy. The fact that all major political forces participated in the PNR gave it enormous legitimacy.

The PNR evolved into the Party of the Mexican Revolution (PRM) in 1938. Six years later, it became the Institutional Revolutionary Party (PRI) -- the party that today dominates Mexican politics. The PNR had comprised leaders representing various groups within Mexican society. During the 1930s, however, those groups became formally organized and incorporated into the PRM under the leadership of Lazaro Cárdenas. In the early 1940s, one of the key sectors -- the military -- became professionalized and withdrew from the party. The three other main groupings --representing labor, peasants and the urban population -- would become the backbone of the PRI. This evolution of the Mexican party structure meant that the original goals of the PNR -- to institutionalize politics and minimize conflict -- came to include the additional element of control, and are now exercised by the Executive and the judiciary and legislative branches of government.

Control was exercised through the creation of corporative organizations that brought people with similar backgrounds and economic interests into bureaucratic entities that would exercise control over these people and negotiate on their behalf with the Government. (More often than not, the benefits to the group's leaders outweighed those to its members.) Corporatism served to undermine independent leaders and sources of political power and to centralize political power in the state. To strengthen further its control over society, the bureaucracy adopted other mechanisms, such as the use of official textbooks. The bureaucracy also succeeded in creating a set of myths that served to maintain control, enhance the legitimacy of the political system, and protect the economic and political interests of the political bureaucracy. These myths emphasized the efficiency of the Government oil monopoly; the "true," imperialistic nature of U.S. interests in Mexico; and the need for the Government to take the lead in Mexico's economic development. The use of official texts and the promotion of nationalistic myths suggests that, as well as organizing society into easily controlled corporative organizations, the political bureaucracy sought less tangible forms of influence over the minds of the people.

The interminable need for consensus has forced each Administration to attempt to satisfy all constituencies, making the political process slow and difficult and, at times, even leading to paralysis. Yet once it is reached, corporatist instruments of control make it relatively easy to implement policy, as the experience of economic reform in the 1980s suggests.

The contradictions within Mexico's political system stem from two historical tendencies, the first expressed in the consensus-seeking nature of the National Revolutionary Party (PNR) of the 1920s and the second in the semiauthoritarian and populist Partido de la Revolución Mexicana (PRM) of the 1930s. The latter favored strong Government involvement in the economy, while the former sought a more balanced political and economic structure (albeit with the overall goal of stability). These contradictory forces have dominated Mexican politics for decades, producing two constituencies that, in the past decade, have proven irreconcilable. One thrives on Mexican nationalism, a strong and active foreign policy that enjoys "putting pepper under Uncle Sam's nose," a high-spending economic profile that fosters fast economic growth and a relatively closed political system that benefits the original shareholders in the system. The other emphasizes economic development, strong leadership, gradual (but slow) political liberalization, and a pragmatic foreign policy. While these currents clash at almost every turn, they do share a common flaw -- both stem from a political system that long ago ceased to represent Mexican society. Because the Mexican political system is no longer fully representative, it is often incapable of channeling society's demands into policy. This is one of the greatest impediments to change in Mexico today.

How did this decline in representation come about? After decades of imposing rules that granted privileges to the few at the expense of faster economic growth for the many, the foundation of the political system began to crumble. Moreover, Mexican society in the 1960s bore little resemblance to that of the 1930s. The political system, which had been organized to incorporate the key political groups of the 1930s, did not match the makeup of contemporary Mexican society 30 years later. The old structures and policies had served their purpose well. However, as Mexican society changed, they ceased to be effective. The student movement of 1968 signaled the existence of a severe problem of nonrepresentation. The Government's response throughout the 1970s was to try

to "buy off" Mexicans with increasing levels of public spending. This scheme collapsed in 1982 when foreign bankers were no longer willing to bankroll the process. It was not until the mid-1980s, however, that Mexico's leaders began to recognize the new realities for the political system.

The old order also had failed to provide an environment in which the economy could prosper. In 1982, Mexico entered a period of stagnation and decay. By the mid-1980s, the dilemma had become obvious -- either Mexico's establishment would have to change, or the country's stability might unravel. This dilemma went to the core of the political system -- stability had been the *raison d'etre* of the political system in the sense that it made governing possible. The goal had never been stability for stability's sake; the activist Government that emerged from the Mexican Revolution wanted *effective* Government. After half a century of developmentalist policies led by a strong Government, what was threatened in the mid-1980s was not mere stability, but the very possibility of governing.

Mexico needed not only political, but also economic, reform. The old institutions were unable either to guarantee stability or to provide high enough levels of economic growth to satisfy the needs of a rapidly growing population. The threat to stability proved a sufficient incentive for Mexico's leaders to launch an extraordinarily ambitious economic reform in the hope of revitalizing the economy. Political reform was not addressed at the time. Nonetheless, economic reform has made political reform a requirement.

Modern democracies are based on competition for voters' support among various political parties and institutions, within boundaries that are accepted by all as legitimate. For a society to reach this point requires a well-developed institutional structure that promotes such values as respect for minority rights, the accountability of Government officials, and a system of checks and balances.

Until now, stability has been the central goal of every Administration since the Revolution. Both the economic reform of the 1980s and the first critical challenge to the PRI's monopoly of power in 1988 transformed this situation. The question is no longer whether future Governments will pursue stability as their foremost goal, but whether legitimate political competition will emerge as the accepted, main characteristic of Mexican politics. Will there be open and legitimate political competition over different Government programs, or will the right to compete itself become the central political issue? At stake is the often-difficult mix of legitimacy and governability -- how can a democratic polity be made compatible with effective Government?

Mexico's development strategy was forged in the shadow of two myths -- the myth that absolute economic independence (autarky) was viable and the myth of infant industry, which argued that protecting incipient industries would make them competitive in the future.

Until the 1980s, Mexico's goal of political stability was met in the economic realm by isolationist and projectionist policies. It was assumed that a protected economy would not be subject to the ups and downs of the world economy. A closed economic system would not only facilitate stability, but it also would provide a continuous flow of benefits to the political elite. Prevailing theories of economic development, especially those that emerged just after World War II, supported the idea of a closed economy. Several decades later, however, the political and economic costs of isolation -- particularly in terms of growth rates and income levels -- proved too high.

Protecting a nation's incipient industrial base makes sense under certain conditions. Some of Asia's most productive economies have done precisely that, and they continue to do so today. The key to economic success has turned out to be a high level of integration into the world economy -- not protection from imports. The East Asian nations that have succeeded economically over the past 40 years did so because they found a way to become integrated into the international economy, usually through a strong export drive, while, at the same time, sheltering their firms from harsh external competition. Their approach was profoundly different from the policies pursued by Mexico and most other Latin American economies. While Latin American countries built walls to protect their economies completely, the Asian nations -- first Japan and then the so-called "tigers," notably Korea and Taiwan -- forced their economies to become competitive internally and, thereby, conquer export markets. The combination of cutthroat competition in the domestic market plus Government support for continuous export growth allowed the Asian economies to grow dramatically while remaining attuned to the introduction of new technologies and the evolution of the world economy.

The Mexican economy followed a different course. The desire for economic development and social justice had contributed to the revolutionary struggle of 1910, and these elements emerged as basic tenets of Mexico's postrevolutionary philosophy, along with the pursuit of political stability. Economic growth and social justice could have been reached by several different paths, including the Asian strategy described above. The Asian strategy, however, was incompatible with Mexico's need for political stability; given the interests of the political bureaucracy, political stability required a degree of privilege for the political elite that a more open economic environment would have made untenable. In addition, Mexico's postrevolutionary Governments argued that their ultimate goal was for Mexico to become a developed society and that this would require replicating the development path of industrialized nations a century before -- a model that did not prescribe close involvement with the international economy. Finally, the industrial strategies of countries like Taiwan and Korea were considered inappropriate for Mexico because their economies were based on *maquiladora* (in-bond industrial) operations rather than on "real" industry. Thirty years later, Asian countries' success in terms of gross domestic product (GDP) per capita and industrial strength had made a mockery of this distinction.

Mexico's development choices were complicated further by its geographic location. Mexico's complex relationship with the United States and the latter's expansionist and interventionist history had made it politically necessary for Mexican Governments to develop policies that would minimize contact between the two neighbors. This had the positive effect of attracting foreign investment from other sources -- mainly Europe and Japan -- but it hindered even the consideration of any policies that might increase contact with the United States. The result was an economy incapable of competing successfully in the international arena. While Mexico did attain fairly high rates of economic growth over several decades, these constraints resulted in a structural crisis.

The Origins of a Development Strategy

Despite its unique political considerations, Mexico was not alone in pursuing a closed economic strategy. For decades, Mexican economic policy took shape under the intellectual auspices of the Economic Commission for Latin America (ECLA), a United Nations agency with the mandate to help Latin American nations develop in the aftermath of World War II. ECLA sustained and gave intellectual respectability to the idea that developing countries must follow in the footsteps of developed nations in order to reach a similar stage of development. According to this view, Latin American nations had to replicate those factors that had made developed countries successful. Hence, most Latin American countries invested heavily in steel mills, basic industry and infrastructure, while fostering the substitution of imports to expand the domestic market and create industrial jobs. Protection from imports was a central element of this strategy.

Until the 1930s, Mexico had been an exporter of various types of raw materials and an importer of a broad range of manufactured goods. Although some industries -- such as beer and steel -- had emerged in the late-19th century, Mexico's industrialization began in earnest when imports became unavailable as a result of the war effort of the Allied nations. The substitution of domestically produced goods for imports was a natural response. A new domestic constituency was born -- one that favored an inward-looking economic strategy.

By the late 1940s, 10-15 years after Mexico had first become a manufacturing nation, a strong constituency had developed for import protection, Government subsidies and a lax system of taxation. Hence, precisely at the time that industrial nations were agreeing on a framework for international trade and currency stability -- the General Agreement of Tariffs and Trade (GATT), the International Monetary Fund (IMF) and the World Bank -- Mexico shut its doors to the outside world. Mexico's policy of import substitution industrialization (ISI) may have been out of step with trends toward greater openness in the industrialized world, but it enjoyed the blessing of ECLA and appeared to be the ideal strategy for Mexico.

In stark contrast with the way in which Japan and, later, Korea and Taiwan structured their economies -- protecting the domestic market while promoting exports -- Mexico, like most other Latin American countries, rejected the idea that manufactured goods should be exported. Instead, exports of raw materials and agricultural goods financed the import of machinery and intermediate goods to be used by industry in the manufacture of goods for the domestic market.

Mexico's relationship with the United States was one of the reasons behind its choice of development model. Mexico had lost half of its territory to the United States in the 19th century, creating a deeply embedded suspicion of the United States and a strong desire not to become "dependent" on the giant neighbor to the

north. Independence was equated with a lack of close economic ties to the rest of the world. (Ironically, Mexico's imports of industrial intermediate goods and raw materials and exports of traditional goods were not seen as constituting a strong link to the rest of the world.)

As long as Mexico's domestic market kept growing and the balance of payments remained workable, thanks to traditional exports and inflows of foreign investment, the Mexican economy thrived. For 35 years, Mexico was able to sustain a 6.5% average annual growth rate with less than 3% average annual inflation. By the late 1960s, however, clouds began to appear on the horizon. Agricultural exports declined through the 1960s because of population growth and falling productivity resulting from the dwindling amounts of land being distributed and ever-smaller plot sizes. In the early 1970s, Mexico would have experienced a balance-of-payments crisis had it not been for the huge loans that international banks made following the 1973 Arab oil embargo. This, together with significant oil discoveries in Mexico itself, allowed Mexicans to postpone their day of reckoning. Oil exports and foreign indebtedness made it possible for Mexico to finance all necessary industrial imports without having to compete in the international arena or pay much attention to efficiency or productivity, the very factors that were transforming the Japanese economy -- and, for that matter, much of the industrialized world -- after the oil shock of 1973.

In 1982, US$80 billion of debt later, Mexico was forced to reschedule its external debt, and it entered the worst depression in its history. Inflation soared, while growth stopped altogether. By the mid-1980s, after cumulative per-capita negative growth of about 15%, Mexico was impoverished. Reforming the economy had become essential, and the Mexican Government rose to the challenge.

The Politics of Reform -- From Debt Crisis to Full-Fledged Liberalization

After two interminable years of economic mismanagement, in December 1982, the newly elected Administration of Miguel de la Madrid launched an ambitious economic program to deal with the increasingly chaotic situation. Its first aim was to stabilize the economy and reduce inflation (which then was reaching annualized levels above 400%). The draconian program adopted by the new Administration succeeded in slashing inflation to 80% in 1983, while halving the fiscal deficit (to 8.5% of GDP). In addition, it overturned the trade deficit, generating a surplus in the first year of the Administration.

The Immediate Program for the Reordering of the Economy (PIRE) was successful but short-lived. While the program confronted the critical situation head-on, it was based on assumptions that were soon proven wrong. The program aimed at reducing or overturning the fiscal and trade deficits. It succeeded on both counts, but through policies that could not initiate an economic recovery. It lowered the fiscal deficit by virtually eliminating investment spending, increasing taxes and containing current expenditures, mostly wages. The Government achieved its goal of deficit reduction, but at the high price of postponing economic recovery. Its main aim, at a practical level, had been to avoid affecting the bureaucracy or network of political interests that surrounded the Government. To this end, current spending was reduced as little as possible. The worst flaw in this strategy was that the policy of containment could not last -- budgetary restrictions were met repeatedly by political pressures to increase spending, which, ultimately, succeeded. A similar principle was applied in the case of the trade deficit -- imports were severely constrained, while exports were never

fostered. The lack of imports (particularly of capital goods), just like the lack of investment in infrastructure, produced economic stagnation.

Foreign debt was an obvious culprit for the shortcomings of the PIRE. In order to justify the harsh program of adjustment, the Government blamed the foreign banks that had lent so much to Mexico during the previous decade. The banks were easy targets not just because of their natural unpopularity, but because it was generally true that the servicing of Mexico's debt was coming at the expense of domestic spending. No politician was willing to raise the possibility that the structure of the economy had to change, not for the sake of debt service, but in order to achieve a sustainable recovery. On the other side, foreign bankers were unwilling to acknowledge their mistakes, despite the fact that many (if not most) of their loans had been unsound, either because they were not tied to specific projects or because they had been made for projects that were no longer financially viable following the collapse of oil and steel prices. In the politics of blame, both the Mexican Government and the international financial community held each other responsible.

In 1982, for the first time in Mexico's modern history, Mexicans experienced a depression. GDP declined by 5%, and purchasing power of the average salary dropped by more than 45%. Unemployment levels increased, although not significantly, because the underemployed (those structurally unemployable because of their lack of basic skills) bore most of the employment impact of the recession. Ironically, the middle classes, which had benefited the most from subsidies for staples and services like water and public transportation felt the greatest income effect.

Despite a modest economic recovery in 1984, the PIRE collapsed in early 1985. Inflation stopped declining, and it leveled off at about 50% annually, while the economy again went into recession. Within the Administration, infighting over economic policy was endemic. Some argued for the repudiation of Mexico's foreign debt obligations, while others advocated profound economic reform. One area of interminable dispute was trade policy, but it was here that the reformers made their first successful strides. The connection between trade and debt was critical -- to the extent that the country's trade policy remained extremely restrictive, debt would be permanently unserviceable; by the same token, an open trading regime would lead to a gradual reduction of debt in relative terms.

The economic argument was simple, but the debate was political and bureaucratic in nature. Those in charge of trade policy benefited enormously from the discretionary powers bestowed on them by a restrictive trading regime. Furthermore, their constituencies -- the bureaucracy and the industrial sector -- supported a restrictive policy because they feared foreign competition and because they had benefited from a system that generated wealth for the elite, at the expense of the welfare of society as a whole. By mid-1985, the economy had deteriorated further, and the country experienced another foreign exchange crisis. At this point, continued opposition to liberalization was eclipsed by one of the most ambitious set of economic reforms ever undertaken by a developing country. One can speculate about what would have happened if the trade bureaucracy had been willing to accept the very modest liberalization that the reformers had originally advocated. In 1985, however, that point was moot: The process of liberalization became more far-reaching than the reformers had hoped for.

The PIRE was superseded by a series of policies that, taken together, amounted to an extraordinary transformation of the Mexican economy. Beginning in mid-1985, a new approach to economic policy began to be implemented by the de la Madrid Administration: Government-owned corporations began to be privatized; old regulations that fostered monopolies were dropped; public finances continued to be squeezed; and, most significantly, Government departments and entities were eliminated for the first time in history, bringing about real and sustainable reductions in Government spending. Since 1985, the Government has privatized close to 1,500 companies out of a total of almost 2,000. Concurrently, the overall budget has been cut by close to 10% of GDP, more than double what the much tougher Gramm-Rudman budget-reduction package in the United States achieved.

The introduction of the new set of policies was tantamount to a revolution. The old policies had owed much to well-established constituencies that benefited from the existence of monopolies, monopolistic practices and discretionary bureaucratic powers. The new policies responded to a new conception of reality and a very clear political calculation that the "old order" was politically and socially unsustainable. Fearing that economic stagnation would eventually destroy the country's traditional political stability, the reformers recognized that Mexico could not remain outside of what was taking place in the rest of the world. A new order would require an economy that was strong, growing and internationally competitive -- an economy that would raise incomes. In the absence of healthy income growth, the days of the old order were numbered. Even reform that entailed gradual political change -- and that would inevitably affect vested interests -- was preferable to the prospect of instability. For the governing coalition, the potential costs of not changing were overwhelming, compared with the short-term dislocation that the process of change might unleash.

In introducing reform, the vision and commitment of the Administration was paramount -- it was precisely at this same time that Peruvian President Alan García was virtually repudiating that country's debt with no apparent consequences. The populist tune of the Peruvian Government was hard to resist. Why should the Mexican Government undergo the hardships of an orthodox adjustment program, while Peru followed the easy path of no debt payments and rapidly growing public spending? Until it became clear in 1990 that Peru's approach was not a viable way to resolve the country's economic problems, it was difficult for Mexico's leaders to convince the country of the need for austerity, competition and reform. By 1990, when Peru's economic situation had become calamitous, Mexico was already on the path to a strong recovery. But the strategy of the Mexican reformers had political consequences.

From the vantage point of the de la Madrid Government (1982-88) and later from that of Salinas (1988-present), economic recovery was politically necessary. The growth rate of the population (and much faster population growth in the 1960s and 1970s) placed economic demands on the Mexican Government that differed dramatically from those faced by Latin American countries with stable populations, such as Venezuela and Argentina. More than 50% of Mexico's population is below 15 years of age. Because of the population pyramid, about one million new jobs will have to be created annually for the next 15 years. This imposes a unique constraint on Government policy -- economic growth and job creation are political imperatives needed to avert potentially uncontainable social instability.

The fact that many of the obstacles to economic recovery were being dismantled in the late 1980s was of little relevance to the majority of Mexicans, few of whom understood the issues at stake. The average Mexican cared only about economic growth and its benefits, not the policy choices that lay behind them. In addition, the Government insufficiently explained the nature of the reform, why it was necessary, and the true scale of the financial crisis of Government-owned corporations. But the source of the political problem went much deeper than this. For decades, Mexicans had been indoctrinated about the benefits of state-led development. The nature of reform stood in stark contrast to these teachings. Furthermore, those who stood to lose from reform -- mainly the bureaucracy -- understood immediately its implications and tried to exploit the tradition of state-led development to their political advantage in the 1988 elections.

In 1988, Carlos Salinas was elected President following an extremely close election. Three years into an economic reform process that had not yet yielded benefits to the public, the new Administration understood that there was a missing political link in the reform equation. The PRI had governed the country for almost six decades, and its supporters had been the foremost beneficiaries of its leadership. By the time Mr. Salinas took office, reform already had eroded the PRI's power base by denying its constituencies their traditional privileges, such as subsidies. Many of the PRI's traditional supporters who opposed reform failed to support the Salinas candidacy and turned instead to Cuauhtemoc Cárdenas, a former PRI member who now, as leader of the PRD, was the chief opponent of reform.

For the new Administration, the political logic of reform had never been so clear. Reform had moved too slowly to reap benefits, while it had allowed the opposition to organize and fight against it. Two lessons emerged from the 1988 elections: (1) Reform would not succeed unless it challenged directly the vested interests that opposed it. (The de la Madrid Administration had avoided direct attacks on those interests, in the hope that the benefits of reform would make their opposition irrelevant.) (2) Until the 1988 elections, a closed and protected economy had been matched by an inward-looking political system that sought to control and organize society. As the economy began to be liberalized, it became clear that new political arrangements would be needed to match the new economic reality of competition.

Mr. Salinas wasted no time in applying these lessons. Reform had become a matter of political urgency. Immediately after taking office, President Salinas launched a four-part strategy. First, he attacked the vested interests that were impeding reform by prosecuting corrupt union leaders, prominent businessmen and a few politicians. He, thus, signaled in his first few months in office what he aimed to accomplish and what his opposition could expect. The second part of the strategy was to accelerate and deepen reform. To this end, President Salinas undertook a massive program of bureaucratic deregulation and financial liberalization and ended restrictions on foreign investment; he also pursued the anti-inflationary program launched by his predecessor that has succeeded in reducing inflation from close to 200% in 1987 to an expected 7%-8% in 1994. Third, he launched new negotiations with the foreign banks to reduce Mexico's debt burden. Finally, he worked to develop a new constituency for reform, a strategy that involved consensus-building, social spending and the expansion of the traditional support base of previous Governments.

Consolidating Reform

In pursuing reform, the Salinas Government confronted a huge credibility gap. For more than two decades, Mexicans had learned to live with uncertainty, knowing full well that Government policy could shift with the wind. During much of that time, inflation was the economy's chief characteristic -- but also something of a novelty in Mexicans' experience. After years of this deadly mixture, Government credibility was severely damaged. For reform to succeed, Mr. Salinas had to find a means to guarantee that it would continue.

It is one thing to implement reform and quite a different one to consolidate it. Five years into the process, reform seems to have succeeded, with economic indicators showing slow but consistent improvement. Yet reform will be relevant and politically viable only to the extent that it delivers a higher standard of living to Mexicans. Without this, the very concept becomes meaningless. Hence, the first dilemma confronting the Mexican Government involves how to make reform deliver its promised benefits.

During the 1940s, 1950s and 1960s, the Mexican economy grew steadily at more than 6% annually, on average. Most economic sectors expanded at a similar pace. (With the economy protected from imports, domestic demand tended to be about the same for all sectors.) In this environment, it did not matter much whether a businessman invested in one sector or another -- the odds of success were overwhelming. The same was true for workers in any given activity. Few firms went bankrupt, and saving jobs was critical. Thus, even in the worst circumstances, subsidies were usually available, or the Government simply would take over a failing company. The assumption for most businesses was that they could succeed in any area, so many diversified into a wide range of sectors. None of these premises holds true today.

The impact of the new policies, although nothing new for economies where competition has been the rule, is extraordinary for a society like Mexico. Government spending no longer determines growth -- and, therefore, employment. Each firm must be able to compete in the domestic and foreign markets, which is a radical change. The challenge for Mexican industry today is, first, to survive and then to become competitive. Because of past trade barriers, the Mexico of the future likely will have many fewer industrial sectors than in the past. This change can be seen already in the virtual disappearance of some sectors and the rapid growth of others. Much of the impact of reform, however, will take years to be consolidated.

One of the central features of reform is that the economy has been liberalized. Anybody can import virtually anything (with the exception of agriculture, where import permits are still required, and automobiles, where imports can be brought in only by locally based manufacturers). The natural consequence of this new openness is that some sectors will be successful and others will not be. Furthermore, within sectors, some firms will succeed, and others will fail. The new environment has other dramatic consequences. First, wages will grow faster in the more successful sectors than in the less successful ones. Second, many firms will face bankruptcy and the need for layoffs. But it is a gamble implicit in the reform process that, despite some bankruptcies and adjustments, a large part of the industrial plant will succeed and deliver the hoped-for results.

The evidence to date suggesting that reform is working comes mostly from the micro level. Successful exporters have increased real wages annually for the past four years. Many firms have not only recovered the real wage levels of the early 1980s, but they have reached significantly higher wage rates. Manufactured

exports have risen from less than $4 billion in 1985 to slightly above $21 billion in 1993.

Sector by sector, there are positive signs that reform is having an impact, but an overall increase in Mexicans' standard of living has yet to be seen. Based on the results so far, there is every expectation that reform will deliver. The question is one of timing. Will incomes rise soon enough to satisfy expectations and support a peaceful political transition? Or will reform succeed in terms of numbers, but fail at the political level? These are not idle questions. To the extent that the majority of Mexicans perceives reform as delivering on its promises, then reform will be successful.

The Economic Conundrum

Reformers confront another dilemma that is even more political in nature. The transition implicit in reform entails an enormous adjustment by all productive activities, only some of which will succeed; thus, the name of the game is perseverance. The systematic and permanent pursuit of reform is the only policy choice. Yet, this is by far the hardest course in political terms. Pressures to increase spending are endless; old hard-liners often attempt to recover lost territory through "informal" regulations; some ministries and many unreformed state-owned enterprises sometimes pursue their short-term objectives even at the expense of reform as a whole. Sustaining reform and ensuring its "staying power" have become the crucial factors in its success. This will be the key element in the upcoming Presidential succession, where demands for political liberalization mix with the need to maintain economic reform -- a process made more complicated if Congress is no longer in PRI hands.

Economic performance may be reaching its limits as a result of the lack of institutional change and failure to conclude reform. There are still many costly and inefficient Government-owned corporations that create a drag on the economy. The same is true for municipal and state governments that have not adjusted to the new circumstances and to the judicial system, which requires a thorough overhaul. All of these will force the Government either to act or to abandon reform as a whole.

Economic reform also is reaching its political limits. Until now, its success was based on the determination and resources of a powerful Government that was committed to a process of economic transformation. The exceptional powers of the Government, as well as its clarity of vision, have transformed the structure of the economy and restored financial equilibrium in the fiscal accounts. Perhaps 20% of Mexico's economic participants understood the rationale for reform and have learned to survive in a new environment where foreign firms constitute an extraordinary source of competitive pressure. Many firms, representing as much as 60% of Mexico's industrial production, have transformed themselves and are competing successfully as exporters. The real challenge of economic reform lies in those firms that account for the remaining 40% of production -- but represent some 80% of firms in absolute numbers.

Those firms that have succeeded in transforming themselves have done so for two reasons: Either they had exceptional leadership or they were faced with direct competition early on in the process, or both. Most of these firms were able to determine what was required to survive and present their case before the Government in order to change those regulations that limited their ability to compete. The rest of the industrial sector faces an altogether different situation --

a dangerous mix of a scarcity of entrepreneurial vision in a market economy and a Government that has so far been unable to resolve its problems politically.

The incomplete nature of Mexico's economic reform brings with it a series of problems that affect all Mexican firms. Many large firms -- particularly those that are Government-owned like the utility companies, Pemex, the railroads, and others -- still enjoy monopolistic practices and special privileges that cause serious distortions and inefficiencies in the economy. Despite the Government's impressive accomplishments, the ability of firms to compete remains thwarted, in many instances. The Government's unwillingness or inability to further reform hurts those companies that cannot compete in these circumstances.

The gravest problem for most firms, however, is not the large Government-owned monopolies, but the structure of the political system. The Government was most successful in forcing those companies to transform themselves that were the Government's natural political clients. It was easy to impose Government authority over firms that were very large or traditionally dependent on the Government. It is an altogether different story to address the needs of more than 120,000 companies, most of which have seen their sales decline steadily but do not understand why this is happening or what, if anything, can be done about it. Although the problem is typical of any economy facing competition, the issues are different in Mexico because of the nature of the political system. Business people do not necessarily have representatives in Congress who are loyal to their district, and the centralized nature of the system makes all Government officials more keen to look up the political ladder than down toward their constituencies.

In an ideal world, the Government would attempt to explain the new circumstances and persuade firms and unions to adapt to it in order to survive. Mexico's political system, however, conspires against that. Politicians are more capable of deciding and imposing than of persuading; of conducting themselves as though they know better than their constituents; and of attempting to maintain their own privileges instead of solving their constituents' needs. The corporative structure of power has hindered the Government's ability to address the very issues that are relevant for the success of reform.

The Government confronts a growing dilemma in the economic realm. All that economic reforms have accomplished over a decade of painful change could easily collapse; avoiding this outcome, however, might well entail the end of the traditional political system. Until now, the Government's attitude has been contradictory. On the one hand, the Government launched the economic reform plan knowing that, over time, it would undermine and destroy corporatism and the traditional political system. On the other hand, the Government has made an impressive effort to strengthen the political system and the PRI, building new structures and adopting new strategies, as if it did not believe its own premises and assumptions. Conceptually, the Government realizes how much more needs to change, but in practice, it has opted for sustaining political centralization, even if this clashes with the needs of economic reform or its long-term political consequences. Viewing this contradiction, one can conclude either that the Government has fallen prey to competing political interests or objectives, or that it has developed a different strategy for resolving its dilemma.

The Role of NAFTA

Consolidating reform and restoring economic growth in an open economy were the overriding goals of the Salinas Administration. The negotiation of a free trade

agreement with the United States fit within this strategy for economic and political reasons. The economic rationale for a free trade agreement became clear soon after Mexico began reforming its economy. Suddenly, a new phenomenon came to characterize Mexico's relationship with the United States -- trading conflicts. Many successful Mexican exporters were slapped with antidumping measures by the United States, whether or not they were actually engaging in dumping. During the period in which exports began to grow rapidly (1985-90), trade conflicts multiplied to the point where they threatened the viability of economic reform. What was the point of trying to become internationally competitive and integrated into the world economy if the world's largest nation -- and Mexico's foremost market -- was inaccessible?

Although committed to reform and to a liberal trading regime, the Salinas Government was not immune to the deep ambivalence that has characterized Mexico's relationship with the United States throughout its history. As a result, the Government attempted initially to negotiate more ambitious agreements with the United States, but it stopped short of an all-out free trade package. Several sectors were suggested as candidates for liberalization, but no serious talks between Mexico and the United States ever took place. Mexico was changing so fast that the economic issues between Mexico and the United States outpaced the ability to deal with them incrementally. The Mexican Government moved gradually and reluctantly toward the recognition that it needed to go beyond a series of understandings about trade with the United States.

By the end of 1989, the Salinas Administration had succeeded in persuading Mexico's creditor banks to renegotiate all its commercial bank debt; it had reduced inflation to a moderate, although still high, level (around 15% on average); and it had successfully privatized several major industrial concerns. Soon it began to privatize the banking system and telephone company, as well. But despite these successes, long-term investment -- both Mexican and foreign -- was not forthcoming. Eventually, the Government recognized that investors' confidence had been shattered so often in the past that more than good performance was required. Investors needed certainty that the ongoing reform process, as well as specific policies, would remain in place even under future Administrations. This guarantee, however, could be provided only by the international community -- specifically, the United States itself.

In sum, the economic rationale for NAFTA was the natural extension of the process of reform -- to achieve growth, it was necessary to secure a market for Mexico's goods, eliminate nontariff barriers to Mexico's exports, reduce the high maximum tariffs that limited access to the United States, and create a mechanism for the resolution of trade disputes. Once Mexico decided to liberalize its markets and sought to enhance the competitiveness of its industry, the single most important barrier to the success of reform became the lack of certain access to Mexico's major export market -- the United States. The free trade agreement was needed to ensure the success of domestic economic reform.

But, just as economic reform had deep political underpinnings, so does the free trade agreement. Mexico's economic reform constitutes a dramatic shift in policy. After decades of serving the interests of a relatively small cluster of political and industrial groups, economic reform represents a transcendental break with the past and a redefinition of political alliances, as well as of the constituencies sustaining the governing coalition in power. The cement that holds this coalition together is the expectation of economic recovery and a distribution of the benefits

among the coalition partners, which include large segments of the middle classes and of the ascendant "popular" classes, including most of the working class. For all these groups, the free trade agreement constitutes a guarantee of the permanence of economic reform and, accordingly, of the viability of this coalition. Furthermore, a free trade agreement serves to depoliticize economic reform, as the latter becomes, as it were, "sunk in concrete."

NAFTA, therefore, was sought as political insurance for all of the groups involved in the governing coalition. It provides a guarantee to the business sectors (both foreign and domestic) that bear enormous responsibility for bringing about economic recovery and to Mexicans at large that any future Government will have no choice but to pursue the path of reform in order to attain a higher stage of development. NAFTA is meant to be, above all, an instrument to depoliticize the economy and, thus, strengthen the path of change.

For decades, students of Mexican politics have noted that while Mexico's traditional political system served the goal of stability well, it was not evolving to keep pace with other changes under way in Mexican society. The question for these observers was whether the old system would be able to reform itself or whether a revolution would be required to bring about change. This dilemma of reform or revolution is as relevant today as it was in the 1930s, when it first became an issue.

Since the eventful elections of 1988, some political parties -- above all the PAN -- have been pursuing negotiations designed to liberalize the political system. Others, led by the PRD, have taken the view that nothing short of a revolution, albeit a peaceful one, would lead to true political liberalization. An impressive array of initiatives and new laws has been passed by the legislature, changing much of the legal framework upon which the Mexican political system stands. The elimination of many, if not all, of the advantages that favored the PRI in the electoral process no doubt will introduce a new dynamic into one of the most corrupt components of the political system. But the question remains -- Will these achievements transform the political system?

Those who favor an evolutionary process of change -- rather than a radical change -- welcome the piecemeal approach to electoral reform of the past few years. These changes have eliminated the fraud-prone laws of the past and have facilitated dialogue among political forces. Yet, as extensive as these changes have been, much of the structure of the traditional political system remains unchanged. Trends under way within the political system -- particularly the new legal framework -- serve to promote change, but the values and traditions embodied by the political system work in the interest of stability.

An Evolving Political System

While the political system has changed greatly over the past decade, it remains very much the same. The question is whether the changes thus far are meaningful enough to transform the rest of the system, or whether the culture of the past will absorb and neutralize these currents of change. The appearance of qualitatively new demands for participation, the emergence in the past decade of new nongovernmental political organizations and the political consequences of economic reform suggest that Mexico is in the midst of a profound transformation. Despite these trends, the traditional political system remains a critical stronghold of the past. While a free and clean electoral process is a necessary component of a democratic polity, the old political structures -- many of them embodied in the PRI -- will have to change in order for Mexico to become democratic. The question today has less to do with past change than with whether future change will be evolutionary or radical. The August 1994 elections will set a definitive benchmark, but they will not be the final chapter in this process.

The historic stability of the Mexican political system resulted from the compromises and commitments associated with the Constitutional arrangements of 1917. The essence of the institutional structure that gave Mexico so many decades of social and political peace was simple -- the leaders of different parties, armies, unions, cliques, factions, and organizations agreed to participate in and support the political system in exchange for exceptional benefits and privileges, including the promotion of their own interests and those of their constituencies. The groups that were thus incorporated into the newly organized system were

highly representative of society at the time, a fact that lent exceptional legitimacy to the system as a whole.

From this perspective, economic reform -- liberalization, deregulation, privatization, and the free trade agreement -- represents the greatest political change that Mexico has experienced since 1929. Although the reform is economic, its driving force and many of its consequences are political. In fact, it entails nothing less than the redefinition of relations among all social, economic and political forces in the country; the appearance of new players; the introduction of the concept of losers; and, above all, the decentralization of political power in Mexico. Political change has not yet been institutionalized, but the transformation of Mexican society is under way. By now, the process of change is probably uncontainable.

Economic reforms like privatization of state-owned enterprises and deregulation have altered the relationship between the Government and economic actors, opening the way for new sources and paths of political power. In its essence, reform can be considered a massive transfer of political power from the Government to society. The great political problem facing Mexico today is no longer the initiation of political reform, but how to imbue the process of political change now under way with a sense of timing and direction. This will entail channeling the process of change in a clear direction and building new institutions to replace the old ones.

Dramatic changes do not occur overnight. Mexico lacks the institutions and attitudes that characterize a true democracy. Until now, no political party nor organized sector of the population could be described as "democratic" in its everyday activities. Examples range from the "alchemist" who steals the ballot box to the politician who imposes his will arbitrarily, to the policeman who blackmails a driver rather than give him or her a traffic ticket. Because of this, the dilemma of political change is how will it take place, and how it will become institutionalized.

Mexico is witnessing the decline of the corporative system of the past, combined with uncertainty and endless disputes within the Government about where and how much to loosen up and where to continue exerting control. This predicament can be seen in the failed electoral processes of the past few years; the changing and still unclear relationship between the Government and a union leadership that is growing ever weaker and less representative; and the leadership crisis within the private sector.

Prospects for Political Reform and the Quest for Legitimacy

Political systems exist to make decisions for society that are perceived as legitimate. Political systems pursue a difficult mixture of control and legitimacy -- control so that it is possible to make and implement decisions, and legitimacy so that these decisions have popular support. As long as a Government enjoys legitimacy, it is possible to make decisions. As long as these decisions are possible, control is achieved. In a democracy, control does not depend on authoritarian mechanisms: It becomes an indispensable component of the art of governing and, thus, a means to legitimacy. For a country undergoing a complex transition, like Mexico, the challenge is to attain policy objectives without losing legitimacy or the ability to make decisions. Many other developing country governments have succumbed at this stage in the process -- it is much easier to plan a transition than to implement it, and it is easier still to pretend that reform is not called for.

Conversely, the Government cannot simply rid itself of all that remains of the past. In some geographic regions and economic activities, Mexico is still characterized by the existence of virtually impenetrable *cacicazgos* (fiefdoms) or local bosses that make it difficult to initiate a straightforward transition toward a new democratic polity. As a result, any transitional strategy must include as one of its elements a systematic attack against local and national fiefdoms. However, if there is no institutional structure capable of administering competing political demands, the dismantling of these fiefdoms could leave Mexico with a series of power vacuums. In this way, the process of political decentralization could even work against democratization, as the loss of central power is made up by local bosses bent on consolidating their control.

But decentralization is accelerating. Although much of the responsibility for eliminating political obstacles to reform rests with the Government, decentralization means that more responsibility rests with those who are less dependent on the traditional centers of power. Unions, for example, are more independent from the confederations of labor, and businessmen are freer to organize their own activities without having to satisfy the bureaucracy. Economic change, while not supplanting politics, has altered the political relations surrounding it, breaking down one of Mexico's historically most important political strongholds -- Government authority over workers and firms.

In some ways, however, the prospects for a successful political transition are bright. Economic reform has shown that the Mexican political system is capable of enacting important changes in its development strategy. But this effectiveness depends more than ever on the legitimacy of the regime, because the many groups that make up Mexican society are increasingly independent, and they no longer are as subject to Government decisions as they were in the past. The political transition under way must extend to a transformation of the reigning political culture so that it favors competition over political monopoly, all within established and clear rules of the game. The Government's task is complex -- it must foster the development of a democratic culture, while, at the same time, dismantling traditional structures of control and taking on its most powerful constituencies. Moreover, it must accomplish this task with the support of a population that knows little about democracy and may not even believe in it.

One of the inefficiencies of the old political system was that the country was centralized to such an extent that it posed a danger to the system as a whole. When power was concentrated in the hands of a few national unions or chambers of commerce, risks also were concentrated, and the general stability of the country was compromised. The rationale behind this arrangement was simple -- if the Government could control the leaders of a group, it would also control its members, particularly if those leaders possessed a range of instruments to exert their leadership. The problem was that, in many cases, the leaders of corporative entities were able, in effect, to blackmail the Government into providing ever-higher levels of privileges, claiming that without their leadership, the system would collapse. Over the years, this blackmail led to the paralysis of the political system and the economy. It continues to represent the greatest challenge for reformers; only by dismantling fully Mexico's corporative structure can serious reform be contemplated.

Decentralization already has broken up many of these national corporative structures and will lead to the disintegration of the remaining ones over the next few years. This means that the threat posed by corporatism to the stability of the

nation will diminish further, but also that new institutions will be needed to replace those structures. While diminishing at a national level, the risk of instability may grow in some specific regions -- like Chiapas. The Government's challenge is now twofold -- to manage and ultimately do away with the *caciques* and to encourage the development of participatory politics that will render impossible the rebirth of the old *cacique* ways. To do so, the Government needs instruments that will grant it the legitimacy necessary to achieve its goals; in other words, it needs democracy.

Can the PRI Be Reformed?

With so much at stake, what options are open to the PRI and the political system? The PRI never really has been a party; rather, it has been a highly developed system of political control linked to a powerful electoral machine. The PRI continues to represent a relatively important population, but it is far from being the only relevant political organization in the country. Can reform of the PRI (and the electoral rules that gave it such a huge advantage) facilitate the emergence of an open political system? Or must the PRI be eliminated in order for democracy to take root? The answer to this question holds the key to the ongoing debate in Mexico and to the future of democracy in that country.

The reformist thrust of the Government and the PRI thus far has taken the form largely of piecemeal negotiations with opposition parties over electoral legislation. At the same time, the PRI has concentrated on reorganizing itself and building a new base of support by diluting its traditional corporative structure and replacing it with a new territorially based strategy, which is aimed at replacing the old strategy based on economic sectors. The transformation of the PRI is extremely complex and, some fear, may even be impossible. Until now, moves in the direction of reform seem to have been designed mainly to avoid fundamental change. The dilemma for the PRI should not be underestimated; reform could mean its demise. But the PRI's leaders are aware that sooner or later, the changes that are affecting the political system in general will affect the PRI.

The deterioration of the PRI is not a new phenomenon -- nor is the fact that the political system faces serious problems of representation, a situation that preceded the 1988 elections. That election produced only one modification, although a fundamental one, in Mexico's political process -- it made public the problems of a stagnant political system and of a party that served only the interests of its bureaucracy. The appearance of the Frente Cardenista in 1987-88 created new circumstances for the political system, but the problems that led to its emergence had existed for many years. (The Frente Cardenista was formed largely by those opposed to economic reform. The appearance of the group was the first signal that the reformers were perceived by the old guard of the PRI as a major threat to their interests and to their position -- economic as well as ideological. With the creation of the Frente Cardenista and, later, the PRD, the foundation for today's power struggle over the future of reform was born.)

While the troubles of the political system long preceded economic reform, reform has profoundly affected them. Economic reform caused the schism in 1987, and it is possible that other groups of PRI members who had benefited from a closed economy also may split away from the party. Many of the positions adopted by the party's working groups, established by the PRI during its 1990 assembly and consisting mainly of rank and file members, showed how distant the party rank and file is from the limited reform objectives of the Government. However, representation is the deeper problem for the political system and affects all

parties to some degree. The party no longer constitutes a mechanism for effective representation and societal participation.

The problem facing the PRI is that it has lost one of its key functions -- that of institutionalizing conflict. In addition, it now faces acute electoral competition for which it was neither created nor organized. In short, the PRI confronts increasingly severe problems of legitimacy at a time when its ability to control society is weaker than ever. The PRI knew how to function as an electoral machine (albeit not always a credible one), but not how to be a political party. Faced with more or less open competition among parties, the PRI does not know how to transform its political strength into electoral legitimacy. Its reaction in the past has been to impose itself, sometimes by illegal means, even if such imposition may not actually be required for the party to stay in power. The biggest casualties are the legitimacy of each election and the credibility of the system as a whole -- two features that the opposition parties have learned to exploit to their advantage.

The PRI leadership realizes that it is in a critical period. Until 1990, it seemed as if the party had decided to accept the inevitable decline in its popularity and influence. In 1990, however, the PRI launched an internal reform aimed at making the party more independent from the Government and capable of competing openly -- and successfully -- in elections, thereby recouping its lost legitimacy. A redefinition of party functions and objectives was initiated, and some plans were put into effect. But every step toward reform caused a counterreaction. Old interests opposed any change. It became clear that most groups within the party wanted to do as little as possible to adapt to the new situation. The party's leaders identified problems and suggested ways for dealing with them, although they stopped short of explaining how these plans were to be implemented. Never before had there been such severe internal criticism of the PRI. In the words of its president, the PRI aimed to "recover its political position," reclaim the capacity to accommodate new and different interests within Mexican society, and put an end to bureaucratism and centralism. The plan and its objectives were clear. But it is not yet evident whether the PRI is willing and able to eradicate the causes of bureaucratic stagnation. This implies challenging the deeply rooted bureaucratic interests that are the bastions of the system. Even if the PRI were to succeed in this task, there is no guarantee that it would lead to renewed legitimacy or a more representative political system.

The determination of the PRI's leaders to reform the party has been apparent for four years, but this in itself does not guarantee change. Three questions arise: First, is it even possible to reform a conglomerate of mutually reinforcing bureaucratic and corporative interests? Assuming that it is, will the party's leaders do everything in their power to carry out that reform? Finally, if it is necessary to eliminate the PRI's centralizing and bureaucratizing power in order to carry out reform, what new political force will take its place?

The central issue of reform is whether it is possible to transform the PRI without eliminating the bureaucracy that is so much a part of it -- and all of the interests that lie behind it. Until now, PRI leaders have tried to have it both ways -- reconstructing the party as a competitive electoral entity through the new territorial strategy, without fundamentally challenging the bureaucracy or its underlying interests. The reason for the adoption of this strategy is clear. At least in the short term, the goal of the PRI is to build a constituency based upon

individuals, but until that happens, the party does not want to risk losing its traditional corporative base.

In appearance, the PRI always has relied on individual and corporative support, but in reality, corporative interests have been at its heart. The major difficulty facing the PRI in its desire for reform is the reconciliation of these two inherently contradictory currents. As long as the party claims that they both exist, citizens likely will have little influence, while corporative interests will try to slow the pace of reform. It will not be possible to accomplish reform unless the party is prepared to pay the price for it. **As long as the objective is to avoid making a choice, the problem of electoral legitimacy will remain.**

This clash of interests and objectives has meant that the official results of reform thus far are confusing and contradictory. The debates of PRI members in the different forums where reform has been discussed leave no doubt that **the majority of members shares the ideology of the old political system** and sees no reason why they should give it up. These debates also suggest that party members have not yet realized fully the objectives of economic reform and, more important, how they and the party will be affected. Just as in the economic arena, where the Government has had to deal directly with the interest groups opposed to reform, the problem inside the PRI consists of defining the goals of political reform and forcing interest groups to submit to them or withdraw from the party at a very high cost. So far, the goal of forcing a choice has been largely theoretical. Assuming, however, that party members and the "dinosaurs" (Mexican slang for the old-style PRI members opposed to change) were forced to choose, what would happen to the traditional support base of the PRI? Can the party withstand such a drawing of lines and the losses that presumably would come with it? And on what will a new governing coalition be based?

The Solidarity Program

Realizing that Mexico's political system faced grave problems of legitimacy, **when President Salinas took office, he launched an effort to develop a new constituency that might eventually replace the PRI's traditional support base. Since 1988, Solidaridad, or the Solidarity Program, has had three major objectives. One goal is to address the material concerns of the poor, especially among migrants to the large cities who had not been part of the PRI's traditional constituency**. This was done through public spending on basic infrastructure like water, sanitation and health facilities in close partnership with each community, as well as to create a political structure in each community. **Second, Solidaridad fostered the development of a highly decentralized political structure.** At the outset, this effort was targeted mainly at communities that had resulted from rural-urban migration and lacked any natural political structure. Solidaridad's goal was to encourage each community to develop a governing structure by having it define priorities for the development of infrastructure. Along the way, these new power structures would not only provide stability, but would become part of a new national political structure -- one not concentrated in Mexico City. **Finally, Solidaridad served as the Salinas Administration's social policy.** The Administration has devoted its extraordinary spending power to building social and health infrastructure to raise the living standards of destitute Mexicans and to help their children escape the vicious circle of poverty. Only time will tell whether Solidaridad can accomplish this last objective, but there is no doubt that it has been extraordinarily successful regarding the first two.

Solidaridad has succeeded in building a new political constituency for the governing party. Moreover, its fundamental nature is radically different from the PRI's traditional support base. Traditional PRI constituencies are the result of top-down, corporative control; Solidaridad's constituencies are largely voluntary, the result of individual participation and decision, a trait that makes them modern vehicles of social organization. **The political idea behind Solidaridad is one of creating organizational nuclei based not on coercion and control, but on responsibility.** The power of this idea became clear during the 1991 Federal elections when the PRI, because of grass roots support for Mr. Salinas's policies, made an impressive comeback after the much-disputed elections of 1988.

The creation of responsible political organizations without the element of vertical control is in line with the basic mechanism that provides political stability in developed societies -- the existence of responsible people, firms, unions, and other institutions allows for the smooth functioning of a decentralized political structure. **A decentralized political system cannot maintain stability if it cannot rely on these stabilizing factors throughout society.**

The Solidarity Program, however, does not provide the ultimate answer to the problem raised by the conflicts within the PRI discussed in the previous section. In the absence of fundamental political change, S**olidaridad is not likely to become an effective power base for the future because it is politically vulnerable. It creates a political structure and delivers infrastructure, but it does not produce permanent loyalties because its spending projects are short term and not systematic (with the possible exception of its program for firms, the "Empresas de Solidaridad" program).** Sooner or later, Solidaridad will confront limits imposed by the PRI's traditional constituencies. Unless the PRI substitutes for the old bureaucratic structures mechanisms such as those implicit in Solidaridad, the party will have had a great past but no future. If the PRI is unable to renovate itself, the crucial issue will be whether the new extra-PRI structures (such as Solidaridad) will be strong enough to maintain political stability.

The "New" PRI

The Government's strategy at this juncture is clear -- transform the nation's economic structure and modernize the vehicles for electoral action within the PRI. The Government seems to believe that the sum of these changes will lead to political consolidation and continued economic recovery. The "new" PRI strategy is an answer -- perhaps tardy, but effective nonetheless -- to political and electoral circumstances that became clear in 1988. The PRI seems to have realized then that the era in which it could rely on the corporative vote had come to an end and that the party's survival depended on a radical change in strategy. The first evidence of the effectiveness of this new strategy came in 1991 -- the Federal elections of that year resulted in an overwhelming victory for the PRI and for the President. **The PRI had been able to build a new constituency that allowed it to win through completely legitimate means; although some fraudulent practices persisted in several electoral districts, the new strategy not only did not require them -- they were actually counterproductive to the main objective of securing legitimacy.**

The PRI had devoted three years to its conversion into a political party capable of competing in the electoral arena and to modernizing its structure of political control. Rather than attempting to build a new, more democratic political system, the PRI had aimed merely at adapting itself to new forms of participation and

being able to emerge as their leader. The corporative component of the PRI maintained control, while its territorial strategy won votes and legitimacy. **The objectives of the PRI did not change; what changed was its strategy and the instruments used to attain its goals.** Seen in this light, the PRI no longer is a party devoted almost exclusively to generating benefits for its members, especially its top leaders; **it has become a party that secures temporary electoral loyalties by offering direct and tangible benefits through spending and political action.** In the process, the PRI is converting itself into a modern political party, willing to satisfy concrete community demands in exchange for electoral support, as do most other political parties around the world. What is unclear, however, is whether such a strategy can succeed during a Presidential transition. Thus far, it has been based on the critical role of the Presidency, which is, by definition, severely weakened during a change of Government.

The PRI is no longer chiefly a centralized or centralizing structure, but this change has required an adjustment at its core. Before 1988, the PRI was devoted exclusively to guaranteeing electoral triumphs by any means necessary and to maintaining political control over its sectors (for which it relied on help from several Government agencies). Two factors have altered this scheme. **The first is the country's economic reform.** Beginning in 1988, the PRI's leadership realized that the party's corporative structures had ceased to function and were no longer capable of delivering votes. Economic liberalization had altered the incentives as well as the structure of power within the labor movement; the majority of workers preferred to enter into new arrangements for labor relations -- those based on productivity, for instance -- than to continue under the control of the confederations of labor. **Mexican corporatism is dying, regardless of the wishes of its stalwarts. The second factor is the emergence of a new political strategy within the PRI.** Beginning in 1988, the PRI began to create a new institutional structure dedicated to the objective of creating regional power strongholds. **Gradually, the PRI is abandoning its traditional structure to become the sum of 32 state parties.**

The new strategy has met with some success. In almost every state election over the past few years, particularly since 1991, there has been a new factor at work -- the PRI candidate has had some kind of local roots. **The PRI's driving force has been the search for legitimacy; other goals have been subordinated to that end.** Hence, the party leadership has looked for candidates who not only can win elections, but who will not bring about conflict at the local level. The PRI has now become a prime mover in the search for arrangements with opposition parties to eliminate electoral fraud. This new quest has led to real negotiations between the Government and national PRI leaders on one side, and local PRI and opposition political forces in each state on the other. This change is extraordinary for a system that has always acted in a top-down, centralized manner. The PRI's strategy is an attempt to cope with the changes in Mexican society. Regardless of its history of centralism, the PRI has decided that the only way to maintain power is through alliances with local powers, be these unions, firms, peasants, or local bosses. **What the party has learned is that an "authentic" candidate, with roots in local communities, can generate the votes needed to win.**

Even if the PRI's strategy of regional co-optation shows that it has recognized how much has changed, it is important to keep in mind that the party's conception of power remains the same. What has changed is the *way* in which power is exercised. The practice of the *dedazo* ("finger-pointing," or the choice of local candidates by central party leaders) is losing credibility; the *dedazo* meant virtual

freedom of action for the President, a highly uncertain factor because it depends on an individual's attitude, rather than a predictable policy process. **The new strategy requires ongoing negotiations with local political forces, which, by definition, diminish the range of Presidential action.** The plan shows that those at the center of political power recognize that power cannot be exercised at this stage in Mexico's history without full legitimacy. This means the acceptance of limits on power that previously was absolute. The PRI is negotiating; it has begun to choose candidates who are unknown in the Federal District (Mexico City) but not in the states. As if to reinforce this new approach, almost all electoral conflicts since 1988 have occurred in cases where the candidates have been imposed from above and lacked local credibility. Conversely, however, the new strategy does not mean that the PRI is yielding its final authority over choosing candidates, nor does it presume that the Federal Government has given up its right to name or remove candidates whenever it considers it necessary.

Consequently, the new strategy does not extend to creating a new role for citizens; new vehicles may have been created to attract voters, but Mexican citizens have not been granted the role of voters in most democracies -- to decide the outcome of an election. The voting process serves to legitimize decisions made previously by central leaders, but it does not confer on citizens the right to select candidates or remove authorities from office, which is one of the most disputed factors in the current political debate. The PRI's new strategy constitutes a profound change in approach, but not in objective. The idea is still to maintain central control, but to do so through means that are appropriate for the 1990s, not the 1930s.

The Impact of Economic Reform

Economic liberalization has transformed Mexico's political reality. Private decisions about investment, for example, previously were made in tandem with the Government through the use of instruments like subsidies, concessions, monopolies, and protection against imports and corruption. Bureaucrats and businessmen lived in a perfect world where both received riches and power -- the bureaucrat charged for favors rendered, and the businessman lived off of these favors. In Mexico City, there emerged the profession of the "coyote" -- an intermediary able to fix anything at a given price. The businessman found that it was more profitable to be near the bureaucrat than to satisfy his customers or improve the quality of his products or the productivity of his business.

The liberalization of the economy in 1985 brought this scheme to an end. Suddenly, what mattered was survival before the onslaught of imports. Early on, bureaucrats and business people engaged in wishful thinking, claiming, for example, that only "junk" was being imported. Little by little, Mexicans learned to discriminate and began to force business people to respond to their demands for good prices and high quality. Businesses began to use previously alien terms like "comparative advantage" and "productivity." In time, these changes brought about a new reality -- business people needed the bureaucrat and Mexico City less and less. Some industrial groups withdrew to their original locations -- Monterrey, Puebla, Mérida, Aguascalientes, Guadalajara, and Tijuana -- and some even closed their offices in the Federal District. The bureaucracy had become a source of headaches and no longer a source of profit.

The drawing away from Mexico City led to regional fortification -- less dependence on the national Government, fewer clashes with Federal bureaucrats and more regional power. Businessmen in Chihuahua, for example, were no

longer willing to accept candidates forced upon them by the capital and, if so forced, would act to turn the population against them. **Regionalism began to flourish,** associated with the gradual but unstoppable weakening of centralized control of the unions. Regional bosses, civic and union leaders, and business people began to emerge as the new regional political forces with whom the Federal Government had to negotiate.

Mexicans have shown a remarkable ability to give up their old loyalties. The elections of 1988 and 1991 provide evidence that Mexican voters know how to punish and reward the Government and that they are prepared to do so, like voters anywhere. The authoritarian practices of the past seem further away and less costly, in part because the opening of markets offers more options and liberates consumers from the constraints of protectionism. Mexicans enjoy greater freedom than a decade ago, largely as the indirect result of economic change. **The negotiation of NAFTA with the United States has sped up this process, requiring the Government to accept clear limits on its authority, forcing the control of the bureaucracy through judicial mechanisms and, ultimately, opening the possibility for Mexico to become a truly democratic polity.**

Regionalism -- The New Reality

Economic decisions are being decentralized, and the number of political actors has multiplied. The result is the organization of diverse, yet increasingly integrated, economic groups, each of which carries a great deal of political weight. Many of the recently privatized banks, for example, have evolved to become the core of new economic groups around which a variety of alliances are taking shape. It is almost impossible to find a relatively important actor in the economic arena who has not become part of one of the new groups, which have formed not only around the banks, but also around major industrial and service sector firms.

The emerging economic structure reflects the changing times. It is also a critical piece in the puzzle of political reconstruction. Like the Solidarity Program, it means greater decentralization of political power to regional nuclei (although the loyalties generated by Solidaridad accrue directly to the Federal Government, rather than to the PRI). In many states, old-style local bosses are still key actors; in others, that function rests with leaders of teachers' or other workers' unions or peasant organizations. In still other places, civic forces ranging from professional to ecological organizations have gained an enormous capacity for political action. Fifty years after the uprising of General Saturnino Cedillo, the last regional *cacique* to dare to revolt against the center, regionalism has become Mexico's new political reality.

The rise of Solidaridad and a range of economic and civic groups, combined with the demise of traditional instruments of bureaucratic control, has brought about a basic transformation of the political system. Extrapolating from current trends, one can argue that a new political structure is emerging in which different regional nuclei, each in itself a centralizing force, negotiate jointly or individually with the Federal Government. This institutional structure would depend on each center of power controlling its own constituencies. Such a system would, of course, require an extraordinarily able Government to keep it in line.

This type of institutional structure could bestow great stability on the political system because it amounts to a real decentralization of power. In the past, a small crisis anywhere in Mexico's political system could have led, in theory, to a

general explosion (although the power of the Federal Government, combined with its command of the army and the enforcement of a vast array of institutions and rules, made any explosion virtually impossible). Now, what happens in Mérida no longer has to affect Chihuahua, and vice versa. At the same time, the new scheme requires negotiations among equals, with the Federal Government playing a coordinating, not controlling role. This implies not a change in the system, but rather, a redefinition of the actors and their roles. Many regional actors are today almost as powerful as the Government itself. In other words, the Mexican political system is beginning to look not like one dominated by a strong national party but like a collection of "mini PRIs." It is not clear whether the process of political evolution is sufficiently advanced to withstand the challenge posed by the ongoing transition, or whether it will collapse precisely when it is needed the most.

The Government has a diverse set of instruments to use in negotiating with these new regional actors, but there is an important prerequisite to the new strategy -- legitimacy. In order to function successfully, the Federal Government has to define new rules of the game that are acceptable to its regional counterparts -- and be willing to respect them itself. Given that so many diverse actors are involved, relations can be administered only through rules that are clearly defined, transparent and permanent. Furthermore, in order to lend credibility and predictability to the political process, existing checks and balances must be formalized.

In other words, the new governing arrangement sketched above can work only if it is supported by an adequate legal and regulatory framework. The Government must give up its old habits, take responsibility for its actions, and exert control over its agencies and departments. This in itself would make the Government more responsive to society and less inclined toward corruption. If implemented successfully, such an arrangement might be effective, but would it be democratic?

In terms of citizen rights, Government responsibility and the ability to demand that Government officials be held accountable for their acts, the new scheme is not very convincing. Government officials would have less capacity to violate human rights flagrantly or to persevere in the most obvious acts of corruption. And in electoral terms, the new arrangement would be increasingly transparent and less dependent on fraud. In these respects, democratic values would be introduced and nurtured. **But the governing arrangements now being constructed seem to follow the outline of a centrally controlled political system, albeit one with a broadly decentralized power base -- in other words, a strong Government but one that depends on constant negotiation.** This is a new definition of Mexico's traditional centralism -- governing through negotiations, not with corporative groupings, but with regional and economic powers.

The PRI's new territorial governing arrangements represent an attempt to adapt a previously adaptable organization to a new reality. Elections have become vital to political legitimacy, but public participation is not necessary for day-to-day governing. Citizens will be able to exercise their votes freely, and those votes will be counted, but from that point on, governing will be something different. The selection of candidates and negotiations over power sharing will correspond to the new political forces emerging at local, regional and national levels. This arrangement passes the test of formal democracy and, at the same time, preserves

the Government's capacity to act, although within much more restrictive legal limits than in the past. It is progress in political terms. But it is not a democracy based upon citizenship. More important, it is a system that is not yet fully in place, while the challenges that it confronts become more daunting every day.

V. TOWARD A DEMOCRATIC POLITY?

Mexico is undergoing a profound transformation. The old institutions and political structures that secured stability and made it possible for the economy to grow have given way to a new era. On January 1, 1994, the day that NAFTA came into being, a group of peasants in the southern state of Chiapas led an uprising that again raised the spectre of political instability. Three months after the uprising, the PRI's Presidential candidate was assassinated. Both events signaled the dawn of a new epoch in Mexican political life. The question is whether this new era will be marred by conflict and instability or whether the traditional resiliency of the political system will lead to the evolution -- as opposed to revolution -- of the political system.

The Chiapas uprising and the outpouring of support -- at least for its goals -- that emerged from many sectors of Mexican society served as a signal to all that the traditional political system has been profoundly altered and that it no longer fulfills the objectives for which it was created. Change is in the air, some of it emanating from society, some from the Government. Some is the result of compromises among political parties, in Government and outside of it; some was brought about by the economic reforms of the past decade. But nobody can doubt that change is taking place. Moreover, recent violence has made it clear that the political system is in dire need of change. The question, thus, is not whether change should or will take place, but how it will come about. At stake are the preservation of stability and the emergence of democracy -- certainly challenges as great as any that Mexico has ever faced.

Recent electoral law amendments may lay to rest, once and for all, the foremost source of disputes and most obviously embarrassing feature of the old political system -- electoral fraud. But these reforms will not, by themselves, bring about a fully democratic polity. **Clean elections are a necessary condition for democracy, but they are not sufficient.** Having little or no historical or cultural experience on which to base its democratic experiment, Mexicans find themselves lacking a clear map by which to chart a process of transition. Outside intellectual circles, people complain about many things having to do with the absence of democracy -- the lack of accountability of public officials, petty bribery and the unavailability of a proper judicial system -- but only a few articulate these demands within the broader framework of a call for democracy. Hence, their demands often are dismissed as irrelevant or bourgeois by the system and even by advocates for democracy.

Mexican society must confront other issues in order to develop a democratic society. Calling for free elections is fine, but what good are free elections if there is no truly competitive media? And how can a competitive and professional media develop if there is no effective guarantee of freedom of expression (not only of the truth, but of the act of expression itself)? Can democracy emerge if there is no commitment to an open debate over policy issues and if there are no mechanisms by which to hold Government officials and other political actors accountable to society and the law?

Democracy largely is alien to Mexico's history and culture, but several countries have achieved democracy from a similar base. With some minor respites during the 19th century, the history of Mexico is one of colonial rule and authoritarian governments. Yet, Mexico shares many of its historical and antidemocratic traits with nations like Spain, Japan and Brazil, all of which have shown that a

democratic transition can be successful under the right circumstances. The question is the precise nature of these conditions and what has to be done to create them.

The Story So Far

Opponents of political reform pervade the PRI, the Government and the PRD. For a variety of reasons, reform threatens deeply held views about what Mexico should be and who should be running it, as well as entrenched interests, both economic and political. Over the past decade, a range of different individuals and groups have tried to undermine reform, while the de la Madrid and Salinas Administrations failed to build a permanent consensus around it.

As reform accelerated, the process began to affect the political privileges of PRI members. The earliest state election under the Salinas Administration, in Baja California, was the first ever to be conceded to an opposition candidate. Other contested elections followed, to the point where today, close to 30% of the municipal governments and three state governorships are in the hands of the opposition. What some see as progress toward democracy, others -- mainly traditional members of the PRI -- consider treason.

Major transformations, such as the one that Mexico has been undergoing for close to a decade, occasionally involve periods of intense change. Over the past few months, Mexicans have been subjected to an extraordinary manifestation of such a period. Political violence had been absent from Mexican politics for decades; yet, in 1994, the guerrilla uprising in Chiapas and the assassination of PRI Presidential candidate, Luis Donaldo Colosio, marked its dramatic reappearance.

These two explosive events of early 1994 reveal an ongoing power struggle that has moved beyond previous limits. Ultimately, however, struggling for power is what politics is all about. What has happened in Mexico is that this struggle has spread well beyond the traditional institutional boundaries that had made Mexico an exception among developing countries. Mexico's institutional stability meant, among other things, was the absence of significant political violence. The last political assassination, of Alvaro Obregón in 1928, led to the creation of Mexico's current political system. There had been no political murders since the 1920s and only a few scattered guerrilla movements and some narcotics-related violence. The ingenuity of Mexico's political institutions brought more than 70 years of peace and fairly stable economic growth. The fact that violence has reappeared provides evidence of the strains of a society immersed in an unfinished process of economic transformation. The question is whether a similar act of institutional innovation can be accomplished today.

Although each of the events that has affected Mexico over the past few months is serious in and of itself, it is easy to lose sight of the overall picture and of the opportunities -- both economic and political -- that the new circumstances have created. Recent events tell the story of a process of change that has encountered difficulties, but also of the enormous resilience of Mexican politics. No less remarkable than the violent acts of recent months are the opportunities that they provide for building a new political system.

Mexico needs to undergo a dramatic process of political transformation -- the question is how. Negotiations on electoral issues among Mexico's political parties over the past several years have created an environment in which a political transformation is feasible. **In the electoral arena, the Government has**

been leading an extraordinary process of change, to the point where the PRI no longer enjoys significant advantages. Because the Government faces the most serious problem of legitimacy, the incentives for it to compromise have been enormous. So far, PAN has followed suit. The PRD is divided over electoral reform, with some of its members fearing that they will have less credibility calling "foul" after the upcoming August election if they subscribe to the electoral legislation settled on in April and May 1994.

The course of gradual change that the Government has undertaken is not altogether misguided. Mexico's political system is so centralized that it cannot be allowed to wither away overnight, lest all semblance of order is lost. **In order to avoid a sudden collapse, such as the one that occurred in the Soviet Union, a centralized political system like Mexico's must be dismantled gradually from the edges inward and a democratic culture fostered through actual electoral competition at the municipal and state levels.**

A Leaderless, But Rapidly Changing Society

Political change is taking place despite the fact that nobody is currently leading the process. Aside from the recent violent events, change has taken place largely by default, a situation that tends to alter institutions without building new ones.

The partial political liberalization of the past decade, combined with the growing political maturity of many parts of Mexican society, has had important consequences for political culture in Mexico. Much of the profound process of change that is occurring in Mexico remains below the surface of Mexican society. On the surface, the institutions and practices are those that have existed for decades. Not only are these inadequate for dealing with today's issues; they support old values, interests and structures, and thereby hinder a democratic transition from taking shape. **Society is moving in one direction while key political institutions -- the judiciary, unions, political parties, chambers of commerce, the Congress, and even the Constitution -- remain frozen in time.**

It is almost certain that the Salinas Administration consciously decided not to pursue as visionary a political reform as the one it launched in the economic realm. The question is why. **An obvious answer is that reforming a centralized and controlled society like that of Mexico entails enormous risks; thus, there must be a set of extraordinary conditions for such a reform to have a chance of success.** If one looks at what has happened in other nations where similar transitions have been attempted, the record of success is mixed. For every Spain or Portugal, there is a Russia or Peru. Perhaps the clearest lesson of recent democratic transitions is that there needs to be an appropriate institutional structure in place in order for there to be a successful transition.

It seems clear that the Salinas Administration chose the stability of the old system over the risks of change, at least insofar as the economic reform had not yet been completed. But the risks of such an approach are high. One risk is that economic reform could become derailed for political reasons. Another risk is that such inaction strengthens the dinosaurs, weakens the credibility of the Government at large and emboldens those opposed to a peaceful transition to attempt to derail the process.

Another possible reason why Salinas did not launch serious and sustained political reform is that the old system was still too entrenched to be removed. Economic reform already has eroded many of the sources of graft, wealth

and power that PRI bosses used to have; as a result, they have united to oppose any further political liberalization, thereby constituting an impressive rein on the Government. Confronted with the option of risking the success of economic reform or attacking entrenched interests, according to this hypothesis, the Government decided not to open an additional battlefront.

Whether the decision by the Salinas Administration not to pursue reform and gradually build a new political system was conscious or not remains an open question. What is clear is that there has been no formal, well-conceived program to liberalize in this realm.

Leaderless change makes difficult the creation of a responsible citizenry committed to an institutional process and democratic values. The absence of this citizenry tends to color everyone's views of what political change is all about. Those who yearn for a modern democracy where the citizen is at the center of politics and where basic rights are a reality are unsatisfied. They may acknowledge that some significant changes have taken place, but they sense correctly that these have not been enough to set a strong course for the future. Those who yearn for a Government-run society where a few bureaucrats can decide and shape the lives of millions are equally dissatisfied but for the opposite reason -- they despise the economic reform and believe that the Government has lost its ability to govern effectively. Moreover, they see the rapid erosion of the Government's hold over society, the growth of independent sources of power and the gradual death of the corporative structure of control -- and they conclude that reform has gone too far.

Two examples illustrate the new type of dilemmas that these realities pose for the political system -- **the first has to do with the small but growing number of state governors who do not belong to the PRI and the many others who are members, but no longer feel subordinated to the Federal Government.** This is a crucial factor for the future because governors used to be the main link of control between the central authorities and the rest of the nation. With the end of the PRI monopoly at the state governor level, the stranglehold of control is broken, the likelihood of alternation of parties in power increases, and the accountability of public officials becomes a real possibility.

The second example concerns the unions that previously were subordinate to national confederations of labor. In this position, they could not negotiate with their respective firms directly nor could they, in practice, affiliate with the confederation of their choosing. Economic reform, however, has forced most firms and unions to negotiate directly with each other and agree on terms that suit their particular relationship, regardless of what the national confederations prefer. Once again, the traditional mechanisms of control have broken down; more important, the new nature of labor-management relations makes it ever more difficult for them to be reintroduced.

For the PRI, the dilemma is clear -- liberalizing a little bit leads, sooner or later, to demands for more liberalization -- an inevitable process that has led many *priístas* (a term for party loyalists) to claim that it was a mistake to liberalize in the first place. Herein lies a critical and ironic component of today's political reality -- the reformers in Government, led by Ernesto Zedillo, the PRI's candidate for President, face the intransigent opposition of the PRI's old guard; the reformers constitute, for all practical purposes, a new party that happens to have developed within the old system. Their counterparts in Eastern Europe

defeated the Communist Parties of the past; in Mexico, the reformers find themselves in the awkward situation of having to defend the old order that they have been busy dismantling. By the same token, many of those benefiting from liberalization do not realize that their lot has improved as a result of reform.

However, failure to liberalize risks condemning the system to violence because of growing demands from society at large to increase participation, produce credible electoral results and deliver on every front. The real question is, thus, not whether to liberalize, but how to do so without risking the objective of liberalization while maintaining political stability. **So far, probably the result of a lack of a clear vision of where the political system should go, the Mexican Government has failed to find many believers.** Even among its natural constituencies -- businesses, unions, the middle classes, and those benefiting from Solidarity -- people are not convinced that progress, even gradual progress, is being made in the political arena. Hence, those calling for outright liberalization confront those who, while not unwilling to liberalize, look at the risks of such a process and drag their feet.

Leaderless change also produces a series of ad hoc and sometimes counterproductive political decisions. Reform has eroded the state's network of traditional controls and opened new avenues for expressing demands and challenging the Government's power. But the Government has failed to take advantage of these circumstances; instead, it has employed its vast powers not to consolidate new institutions but to make arbitrary decisions at key political moments, particularly in the case of disputed elections. **By failing to uphold the law as the primary source for the settlement of disputes, the Government has, in fact, planted the seeds of long-term political conflict.**

For example, the Salinas Government has pursued reform while trying to avoid major economic or political conflict. Thus, in stark contrast to PRI tradition, it has been willing to concede electoral defeats and has been a leading proponent of electoral reform, seeking to develop a consensus on political change with opposition parties, particularly the PAN. Although it recognizes a new political reality, however, the Government has failed to act, first, to match the political changes that have resulted from economic reform, and, second, to assert leadership over the process of change as it did in the economic arena. Most seriously, the Government has failed to be consistent about subjecting political conflicts to the rule of law. In several political and electoral conflicts, the Government has sidestepped the law, thus undermining its own legitimacy and failing to fulfill the basic obligation of any Government, which is to uphold the law.

In two deeply contested elections -- Guanajuato and San Luis Potosí -- the Government failed to concede the election, claiming that the PRI actually had won, yet it ended up forcing the alleged winner to resign in favor of an appointed interim governor (not in response to a judicial review or even a new election). In other words, the Government made the political decision to avoid conflict above all else, including respect for the law. This response stemmed most likely from the Government's effort to maintain the political lead, while, at the same time, conceding just enough ground to avoid challenging the basic rules of civilized behavior among political parties. The problem is that such a compromise is effective only once because it succeeds mainly by taking the opposition parties by surprise. By the second time, such a decision set a dangerous precedent; it indicates a new area of vulnerability for the Government and becomes a vehicle

for exerting pressure on the Government rather than the means to advance a political party's legitimate interests. When the Government broke the law in the case of the first disputed state election (Guanajuato) in an attempt to settle a political dispute, it was seen as a successful strategy of compromise. With the second attempt (San Luis Potosí), however, the Government failed to earn any credibility; moreover, the decision opened the way for endless protests in future elections. Opposition parties had realized that it paid to dispute an election, regardless of the actual results.

Mexico has embarked on a course that, if unaltered, will lead to more disputes over power and legitimacy in ever less institutionalized ways. Such a course would not necessarily entail a crisis of instability or a problem of governance. The Mexican Government is clearly in charge of virtually every area over which it has responsibility; more important, its resources -- financial and otherwise -- remain infinitely superior to those of any other political force. Over time, however, the battle for legitimacy and the growing erosion of the PRI's legitimacy will bring Mexico back to the dilemma of the early 1980s -- either Mexico changes or stability will eventually unravel. This time, however, change will have to be in the political arena.

The Government soon will need to decide how much it is willing to sacrifice and in exchange for what. Specifically, the Government and the PRI will have to determine whether to attempt to lead the process of political change or risk losing their political edge, becoming just one more of several political forces seeking power and legitimacy. Nobody can predict when such a dilemma will crystallize, but it seems as though everything in Mexico is speeding up. Although circumstances were very different, the evolution of the former Soviet Union over the past five years illustrates this process. As in the Soviet Union, the decisions that are made (and not made) and the action or inaction that results will determine the outcome for Mexico; once Gorbachev lost his leadership -- and the structural resources that made it possible -- he could never recover it. At some point over the next several years, Mexico will face a similar conundrum. Options are plenty; what has been missing up to now is the will to pursue them.

The Basis for Political Reform Exists

Arguing that there is a growing dispute over legitimacy and power does not imply that the Mexican political system is collapsing. Change is more subtle but no less profound. The Government remains in charge of all of its traditional functions -- minting currency, urban services, public order, taxation, and the justice system. This is no small feat when compared with Russia, but it is not necessarily permanent. This is why the political battle in Mexico today is about legitimacy, not governance.

Both the NAFTA agreement and Mexico's accession to the Organization for Economic Cooperation and Development (OECD) were conceived largely to confer on Mexico the kind of security and long-term guarantees of the permanence of economic reform and overall stability that the political system can no longer provide. By the same token, however, both of these institutions constitute an extraordinary source of pressure on the Mexican system to continue in the direction of change. From this perspective, it seems that the Government's strategy has been to advance as far as possible on the economic front, while, at the same time, developing as many institutions as possible that will serve to sustain economic reform (such as an independent central bank and a revamped educational system).

Despite the fact that the Government has not launched political reform per se (with the exception of three major electoral initiatives), it has taken other steps that serve as foundations for profound political change in the future. First, it has recognized the fact of economic and societal decentralization. The Solidarity program is the foremost example of a new approach to politics, one not based on the old corporative structures. Another example is the fact that opposition party members are now serving in two state governorships and close to 30% of all municipalities. The Government did not seek such changes, but it did recognize that they are not only inevitable, but also good for the development of new political foundations. (These successes have been diminished, however, by the mistakes made by the Government in several cases where disputed electoral results led to unwarranted Government interference that broke the law and further circumscribed the role of the judiciary.)

The Government also has helped build a foundation for political change by leading the way in separating politics from economics. While still retaining a heavy presence in the economy through firms such as Pemex, the Government's privatization program gradually has created separate political and economic spheres, reducing the potential for corruption and -- even more important -- terminating the dependency relationships of the past. Finally, by negotiating NAFTA and creating independent economic institutions, the Government has begun to develop a new structure -- more informal than formal -- of checks and balances. This institutional structure will not only hold future Governments to a particular policy course, but it also will subject them to the permanent scrutiny of the international community.

Economic liberalization has brought with it enhanced political freedoms and wider political competition, even though these have taken root outside the confines of traditional political institutions. It is likely that as political liberalization accelerates, it will engender new realities for the completion of economic reform. Reform has been successful thus far, largely because it has been implemented by Presidential fiat. If Mexico develops a democratic political system where Constitutional powers are separated, economic reform naturally will become the subject of negotiation and dispute between the executive and the legislative branches of Government. **Whatever the electoral scenario, in the absence of a broad consensus over Mexico's path toward reform and its ultimate goal, the potential for conflict -- and, thus, for a degree of economic uncertainty -- could rise significantly.**

What Can Be Done?

Mexico's history does not offer a commendable example of democratic governance. Its authoritarian past goes back hundreds of years. The few instances where democracy did exist are very much the exception. This legacy notwithstanding, the pressures for liberalization are enormous. In coming years, Mexicans will experience even more political freedom, as well as growing opportunities to participate in the decision-making process. While progress on these fronts is both good in itself and compatible with democracy, the question remains whether it will lead to democracy. The choices made over the next few years will determine the content and substance, as opposed to the structure, of the political system of the future. We suggest here what we consider the two most crucial and interlinked issues upon which Mexico's post-1994 leadership must focus if it is to manage and direct, rather than fall victim to the process of political and social change taking place in Mexico. **These issues are**

establishment of the rule of law and deep reform of the party system, specifically the PRI.

Establish the Rule of Law and An Appropriate Judicial System

The issue in Mexico today is how to bring about political liberalization in a way that is compatible with a democratic polity. Probably the best way to accomplish this is simply to enforce the law, but that can be accomplished only through a negotiated agreement among all political forces to do so. This would entail subjecting everyone to the law; creating a judicial system that is independent, effective, and capable of standing up to the executive; and gradually transforming those laws that are inadequate, contradictory or otherwise unenforceable. To the extent that the law is enforced over all Mexican society in a nondiscriminatory manner, the law itself would acquire the legitimacy that the system lacks. This might not be the fastest way to reform the political system, but it would be sure to lead eventually to a more complete democracy.

The rule of law requires the establishment of a proper judicial system rather than further ad hoc mechanisms to fill this enormous gap. NAFTA, for instance, incorporates a dispute settlement system that parallels Mexico's judiciary. This feature was necessary because all treaties include such provisions, but it has ironic consequences -- Mexicans will now find themselves in the awkward situation where some people (mostly those involved in the external side of the economy) will have access to a model judiciary, while most others will not. A similar contradiction may emerge if the issue of property rights is not addressed head-on so that savers and investors, as well as homeowners, can enjoy unmistakable legal protection, thus making it possible for the economy to thrive. (At present, such rights are fairly weak, and the Government has many legal resources to use in expropriating property.) Both of these instances demonstrate the enormous gaps in enforcement that result from the lack of a proper legal system and independent judiciary. No modern economy, let alone a democratic political system, will be able to develop in the absence of a strong rule of law.

What would imposing the rule of law imply? The answer is simple, although it remains unacceptable to the party's dinosaurs. **First, every political actor in Mexico would have to be subject to the law** -- not just average Mexicans, but all Mexicans, including the bureaucracy, the political parties and the dinosaurs themselves. This would not necessarily require more liberalization, but it would entail a willingness to use public resources to enforce the law in all kinds of disputes -- electoral, corruption-related, civil conflicts, and so on. Reliance on the police and other public forces would be required to make the rule of law the norm rather that the exception. Full political liberalization would then not only be possible, but it would become inevitable and necessary.

The second consequence of the adoption of a genuine legal framework would be the need to carry out a radical reform to overturn several aspects of the current political system -- its corporative structures, its dubious and improper financing sources, and the continued existence of *cacique* fiefdoms. The advantages of such a course of action would be that Mexico would undergo a profound, but gradual transition, with the rules of the game no longer in doubt.

Deeply Reform, But Not Abolish the PRI

A demand heard often, mostly from opposition parties, is that the only way to transform Mexico's politics is to do away with the PRI. While this may be tempting, at this point there is no institution in society that can replace the PRI, at least in the short term. Mexico's biggest problem is not whether the country should democratize or whether it has the will to move in that direction, but

whether any institution is likely to be able to replace the PRI as the chief source of stability in Mexican politics. The PRI may perform this important function poorly, but it is still the only institution able to do so. On the positive side, the PRI will now be forced further in the direction of self-reform because only major compromises after the August election will make it possible for the PRI to govern.

Mexico is badly in need of a new institutional arrangement that will change the political culture, establishing new incentives for politicians and bureaucrats to devote their energies to promoting development, being held accountable and competing for the favor of the voters. Even if every bureaucrat and politician were receptive to such a shift, which most certainly are not, such a process would take time. **During the transition period, Mexico might experience a power vacuum that would pose extraordinary risks for both stability and governability. This is why, despite its vices and shortcomings, the PRI cannot simply be eliminated or transformed overnight, regardless of whether the political will and power to do so exists or not.**

In any case, dismantling the PRI would entail much more than it might appear at first sight. Until very recently (the end of the 1980s), the PRI was the political system. Thus, what remains to be done is nothing short of creating a new political system. This involves giving legitimate and institutional access to those forces, parties and groups that are outside the PRI or that, because of the PRI's practices, could never flourish while the PRI dominated the system. Few outside the PRI's dinosaurs argue against such a course, but that does not make it any simpler. **Mr. Salinas began the process on three fronts -- introducing electoral legislation intended to be fraud-proof; recognizing the PRI's electoral losses and thereby allowing opposition parties to become institutionalized (thus reducing the risk of a crisis of either stability or governability); and developing a new foundation for a party to replace the PRI and forging impressive constituencies to support such an effort through initiatives like Solidaridad.** We now know that this was the right course to take.

Beyond what has already been done, there is a need to deal with the structure and nature of the PRI itself. **Such a strategy would require, first, a transformation of the PRI into a proper political party, capable of competing fairly, and depriving it of the old instruments of control and manipulation. Second, there would have to be developed a broad array of institutions running the gamut from the judiciary to an independent antitrust court, from the media to the social security system, and so on. Third, and most crucial, any political initiative that has as its goal the transformation of the political system would have to further the gradual erosion of Mexico's centralism by introducing radical changes at the municipal and state levels.** This third element would involve recognizing electoral losses, the partial transfer of budgetary control from the Federal Government to the states, and the introduction of measures to guarantee the accountability of state and municipal officials.

Because Mexico's political system is so centralized, change must take place from the outside in, rather than from the inside out. This entails a radical departure from previous policies -- what would matter would have to be less who wins an election than the creation of conditions whereby political competition takes place within institutional boundaries, so that people learn the benefits of parties alternating in Government without any risk to stability.

The New Leadership Must Negotiate the Process of Political Reform

Since the 1920s, Mexico's political system has been extraordinarily institutionalized. Power was based not on electoral legitimacy, but on control of the centers of power through the dominant party. This structure is now a thing of the past. The future will be based on the construction of governing coalitions, and Presidents will be only as powerful as their coalitions and popularity. New factors will limit the use of power more thoroughly than the current system of extremely weak checks and balances. **Public expectations, the needs of the business and investment community, the ability of opposition parties to advance their case before the public, and external pressures (including constant scrutiny by the U.S. Congress, the American press, and environmental organizations) are all new forces on the Mexican political scene, and they all constitute checks on executive power.**

With respect to the current election campaign, the end of the era of PRI monopoly implies not only new checks and balances, but also radically new kinds of relationships among the various political parties. For any future President, governing will entail constant compromises with opposition parties, which is precisely what happens in democratic political systems the world over. To reach that stage, however, the days and weeks following election day will be decisive in developing the institutional arrangements that the contending parties will have to agree upon in order to carry on with the business of governing.

Mexico is moving in the direction of profound political liberalization. The economy, while not yet thriving, provides a solid foundation for political reform. Moreover, society is ready for reform, as can be seen in its demands for accountability, ongoing electoral conflicts, the rage directed against abuses, corruption, and the lack of judicial recourse. Some of these demands reflect pressure from interested parties, and others reflect pressure from individuals, but they all illustrate the enormous shortcomings of the political system overall. The pressure for change is extraordinary, and the problems of carrying it out are formidable. To ensure success, it is necessary that the reform process keep moving (thus allaying public fears of a stalemate) while preserving the Government's ability to govern.