Consultative Mechanisms and Economic Governance in Mexico

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I. Introduction: Consultative Mechanisms in Mexico

On the 15th of December of 1987, in his official residence, Los Pinos, Mexican President Miguel de la Madrid Hurtado inaugurated the first of several economic pacts that profoundly shaped Mexican economic policy for the next decade. Underscoring the need for assertive measures was the reality that the accumulated rate of inflation in Mexico for the year was 131%. Yet, Mexican business, labor and peasant representatives present to co-sign the agreement were concerned that it, like "shock" programs recently adopted in the Southern cone of Latin America, would entail painful economic adjustments among their constituencies. One indication of the extent of concern was that the government had only been able to persuade these other signatories to agree to an initial month-long agreement. Thus, few present would have anticipated that two years later the yearly inflation would have dropped to 20% and that economic pacts would have become a well-regarded and institutionalized instrument of Mexican economic policy.

This report analyzes the procedural and organizational dynamics that enabled Mexico’s Economic Solidarity Pact and subsequent agreements to help control inflation and initiate significant restructuring of the national economy. Broadly speaking, such economic accords may be viewed as instances of consultative mechanisms (CMs), groups or committees which bring economic and political actors together for dialogue and consensus-building with respect to economic policy and reform. While CMs are most commonly found in East Asia, they are increasingly being adopted in other regions as well. CMs may be organized along industrial, sectoral, functional (e.g., export promotion, tax reform, etc.) and even national bases, as with the Mexican pacts. Generally, they are informal bodies lacking legal authority yet are often influential due to the participation of high-ranking government officials, career bureaucrats, business association representatives and captains of industry.

The motivating rationale for the creation of consultative mechanisms is that they may allow economic actors to find solutions to collective problems associated with both market and government failures. For example, CMs may enhance the flow of information between government, business and civil society, engender a sense of common ownership.

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3 Although the Mexican approach to inflation control did not conform to international economic orthodoxy, it did require government to implement greater fiscal discipline and, as will be seen, laid the groundwork for important later progress on economic liberalization.

4 The formal dialogues which take place in CMs further are associated with, and may help foster, informal networks among participants which extend over time. Thus, CMs somewhat resemble corporatist interest-intermediation structures which exist in parts of Europe (Katzenstein, 1985; Wilensky and Turner, 1987).
over reform strategies among participants, help conserve resources through pooling of technical expertise and sharing of costs, and generate trust and social capital which, in turn, lower the transaction costs of business and economic governance. Not surprisingly, therefore, a number of national and international agencies are also beginning to foster CMs in their operational work.5

Despite such promise, national experiences with CMs in Africa, Latin America and Eastern Europe have been mixed and, in some cases, CMs may have actually empowered opponents of reform. Because research into the dynamics of CMs has been limited, however, the factors which determine when and how consultative processes can enhance economic reform are largely unknown. This report on consultative processes in Mexico is part of a comparative World Bank study to determine how and when CMs can be useful adjuncts to economic reform efforts. In addition to this study of Mexico, case-studies of national and regional consultative mechanisms in Ghana and Malaysia, a review of World Bank experiences with promoting CMs, and a summary report on the dynamics of government-business consultative processes are forthcoming.6

The findings discussed within are based on field research conducted by the authors in Mexico City, Mexico, in March, June and December of 1998. Beyond secondary data collection, the author’s conducted a series of in-depth, semi-structured and confidential interviews with high-ranking government officials and nationally influential members of the business and labor sectors, and held informal background interviews with certain professionals and academics as well. Refer to Appendix I for the names of interviewees and Appendix II for a discussion of the semi-structured interview methodology and associated interview schedule.

The primary focus of the research was the Economic Solidarity Pact (1987-1989) and its follow-up economic pacts (Pact for Stability and Economic Growth (1989-1992), Pact for Stability, Competitiveness and Employment (1993-1994), and the Pact for the Welfare, Stability and Growth (1994-1995). Throughout this report we use the term “Pacts” to collectively refer to these accords. Beyond research on the Pacts, however, research was also conducted on several other consultative mechanisms. First, interviews were conducted with the participants in COECE (the Coordinadora Empresarial de Comercio Exterior), an influential public-private advisory committee that advised the government when Mexico entered into negotiations over NAFTA (the North American Free Trade Agreement) (see Section IV). And second, basic research and interviews were conducted on the topic of government-business consultations with respect to regulatory reform in Mexico and the Economic Deregulation Council (see Appendix III).

5 For example, the World Bank routinely facilitates the formation of CMs, believing these can contribute momentum to economic reform (Stone, 1995a, 1995b). USAID has contributed funds and expertise to building CMs. In Ghana, for example, US AID helped fund the Private Enterprise Foundation (Ayee, et. al., 1998). And UNIDO, through its Industrial Policy and Research Branch, attempts to promote public-private partnerships, particularly at regional levels.
6 The Principal Investigators for this project are Jesse Biddle, Department of Sociology, Penn State University and Vedat Milor, Stanford University Law School. Andrew Stone, Senior Private Sector Development Specialist, is the Task-Manager on the part of the World Bank.
A. **Consultative Mechanisms and Economic Governance**

Our research was guided by the recognition that CMs were likely to be more or less effective as adjuncts to economic reform depending on their design and operation. In this regard, the institutional economics literature offers two contrasting visions on institutional functions. On one hand, institutions are viewed as devices to help resolve collective problems (Bates, 1988; Ostrum, 1990). On the other hand, institutions which are “captured” are viewed as devices which help provide distributional benefits to those who have authority over them (Olson, 1982; Knight, 1992).

In terms of the first vision, consultative mechanisms can potentially help resolve collective economic problems, especially ones which result from information asymmetries and mistrust between the public and private sectors. One type of information asymmetry occurs when the private sector example has knowledge of the impact of regulatory reform that is unavailable to economic planners. Another occurs when, the government, although it may have a sensible economic reform strategy, fails to communicate this logic to the private sector and is misunderstood. Lack of trust increases transaction costs, shortens planning horizons and makes more likely strategic as opposed to cooperative interactions. Therefore, insofar as CMs increase trust and decrease information asymmetries they may make significant contributions to the forging of consensus on economic reforms among powerful economic and political actors.

Despite this potential, however, as the vision of institutional capture suggests, it is possible that CMs may function in whole or in part to promote the interests of a particular group as opposed to helping to resolve a collective (social) problem. This is understandable given the high stakes involved in economic reform exercises. In particular, where there is uncertainty regarding whether or not the reforms will generate economic growth at all, and uncertainty as well regarding the distribution of any future growth, economic actors with a relative advantage under the status quo arrangement may have little enthusiasm for sincerely supporting reform. Under such circumstances, participation in a CM by economic and political actors may be little more than a strategic ploy for self-defense or self-promotion.

Given these concerns regarding the functioning of consultative mechanisms, we conducted our research with specific hypotheses in mind regarding how the design and operation of CMs would enhance or impede reform efforts:

1. We hypothesized that an effective CM would institutionalize dialogue among economic stakeholders with respect to a specific reform agenda. To clarify, a lack of an institutionalized dialogue means that the CM would not necessarily be distinct from existing policy networks and thus would not necessarily be seen as the forum in which to seriously discuss policy issues. A lack of specific focus would likely imply that the CM did not have a unique mission vis-à-vis existing policy bodies. If so, policy recommendations could lack clout or contradict recommendations from alternative policy bodies.
(2) We hypothesized that an effective CM would be one in which economic stakeholders made credible commitments. A lack of credibility would mean that stakeholders would presume that their counterparts would not fulfill promises. This, in turn, could encourage early defection from the CM and generally undermine the likelihood that stakeholders would act sincerely in dealings with each other. While the importance of the credibility of government commitments is well-discussed in the policy literature, we believed that the credibility of all stakeholders, not just government representatives, was relevant.

(3) We hypothesized that an effective CM would be characterized by the presence of monitoring mechanisms for commitments undertaken by stakeholders. Monitoring is a way in which stakeholders can determine if their counterparts have, in fact, fulfilled promises. In addition, formal or informal sanctioning can be associated with monitoring. Thus, monitoring helps to prevent shirking (free-riding) -- or increase its cost to the shirker -- while recognizing and rewarding the fulfillment of commitments.

(4) Finally, we hypothesized that an effective CM would have a member composition that legitimately and authoritatively represented the major stakeholders. Here the issue is that the exclusion, illegitimate representation, or non-authoritative representation, of major stakeholders would more easily allow CM capture by a narrowly-based distributional coalition. At the same time, an unwillingness of a stakeholder to participate, or the early defection of a stakeholder, could well reflect his or her estimation that the CM was already so captured.

This report examines these hypotheses with respect to the Mexican experience with CMs. The rest of the report is organized in four sections. The following section places the formation of the Pacts in the historical context of government-business-labor relations. We then turn to a discussion of the dynamics and operation of the Pacts. This third section, which comprises the main body of this essay, is organized into four subsections that encompass our initial hypotheses. The fourth section of this essay will discuss another significant mechanism of state-business collaboration that is yet operative in Mexico today, i.e. COECE. We finish with a brief discussion and conclusion.
II. Government-Business-Labor Relations

Fundamental to the evolution of government-business relations in Mexico in the 1980s and early-to-mid 1990s was a transition in the nation’s development model toward a more open international orientation and greater reliance on market (as opposed to government) coordination. Historically, as in much of Latin America, the Mexican government, led by the Institutional Revolutionary Party (PRI), had intervened extensively in the economy in the context of an import substitution industrialization (ISI) model. By isolating the economy from international market pressures and incorporating organized elements of labor, peasant and business interests into the political regime, a class compromise was achieved "based on the contribution of rising real wages to an expanding domestic market" (Samstad and Collier 1995: p. 9). This class compromise, in conjunction with familiar patron-client political devices, also helped generate considerable political stability and predictability in Mexico. Thus, the PRI has won all national elections in the post-revolutionary period, controlled the Congress prior to 1997 and exerted considerable influence over the judiciary as well.

At the same time, Mexico’s inward-looking development model and reliance on ISI policies led to familiar economic distortions such as the tendency for capital and labor resources to move away from export goods and thus diminish the international competitiveness of Mexican products. ISI policies also caused distortions in the relative value of labor versus capital. That is, on the one hand, import substitution lowered the relative cost of capital through fiscal exemptions and low interest rates, and, on the other hand, it increased the cost of labor through the social security system and government mandated benefits. This situation created a bias in favor of capital, causing unemployment, skewing the distribution of wealth, and leading to the deterioration of public finances (Córdoba, 1986; Zabludovsky, 1989; Solís, 1985). In the 1980s, however, as the debt crisis led first to a short-term stabilization plan and subsequently to a long-term commitment to structural adjustment of the economy, the ISI model came to be replaced by a more liberal one based on free trade and international competitiveness.

This fundamental shift in economic policies and orientation formed a backdrop to changes in the relations between the government, business and labor communities. Mexico's "corporatist" political regime structured the manners through which groups in civil society could influence the government and its economic policies. In Mexico, the labor community enjoyed insider status to the political regime via complex mechanisms that tied unions to the party machine. Ruth Berins Collier (1992: 43) summarizes the government-labor relationship nicely:

Central to the hegemonic position, base support, and political resources of the Mexican regime that emerged at mid-century was the state-labor alliance and its institutionalization through the close ties of organized labor with the PRI... These strong ties constituted a political resource which provided the regime with a vehicle for mobilizing support, controlling these
constituencies through state influence in union leadership selection and activities and hence in the management of capital-labor relations, and achieving political stability. At a minimum, the party-union link mobilized support through collective membership in and identification of unions with the party.

Certainly, labor’s capacity to generate a truly independent “voice” was limited by these arrangements. Nonetheless, labor leaders and the union movement historically played central political roles in Mexico “by legitimating the government, providing it with an important base of voters and facilitating decision making and implementation of government policies” (Samstad and Collier 1995: 10). In this regard, from the perspective of labor leaders, “cooperation with the state was attractive not only as a channel of personal advancement, but also as a way for union leaders to seek institutional access and gain influence and concessions” (Collier, 1992: 50). Such government-labor links contributed to the government’s ability to sign and implement the various Pacts. For example, virtually all observers concur in noting the importance to the inflation-fighting effort of the personal efforts of Labor Minister, Arsenio Farell Cubillas, and labor leader, Fidel Velázquez, as well as those of the distinct unions that participated in the Pacts.

At the same time, Mexico’s movement toward more liberal trade and free market arrangements placed strains on the government-labor relationship, particularly as wages and employment levels were threatened both by economic crisis and by increasing market pressures. By 1987 such pressures on the labor community were severe. The Congreso del Trabajo (Workers Congress), the umbrella body for the labor movement, threatened to hold a general strike for December 18. Moreover, this was reflective of far broader labor strife; in December 1987 the National Institute of Statistics and Geography computed there to have been 11,361 strike threats at the local level.7 Although the Workers Congress and the labor confederations linked to the PRI had been historical allies of the regime, and thus unlikely to carry through with a general strike, the use of the threat demonstrated the depth of alienation of organized labor from government policies that were believed to have eroded workers’ real wages. The Pacts were thus bittersweet arrangements in the eyes of much of the labor community. On one hand, they helped avoid economic crisis. On the other hand, they didn’t slow the ongoing weakening of traditional government-labor ties because, as discussed below, the Pacts helped pave the way for further liberalization of trade and market-oriented reforms.

In contrast to labor’s role, Mexican corporatist arrangements had historically hindered the political strength of the private sector. On one hand, these arrangements encouraged labor organization and, in particular, the capacity to strike. In this regard, the business community tended to view strike levels as government influenced if not determined, and thus as a club which the government wielded as needed to gain business compliance with unpopular policies. On the other hand, legal instruments fundamentally structured and limited the manners through which the business community could participate in political and civil matters. Key in this regard was the Law of Chambers of Commerce

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According to Luna (1995: p. 79), this law "established compulsory affiliation of business owners with their corresponding commerce or industry chambers and defined these organizations as 'organs of consultation for the state,' subject to government regulation." The same law prohibited business leaders and business associations from participating in party politics (although individual businesspersons could participate in, and contribute to, political campaigns). Furthermore, the PRI strongly influenced elections for leadership positions in the compulsory business chambers. Thus, the heads of these bodies were commonly viewed to be concerned as much with transmitting government positions to their members as with articulating member concerns to the government.

By the mid-1970s and accelerating during the 1980s, however, the business community began to systematically challenge government economic policy and the underlying institutions that hindered the articulation of business perspectives (Schneider, 1999). In particular, alarmed by the expansion of the public sector through deficit financing during the etatist reform program of President Echevarria (1970-76), the business community founded the Business Coordinating Council (CCE) in May 1975 to be a peak umbrella association. The CCE itself was largely a creation of the Consejo Mexican de Hombres de Negocios (CMHN), a small group of Mexico's biggest businesses formed in 1962. The CMHN, which generally seeks to maintain a low public profile, holds monthly meetings with high government officials for informal exchanges on matters of economic policy and works to coordinate and build consensus within the private sector itself. In any case, the CCE altered business community interest representation in two basic manners. First, it brought together within a single organization all of the major existing business associations. This allowed the CCE to formulate policy perspectives that escaped narrow sectoral or industry perspectives and instead, at least in principle, represented community-wide interests and preferences. And second, the CCE was a voluntary organization that could bring a more authentic voice to the business community when compared to those of the legally mandated chambers of commerce and industry that were generally perceived to be government-controlled organs.

The government's decisions to nationalize the banking system and institute full exchange controls in September 1982 were catalysts that further propelled the business community to seek means of influencing economic policy and generating a political voice. Thus, during the 1980s under the presidency of Miguel de la Madrid, the Mexican private sector became increasingly active and vocal in economic and political debates. And, as explored in more detail in the following section, the Pacts served as important institutional developments that strengthened the political influence of the Mexican business community.

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8 This law was overturned by the Mexican Supreme Court in December 1996 which ruled that compulsory association violated the constitution.
9 The Mexican version of corporatism is thus fundamentally distinct from tripartite European corporatism in which business interests organize autonomously in order to negotiate with government and labor (Katzenstein, 1985).
10 See Schneider (1999) for a detailed discussion of Mexican business organization.
III. The Economic Solidarity Pacts

By November 1987 the government had reached the conclusion that the socio-economic situation was extremely precarious. The failure of previous economic stabilization plans under President De la Madrid (1982-88) since 1983 had diminished the social, political, and economic margins for garnering support for another austerity-based adjustment plan. Uncertainty about the future was the order of the day. The specters of hyperinflation, labor unrest, destabilization of the economy and electoral risk, had all become critical variables feeding negative expectations. The economic situation, in this regard, was not just threatening economic stability, it was also menacing the political continuity of the regime itself. At the same time, the political time horizon was shrinking due to the presidential elections of July 1988. For these reasons, it was essential to develop as soon as possible a socially feasible adjustment program that would lead the country toward long-term stability and growth.

Crucial to the question of stabilization was the control of the inflationary process (see Chart 1 and Chart 2 below). Influential policy makers and economists (both in and outside of the government) came to the conclusion during 1987 that, to a great extent, Mexico’s inflation was inertial. That is, even if demand were suppressed, inflation would continue to spiral as price and wage increases were moving according to economic agents’ future expectations. Under these circumstances, government economists, led by Pedro Aspe (Secretary of Programming and Budget at the end of de la Madrid’s administration), under the initiative of PRI’s presidential candidate, Carlos Salinas de Gortari, began raising the possibility of a heterodox economic plan. At the beginning, Jaime Serra Puche and Ernesto Zedillo, also economists in Salinas’ team, were skeptical about this prospect. Ultimately, however, economic advisor José Córdoba managed to convince the two of them of the need for a non-orthodox plan. Although a “lame duck” by this time, and not leading its development, President De la Madrid nonetheless supported the plan and, as needed, invested considerable personal energy and authority into helping it become reality. Thus, by the fall of 1987 candidate Carlos Salinas and his emerging economic team had in place the basic contours of the new economic strategy to break the inflationary spiral.

CHART 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation (%)</th>
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<tbody>
<tr>
<td>1986</td>
<td>86.23</td>
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<tr>
<td>1987</td>
<td>131.83</td>
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<tr>
<td>1988</td>
<td>114.10</td>
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<tr>
<td>1989</td>
<td>20.01</td>
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<tr>
<td>1990</td>
<td>26.65</td>
</tr>
<tr>
<td>1991</td>
<td>22.66</td>
</tr>
<tr>
<td>1992</td>
<td>15.51</td>
</tr>
<tr>
<td>1993</td>
<td>9.75</td>
</tr>
<tr>
<td>1994</td>
<td>6.97</td>
</tr>
</tbody>
</table>

Source: Banco de Mexico, Economic Indicators, base year=1983.

CHART 2

<table>
<thead>
<tr>
<th>1987 Monthly Inflation (%)</th>
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<tbody>
<tr>
<td>January</td>
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<tr>
<td>February</td>
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<td>March</td>
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<td>October</td>
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<td>November</td>
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<td>December</td>
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The new economic strategy rested on two basic pillars: (1) the introduction of an incomes policy (this is the element which confers the plan its heterodox nature), and (2) social consultation. The incomes policy involved "the joint adoption by the government, labor, and business of nominal guidelines to anchor the exchange rate, wages, and key prices" (Córdoa, 1994: 239). Social consultation, often called “concertation” in Mexico, on the other hand, was “a neocorporatist mode of policy making that emphasizes the institutionalization of consultation, cooperation and consensus on macroeconomic policy involving peak representation from organized capital, trade unions, and the state” (Encarnacion, 1997: 388).

Broad-based discussions of the new consultative stabilization plan started by the end of October 1987 with the presence of members of the cabinet, the private sector, the CTM (Mexican Confederation of Workers) and the participation of PRI presidential candidate Carlos Salinas de Gortari. The first meetings were held between the leaders of business organizations, CEO's of leading firms, the business umbrella organization, CCE (Business
Coordinating Council), and Mexico's enduring and most important labor leader -- the head of the CTM -- Fidel Velázquez. As a result of these negotiations, on the night of December 15, 1987 the Economic Solidarity Pact was signed by the government, the labor movement, peasant organizations, and representatives from the private sector. The following sections explore how this and subsequent agreements were achieved.

According to Aspe, the Economic Solidarity Pact was designed to achieve: (a) a "continuing commitment to the permanent correction of public finances," (b) a "restrictive monetary policy," (c) a "correction of the wage momentum," (d) an agreement on prices in leading sectors," (e) the "liberalization of trade," (f) "control of inflation and the negotiation of leader prices, instead of total price freezing," and (g) the "adoption of measures based on negotiated price controls." The Economic Solidarity Pact that started in December, 1987, went through different stages, although with different names, and the macroeconomic policy was always maintained. Key Pacts are listed below:


The remaining parts of this section will analyze the Pacts from the vantage point of the four hypotheses outlined in the introduction.

A. **Institutionalization of Dialogue**

Prior to our field research, the authors had hypothesized that consultative dialogues would be more effective to the extent that they are institutionalized and focused on specific reform agendas. The evolution of Mexican Pacts largely supports this hypothesis.

In 1987, business distrust of the government was high, due to the erratic changes in economic policy since 1982 and the regular failure on the part of the government to stick to its promises. Put another way, government economic policy pronouncements carried little credibility in the view of the business community. While all authoritarian governments tend to experience credibility problems, in Mexico matters were compounded by the extent to which the PRI attempted to exert control over Mexican society and politics. Not only was the Congress controlled by the PRI until 1997, but there was a general lack of autonomy on the part of the judiciary from the executive as well. Furthermore, prior to the Pacts, business' access to government decision-processes was quite limited, especially for small and medium-sized businesses.

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In this context of generalized mistrust of government pronouncements, the business community came to view the Economic Solidarity Pacts as important mechanisms to place checks on government action. This was the case even though the Pacts extended government control, albeit in consultation with the business and labor sectors, prices and wages. Why were the Pacts viewed by business in this manner? According to one interviewee, "the most important aspect of the pact was not just the reduction of inflation, but rather the giving of business a place at the table and a chance to stop the government from adopting bad policies. The Pacts let business contest government policy." Another businessman put the significance of the Pacts for business in even more dramatic terms:

From the business point of view, what was very important was that the government was giving up the idea of being the 'government.' By this I mean that the government was willing to talk to us, to negotiate with us as equals as opposed to simply telling us what to do as it historically had done.

For the labor sector, on the other hand, the establishment of this new form of dialogue with the government did not constitute as significant a rupture with the past as it did for business. This is because, as discussed in the previous section, party-union links have been historically strong in Mexico.

Negotiations surrounding the signing of the Pacts took place on Fridays in the Labor Ministry (STPS) under the direction of the Labor Minister, Arsenio Farel Cubillas, and Pedro Aspe, initially Minister of Programming and Budget, and later Minister of the Treasury and Public Credit. Negotiations usually took all night, and discussions centered on a government-prepared draft of the latest accord. The business and labor representatives were kept in separate rooms and no one could leave until the negotiations were over. Although representatives for the peasant (i.e., agricultural) sector signed the actual agreements, they were not participants in these negotiations. Government negotiators had a support room in the same Ministry staffed with economic and labor advisors with access to industrial and economic information.

Agreements usually were finalized on Saturday morning so that the Pacts could be signed on Sunday in a ceremony at Los Pinos, the President’s official residence, with the presence of the President. By having the negotiations on weekends it was possible to avoid a reaction by the stock markets during the most sensitive discussions. Perhaps more significantly, the combination of talks over the weekend with the stipulation than no one could leave until the discussions were closed, precluded the possibility of insider trading based on privileged information during the course of the negotiation. The latter, of course, could have severely damaged the whole mechanism of the Pacts as it would have compromised the credibility of both the process as well as of the participants.

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14 The choice of the Ministry of Labor as the venue for talks was likely symbolic and intended as a gesture to the labor community. This is because historically labor leaders had strong ties with this ministry as opposed, for example, to the Treasury where many of the economic technocrats who contributed to the design of the Pacts had worked.
Pedro Aspe and Arsenio Farell were the key government negotiators. Aspe had excellent relations with the business sector and Farell was a tough but respected negotiator with the labor sector. According to participants with whom we spoke, Farell played a critical role as a government interlocutor with the labor movement because he knew the union leaders personally as a result of previous interactions and this helped labor participants evaluate his promises (or threats!) (Authors’ interview). Also, Farell helped establish a serious tone for the meetings through symbolic gestures such as an absolute insistence on punctuality (in Mexico punctuality is not a socially common behavior). In this manner, the labor and business participants were regularly reminded that the government meant business. Aspe’s input, beyond being a principal architect of the overall concept of the Pacts, was his knowledge of the critical variables of the Mexican economy and his capacity to explain and respond effectively with logic and information.

An important factor that helped establish the importance and uniqueness of the Pacts as consultative forums was the sharing of information. Without question, the government provided participants with critical information on the performance of the economy, on economic policy proposals and about price and wage changes. The authors were told, for example, that unions outside the Pacts lacked any information about contemplated changes in controlled prices in the economy, many economic policy changes and the general macro economic context. In contrast, for Pact participants, the government presented future prices for gasoline, natural gas, oil and even for items such as parking meters, parking lot fees and governmental programs like scholarships for workers or milk supply programs for the poor.15

Institutionalization was also facilitated by the fact that each of the Pacts set up a specific reform agenda with quantifiable goals. Early agreements emphasized the coordination of wage and price levels. Later, fundamental issues on economic policy were brought under the compass of the Pacts, such as the exchange rate, public finances and trade policy. Starting with the Pact for Stability, Competitiveness and Employment in October 1992, the agreements further introduced the question of growth and productivity as a crucial macroeconomic variable into the agreements. Having specific, but not rigid, agendas also furthered the institutionalization of the Pacts. The government defined the agenda for each meeting. However, issues not contemplated in the agenda could be brought to the table by representative of business, labor and agricultural sectors, and subsequently integrated into the agenda and discussed in the following meetings.

One problem for the business sector was that, because the government refused to distribute the agenda for the meetings before the participants arrived, participants had no time to make specific preparations and counterproposals. Nonetheless, when the government announced a date for a new Pact negotiation, the executive committees of the various business chambers and federations typically met a week before the negotiations. In these meetings business leaders would discuss what they hoped to receive in the new Pact and what range of outcomes, say price reductions, they would be willing to accept. Furthermore, it was not uncommon for business leaders to meet with labor leaders and

explore whether or not there existed a range of common positions before the official negotiation began with the government. In this regard, in fact, according to a business leader we interviewed, “as a general rule, business mistrusted labor less than the government because of Fidel Velázquez. He could control the labor movement himself, and we believed what he said.”

While the Pacts turned out to be effective mechanisms for controlling inflation and preventing further deterioration of the economy, they were of limited use for promoting productivity, another goal participants attempted to address. Insiders to the discussions on productivity told the authors that it turned out to be considerably more difficult to negotiate productivity agreements with the members of a productive chain than it was to get the same members to sign agreements on price levels. For one thing, it was hard to have specific talks on an open-ended issue such as “productivity,” especially in a forum in which all economic sectors are represented. This is because the needs of sectors and industries within sectors varied so greatly. In this regard, a government participant noted that the lack of systematic information and measurement difficulties further compounded matters (Authors’ interviews).

At the same time, it was also difficult to address productivity in the Pacts because it was not viewed as so pressing an issue as hyperinflation. In this regard, all parties to the Pacts wanted to keep inflation under control, recognized that inflation represented a severe crisis, and consequently became willing, following the energetic educational efforts of Pedro Aspe and others, to accept part of the responsibility for controlling prices and wages. In contrast, when it came to the issue of low productivity, everybody blamed each other. The business side claimed that absenteeism, rigid labor contracts, and inadequate efforts by workers were responsible for low productivity. Trade unions vehemently objected to this diagnosis and argued that the absence of profit sharing mechanisms and poor work environments demoralized the work force. The government, for its part, was held responsible by both labor and business for low productivity, given that red tape, long chains of bureaucracy, and corruption hardly helped to create an environment conducive to innovation.

Although it was perhaps too much to expect the Pacts to come up with a broad-based consensus regarding the issue of productivity, the talks on this issue were hardly without value. In particular, groups were formed to diagnose structural problems of specific industries. And, even though the various sides continued to disagree in these groups as to the basic structural problems, these meetings sensitized the participants to the importance of the impending foreign trade liberalization. At the same time, additional measures undertaken by the Salinas administration, such as privatization and NAFTA, also were attempting to bring the issue of productivity, and its relationship to economic growth, to the forefront of the government’s economic agenda. And, as a business leader summed up, “the successes of these other measures were made possible by, and were built on top of, the success of the Pacts” (Author’s interview).

B. Credible Commitments by Stakeholders
The authors had hypothesized that effective CMs would be ones in which economic stakeholders were able to make credible commitments. Mexico's experience with the Pacts bears out this hypothesis. Through the accords signed by the representatives of labor, business, the government and agricultural sectors, participants in the Pacts agreed to commit themselves to certain actions for a given duration. In the context of a hyperinflationary environment and when price (both public and private prices) and wage controls were at stake, a crucial ingredient for building credibility and for the successful operation of the Pacts was the forging of a minimum level of trust among previously mistrusting parties. In addition, the establishment of monitoring and sanctioning mechanisms that raised the costs to would-be defectors from the agreements further established credibility.

Recent scholarship has extolled the positive effects of trust in economic performance, and societies where trusting is common are said to have large stocks of "social capital," which help to reduce transaction costs and enhance the productivity of investment in physical and human capital (Coleman 1988; Putman 1993; Fukuyama 1995). Trust is particularly important in the context of government-society relations because the lack of it can impede communication and cooperation toward shared goals among parties. Effective consultation between officials and social actors requires that the two sides supply each other with relevant information and, as such, collaboration entails mutual dependence or vulnerability. Although disclosure of information is a sine qua non of successful consultation, frankness may leave one party vulnerable to other parties if such parties opt for secrecy and deception or choose to use disclosed information against the honest party (Lax and Sebenius, 1986). Therefore a central challenge for the successful operation of CMs, such as the Economic Solidarity Pacts, is in establishing the conditions for trust among the participants. Trust in this context refers to a "calculated, contingent phenomenon where protagonists on each side expect those on the other not to betray them" (Schneider and Maxfield 1997: 13).

As discussed above, at the outset of the establishment of the Pacts, there was a serious problem of trust in Mexico. That is, since the early 1970s, but especially after the nationalization of the banking system at the end of Jose Lopez Portillo's administration in 1982, confrontation and tension had marked relations between the government and the business community. Similarly, relations between the official labor movement and business sectors were seriously strained prior to the pact, and even after the pact was signed union leaders viewed the restrictive incomes policy as most suiting the needs of the financial bureaucracy and the business sector (Kaufman et al. 1994: 380). Successful implementation of the Pacts therefore depended on the capacity of decision-makers to reestablish a modicum of mutual trust among the interacting parties.

There are important lessons that can be drawn from the way Mexican officials attempted to reestablish confidence and alter prevailing perceptions that inflation control efforts were likely to fail. The first lesson is that in order to rebuild trust the most powerful party, which is likely to be the one which will be hurt the least if the whole initiative falls apart, should be the first mover. In the context of Mexico, with its centralized political
system and an authoritative government, this meant that state officials should take the initiative and make "credible commitments" which would signal good and irrevocable intentions to other parties. The term "credible commitments" is used here to convey that once the government takes a step to alleviate the concerns of social actors, this step should be firm enough to drive home the point that whatever concessions were given will not be rapidly rescinded or subject to opportunistic re-negotiation.

It is in this sense that policy makers in Mexico moved first, prior to the other parties, and made credible commitments. In particular, the government announced that it would first put its own house in order by reducing the total expenses of the federal government (without cutting social expenditures). Furthermore, the government committed itself to this end publicly by laying out its fiscal commitments in the actual text of the initial Pact for Economic Solidarity, which was signed in mid-December 1987, and bound the signatories until the end of March 1988 (Aspe, 1993: 25). One aspect of this agreement which signaled a break with past practice was that the government provided to participants fuller and more accurate information, in some cases potentially embarrassing to the government, as to the state of its own house. And any remaining doubts about the seriousness of the government's intention began to dissipate when it became clear to other Pact members, in the course of meetings, that the government was in fact holding firm to its commitments. As a business participant told us: "In the written accords for the first pact, government obligations and targets for public spending were stated with specific figures … and the government complied with these figures."

When we asked former the President of Mexico, Miguel de la Madrid Hurtado, as to why the government agreed to bind its own hands by stating specific figures for public expenditure reduction, his answer was unambiguous:

The Pact's success rested on being equitable and equity entailed compromises from all parties... We had to compromise first because we wanted to signal that our plan was unlike other unilaterally imposed orthodox inflation control plans. We did not want to bypass the society, but to negotiate, because we wanted to build social alliances before acting.

Another lesson that can be drawn from the Mexican experience is the salutary effects of offering "implicit contracts" to the most vulnerable party to signal the government's commitment that the costs of necessary adjustment will be distributed equitably. The Mexican government, drawing on a long history of corporatist arrangements, brokered an implicit contract between the employers and employees. The unions had mixed feelings about the Pact, and they were concerned that even if they backed wage controls, the economic crisis could have continued and a disproportionate burden would have fallen on workers. Such fears are understandable because even if the adjustment programs demand sacrifices from other parties, such as the government, businessmen and foreign creditors,

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16 The main goal was to increase in 1988 the primary fiscal surplus to 8.3% of the GDP. This surplus was 4.7% during 1987. As the PSE was implemented, the total expenses of the federal government decreased from 49.3% of the GDP in 1987 to 43.4% in 1988 (Behur, 1990: 28).
workers -- who often have firm-specific skills -- may be the most vulnerable party because they can not re-deploy their skills easily in the event of unemployment.

The implicit contract brokered by the Mexican government responded to workers’ fears of unemployment by generating an understanding that the level of employment would at least be maintained at its current level during the life of the pact. This understanding was tacit and not explicitly stated in the published agreements of the pact. Yet according to several participants we interviewed, this implicit contract carried much weight because the President (first, De la Madrid, and then Salinas) was the ultimate guarantor. When we double checked this perception with ex-President De la Madrid, he agreed with it and added:

Yes, we gave our word to Fidel Velázquez that if he could convince unions to increase wages only slightly, then he had our word that we would do everything possible to maintain the employment level. This was a priority for us.

A third lesson that may be drawn from the Mexican government’s experience in building trust is that it is smart to recognize and reward trusting behavior. That is, when in response to decision makers’ willingness to listen and to make concessions, social groups also voluntarily agree to make sacrifices on their part (such as wage and price controls), then the government should make additional concessions towards these groups legitimate concerns as these arise at later dates. This behavior is different than "quid pro quo" (or „tit for tat”) because these social groups are making sacrifices immediately, and with only the vague hope that there may be additional future benefits (and, of course, such benefits are not clearly spelled out).

This form of reward applied mostly to business organizations, as those that took the initiative to comply with Pact targets found it easier to have subsequent access to officials in the Domestic Trade Department of the Ministry of Trade and Industry (SECOFI). This department at SECOFI was essentially in charge of price controls, and was willing to give a receptive ear to those industries that, in general, “behaved responsibly.” Therefore, those industries whose members complied most fully with the Pacts received greater consideration for their ongoing concerns, such as requests for flexible timetables or partial re-negotiation of price targets, during the time when the price controls were operative. Ironically, although government officials and business leaders viewed this practice as the selective rewarding of good behavior, labor leaders perceived the selective rewards as "ad hoc prizes" which led to an unequal sharing of the costs of adjustment. The reason for this is that these labor leaders did not perceive that they and their constituencies could receive similar considerations from the government even when they could make a good argument regarding the need for a selective wage increase (Author’s interviews).

Of course, even if decision makers move first, offer implicit contracts and reward trusting behavior, there may be other structural barriers making it hard for the civil participants in the Pacts to make “firm” or credible commitments of their own.
Government negotiators, recognizing this issue, offered several important compromises to Pact participants. One problem was the understandable fear of leaders representing organized interests of being blamed by their constituents of “selling them out.” This problem was quite severe in Mexico with respect to the business sector because the leaders of business associations, unlike trade union leader Fidel Velázquez, generally did not enjoy full control over the member firms in associations. Given this situation, business leaders needed to show quick and clear results from participating in the Pact in order to persuade their constituents to cooperate with Pact goals. After lengthy negotiations and initial reluctance, the government addressed this concern by agreeing to sign the Pacts for short, well-defined periods as short as a single month in the beginning (albeit, these periods incrementally increased in length over time).

Another form of smart compromise decision-makers offered organized interests was flexibility, as opposed to rigidity, in setting up the targets. A target of zero inflation (and price freezes) was rejected from the outset on the grounds that it would provoke a serious recession (Aspe, 1993: 42). Additionally, at least in principle, the basic terms of the Pacts were subject to revision at frequent intervals as occasioned by the resigning ceremonies. Lustig (1992: 54) notes that, at least in part, “this was a precaution to preserve government credibility in the event conditions were not sustainable.” Moreover, within the timeframe of any given Pact, the government agreed to apply the price controls with some flexibility, and offered producers some opportunity to renegotiate price levels as conditions changed. And finally, the incomes policy of the pact did not fix the minimum wage, but allowed for some limited adjustment upwards in line with the price level, and thereby made the program more politically sustainable for labor leaders (even if allowing some inflation) (Córdoba, 1994).

It should be noted that it is often presumed that there is an inherent contradiction between policy credibility and flexibility. That is, policy flexibility, which may be viewed by government officials as a means of responding to unforeseen contingencies, may be perceived by groups in civil society as evidence that the government is reneging on promises. Thus, the Mexican experience of maintaining basic credibility for the Pacts while achieving flexible implementation of them over time should not be underestimated. In Argentina by way of contrast, during its inflation-fighting efforts the government at one point decided that the only way it could establish policy credibility was to completely tie its hands through actions such as pegging the peso constitutionally to the dollar. The Mexican experience demonstrates that flexibility can coexist with continued perceptions of credibility provided that sufficient trust, information-sharing and cooperation over shared goals exists between government and social actors. In this manner, the business and labor participants in the Pacts were able to perceive government flexibility as supportive of the underlying goals of the agreement as opposed to an indication that the government was violating its promises.

Lastly, the Mexican experience demonstrates the importance of iteration for mutually mistrusting parties to eventually generate trust and an enhanced capacity to reach

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17 The authors thank Ben Ross Schneider for drawing their attention to this point.
agreements. An examination of the text of the different phases of the first two pacts (under two different Presidents) reveals that initially they were signed for very short periods, in some cases for no longer than a month. But as time passed, the parties became willing to make longer-term commitments, extending from six months to a year (Aspe, 1993: 25-26). Why was this so? The short answer is that the parties came to trust one another more as commitments agreed upon in previous pacts were honored over time. Hence, longer time commitments, which entailed greater risks, subsequently became possible to agree upon. In turn, as a result both of the lowering of inflation, as the pact bore fruit, and of increasing public support for the pact as reflected in opinion polls, the signatories enjoyed some combination of more prestige and independence, or more support, from their followers.

An important consequence of the success of this iterative process for the business participants in the Pacts was that the potential "spoilers" alluded to above no longer posed a serious threat. This point was reached in the end of August 1989 (and lasted until the Peso crisis in 1994) and contrasts sharply with the beginning of the Pact, when the heads of various business associations did not want to commit for more than one month due to expected reprimands from members. In this regard, short term commitments were preferable for business associations because, as an ex-President of the employer union (Coparmex) put it: "even if you make a mistake and commit too much, you may be hurt by it, but at least you will stay alive, because you know there is a next time." Furthermore, as this same interviewee noted, if the "game" gets repeated often enough, it becomes easier to induce cooperation (and to control inflationary expectations) because "if we did not do too well in one particular round of bargaining, we may still improve our lot by doing better in subsequent rounds."

Of course, all these smart compromises and trust building measures aside, the ultimate success of the economic pacts depended on decision makers' ability to monitor written agreements and hold the signatories accountable for their promises. We discuss these issues in the following section.

C. Monitoring Agreements and Sanctioning

Making credible commitments by all parties around a specific agenda is a necessary but not a sufficient condition for the successful operation of a consultative mechanism. Monitoring the accords and sanctioning those who disobey them is important because

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18 Economic theory has demonstrated that cooperation can be induced even among self-interested and mistrusting rational agents in infinitely repeated games if the discount rate is sufficiently small, i.e., if the future is important enough for the players (Axelrod, 1984).

19 During the first year, the time span of the PSEs were as follows:

20 It is worth noting that there are also substantial costs to the short duration agreements, in the sense that as the time to renew the pact draws near, the various signatories engage in public maneuvering to attempt to influence the terms. Consequently, considerable resources are spent on bluffing and posturing.
widespread defection may scuttle attempts to build trust among the participants. To give a hypothetical example, it is possible that the producers of tires in Mexico may agree to price controls and then profit from the control in rubber prices, buy their raw materials cheaply, and then sell their tires on the black market for a killing. In this hypothetical example, the rubber producers who went along with the agreed-upon targets end up becoming "suckers."

Given these potentially destabilizing practices that can prevent the successful operation of the CMs, there is a dual challenge that befalls decision-makers: detect the defectors and punish them. In general, the Mexican experience demonstrates that decision-makers can a) increase the costs of defecting by making credible threats or increase the benefits of cooperation by offering positive incentives for cooperation; b) create a follow-up commission as a means to allow participants to check-up on each other; and, c) make monitoring and enforcement more cost-effective through some delegation of these functions from the government to non-state organizations which are signatories themselves.

To start with the first solution, decision-makers had the credible threat of excluding defectors from the information circles, discussions and decision processes of the economic Pacts. In general, political economists argue that the costs of defection increase when there are high barriers to exit, either because of sunk costs already invested in the relationship (Schneider and Maxfield, 1997: 27), or due to benefits which will be foregone if one exits an ongoing relationship as opposed, for example, to using "voice" within the relationship (Hirschman, 1970). Furthermore, defection is made less likely when cooperation (the CM) delivers quick and positive results such that the actual payoffs far outweigh costs of participation. "If mutual cooperation is highly attractive relative to mutual defection, [cooperation] is more likely to occur than if mutual cooperation is only slightly superior to mutual defection" (Posner, 1998: 4).

These conditions held for Mexico in that, as the Pacts progressed, incentives to amplify one's voice within the system outweighed disincentives to stay in the system. The obvious reason for this is that, since a great deal of information exchange took place in the Pacts, getting kicked out of them due to defection would put the defector at a severe competitive disadvantage vis-à-vis business rivals. Specifically, the government gave high quality non-public information concerning its finances and important macroeconomic indicators to Pact participants, and this served to greatly reduce some of the uncertainties that would have otherwise plagued business and labor planning.

Furthermore, positive results were quickly delivered to Pact participants as one year after its initiation, inflation had dropped sharply (annual inflation rates hovered between 20 and 30 percent in 1989 and 1990). Even though GDP growth was only 1.5 percent in the first year of the pact, real manufacturing wages which had declined in 1986 (-4.9 percent) and 1987 (-3.6 percent) took a positive upswing in real terms, reaching a 5.4 percent increase in 1988 and an increase of 8.2 percent in 1989 (Kaufman, 1994: Table 9-2; Roxborough, 1994: 656). In short, workers' purchasing power and real wages were at least maintained. These quick and positive outcomes enhanced the visibility and credibility of the Pacts, and the proportion of Mexicans who thought that the then-named “Pact for
Stability and Economic Growth” (CSEP) should be maintained had reached the impressive level of 60 percent in April 1991 (Buendia, 1996: 584). This was certainly no mean feat given that, at the outset, the Pact had the support of only a quarter of the population.

The second critical mechanism to ensure enforcement of the accord was the creation of the follow-up commission CSEP (Comisión de Seguimiento y Evaluación del Pacto) after a year of life with the Pact.21 The follow-up commission was created in January 1989 during the administration of Salinas de Gortari and under the Pact for Stability and Economic Growth. Before that, meetings had been held but had not been institutionally established. Thus, between December 1987 and November 1988 there had been 32 ordinary and four extraordinary meetings to monitor the compliance of the PSE. Later, once the follow-up commission was institutionalized, 295 meetings took place between January 1989 and December 1994. Associated with the CSEP, sub-commissions in charge of tracking the Pact accords were established. By December of 1994, the sub-commission on Supply had made 69 representations to the CSEP and the sub-commission for Development, Commerce Integration, Industry and Services had completed 62 analyses. According to Pedro Aspe, in all the ministry of Treasury and Public Credit had participated in 2,717 accords in productivity programs with different economic sectors.22

The follow-up commission was a high level board that met every Thursday at 8:30 in the morning at the Labor Ministry building over a six year period. The government was always represented by the most important ministers of the cabinet, Pedro Aspe (SHCP, Treasury and Public Credit), Jaime Serra Puche (SECOFI, Trade and Industrial Development), Carlos Hank Gonzalez (SARH, Agriculture and Water Resources), Ernesto Zedillo Ponce de Leon (SPP, Programming and Budget) and Luis Donaldo Colosio and Carlos Rojas Gutierrez (SEDESOL, Social Development). If a minister could not attend the meeting, an undersecretary sat in. The director of the INCO (Consumers National Institute), the director of PROFECO (Federal Attorney for Consumer Issues), the technical secretary of the follow-up commission, and the coordinator of the sub-commission on prices were also present at every meeting. The labor sector was always represented by the President of the Workers Congress, a representative of the CTM, the CNC (National Confederation of Peasants), and according to the agenda there could be some variations in who was invited. Important labor leaders, such as Rafael Riva Palacio Pontones (General Secretary of the Sindicato de Trabajadores del Instituto del Fondo Nacional de Vivienda para los Trabajadores), Francisco Hernández Juárez (General Secretary of the Sindicato de Telefonistas de la Republica Mexicana) or Ignacio Cuauhtemoc Paleta (General Secretary of the Confederacion Regional Obrera Mexicana) were invited regularly. The private sector was represented by the heads of business organizations, such as CONCAMIN (National Confederation of Industrial Chambers), CONCANACO (National Confederation of Commerce Chambers), CCE (Business Coordinating Council), COPARMEX (Business

21 In passing, it should be mentioned that CSEP also contributed to trust generation as it became a forum for repeated interaction among top-level Pact participants. As discussed in the previous section, such iteration can be an important mechanisms to help overcome mistrust.

Confederation of the Mexican Republic), ANTAD (National Association of Self Service and Department Stores), and depending on the agenda included other business representatives. 23

In addition to the workings of the follow-up commission, several sub-commissions were created to address particular problems. For example, if there were critical increases in housing prices, prices of sea products during religious holidays, or high school tuition increases, a sub-commission would track these developments, make an evaluation of the overall production chain in the particular industry, and present the results to the follow-up commission. 24 In turn the follow-up commission evaluated its capacity to stop the increases and whether or not a parallel negotiation was needed to deal with the problem, and made proposals to the actors involved in the productive chain and to the government on how to negotiate a solution to the problem. This was particularly critical in the case of meat production and problems with intermediation which were bringing prices up. 25

A critical positive effect of the follow-up commission was ensuring coordination between the private sector, labor sector, and the governmental agencies. Since CSEP got together once a week with the highest level officials of the government present, coordination between the different governmental agencies surrounding problematic issues was easily solved. Concerns by the private or the public sector that related to two or more Ministries were put on the table, and the commission was a formidable channel to ensure bureaucratic coordination. For example, in the case of the production of glass there were two important concerns. First, the high costs of inputs in the production of glass, in particular water, was making Mexican firms non-competitive vis-à-vis American firms. Thus, SECOFI (Ministry of Trade and Industrial Development) became involved in this particular matter. However, there was another concern that certain methods of glass production had a serious impact on the environment, specifically the production of nitrogen oxide and sulfur dioxide. This was a concern of SEDESOL, which dealt with the environmental issues. The Head of SEDESOL at the time was Luis Donaldo Colosio. He proposed the coordination between the glass-producing sector, SECOFI, and SEDESOL to find a technically feasible, environmentally safe and economically efficient solution to the problem. The particular sub-commission of the follow-up commission proved to be an effective mechanism to coordinate different concerns by SECOFI and SEDESOL and to formulate solutions acceptable to the labor and business sectors. 26

Finally, both centralized and decentralized mechanisms were put into place for sanctioning those individual firms that did not follow the Pact agreements. On one hand, the government itself attempted to coerce compliance with agreements. Thus, for example, the Federal Consumer Protection Agency (PROFECO), which was under the jurisdiction of

23 Minutes of the follow-up commission for April 4, 1991; April 18, 1991; August 1, 1991; February 4, 1993; March 19, 1993; May 6, 1993; May 21, 1993; December 16, 1993; January 18, 1994; February 22, 1994; March 1, 1994; and November 24, 1994.
24 Minutes, August 1, 1991.
26 Minutes, May 6, 1993.
SECOFI, was entrusted with the job of checking into popular complaints about unauthorized price increases, and this agency had the authority to sanction individual firms.

On the other hand, much of the enforcement for the Pact agreements was decentralized as business associations agreed to police pricing arrangements in their own sectors (Roxborough, 1994: 660). The government persuaded business associations to adopt this sort of self-monitoring through an ingenious mix of sticks and carrots. Tactics reportedly used included threats of selective trade liberalization, threats of “audits, inspections, labor unrest, and withdrawal of government contracts” (Schneider, 1997: 202) and threats of changes to the legal regime which made it compulsory for business firms to join a trade association or chamber (Author’s interviews). As regards the latter, this legal regulation created a captive, dues-paying clientele for the compulsory business chambers which were the signatories to the pact. Thus, business leaders, when faced with the “request” to police their affiliates, had to balance the costs of monitoring (decline in popularity) against the costs that would have been incurred in terms of membership dues foregone had the PRI decided to change the existing regime and rendered affiliation with a business association voluntary.

Besides resorting to such arm twisting tactics, on the creative side, the government also enlisted the voluntary support of some business association leaders and some large-scale retailers in policing the behavior of their suppliers. In this regard, the close collaboration between SECOFI and the National Association of Self-Service and Department Stores (ANTAD), which (by various estimates) controlled close to 60 percent of the retail market, was especially pivotal to the success of the Pact's implementation (Kaufman, 1994: 388-389). Since ANTAD's selling prices were determined by the government, in the event that producers or wholesalers who supplied ANTAD increased their prices, the profit margins of ANTAD members would have been squeezed. Consequently, ANTAD had an incentive to blow the whistle on those non-compliant producers who were acting opportunistically. Such problems then were discussed in bilateral meetings between the government and the non-compliant producer (who may have had a good reason not to comply with agreed upon targets, such as an unexpected increase in input prices), and more often than not a mutually acceptable solution was found.

Some business association leaders, especially those of peak associations, who wanted to preserve and enhance their nationwide reputations as top business people who could broker an accord with decision-makers, also cooperated with the government in enforcing the agreements. A related interesting lesson in this context is that the short time frames of initial Pact agreements (see the previous section) made it easier for those leaders to make the case for price controls to their members. But even in the event of voluntary collaboration by top business leaders in monitoring their own members, the decisive factor in the enforcement was the backing of top state officials who firmly stood behind the business leaders. As one business leader associated with the top business association Consejo Coordinator Empresarial (CCE), put it in describing how support for the initial Pact was garnered:
CCE organized the meetings, and I helped the government representatives make the case for the pact. In some cases, if our meeting were inadequate to dispel concerns, we would organize another meeting in which President De la Madrid would meet with the group to add his authority and legitimacy to the discussion of what was necessary for the pact. This would impress the business people and added great weight to the case for the Pact.

An indirect measure for gauging the "success" of these arrangements is the control over shortages of basic goods in the country during the lifetime of the Pact. It is well known that price controls tend to create shortages and black marketeering. This is precisely what the Mexican government tried to avoid by introducing the controls through a negotiated consensus. Although some shortages did occur, especially in sugar, cooking oil and meat, "on the whole, … these problems were relatively minor compared with earlier experiments in Argentina, Brazil, and Peru… Mexico experienced few, if any, shortages of durable goods, and difficulties with the food supply were probably attributable as much to weather and crop conditions (there was a serious drought in 1988) as to price controls" (Kaufman, et al, 1994: 389). It is worth noting again that the three countries mentioned above tackled hyperinflation through top-down imposition of controls rather than through a negotiated consensus.

D. Member Composition of the Particular Organizations

Our last hypothesis was that effective Consultative Mechanisms would have member compositions that legitimately and authoritatively represented major stakeholders. The motivating interest behind this hypothesis was that rent-seeking efforts and institutional capture, would be less likely with broad-based CM membership. A detailed evaluation of this hypothesis would require greater attention to the institutional structure and dynamics of business and labor associations than was possible for this report. However, several important points may be made. First, the inclusion of the labor community in the Pacts made them somewhat more inclusive of civil society than is the case with the government-business consultative mechanism structure commonly observed in developing nations in the contemporary period. And second, as regards business community participation, while the Pacts provided significant “voice” to the business community in a manner previously unavailable, not all elements within the business community participated equally. In particular, the SME sector had little input into the Pacts.

Let us stress first that a major feature of the Mexican Pacts, particularly when compared, for example, to the consultative dialogues in Malaysia and Ghana that were examined in companion studies to this report, was the inclusion of labor and, at least nominally, the agricultural sector. Turning to the latter sector first, our business interviewees indicated that although small farmers were included in the economic pacts insofar as their representatives signed the agreements, this sector was not an autonomous party (like labor), capable of independent initiative. According to an ex-President of the CCE:
We did not want the agricultural sector involved in the negotiations as a serious party. This is because the government, as everyone knows, wholly controls this sector. Aspe initially wanted agriculture involved but we said 'no'. In the end, although agriculture representatives signed onto various Pacts, they were not party to the negotiations and had no idea of what was going on.

In contrast, labor exercised real influence in the Pacts as a result of the prior existence of party-union links, the high rate of unionization, and the leadership of Fidel Velázquez, who maintained firm control over the labor movement (i.e., he led the CTM for over 50 years, from 1942 until his death in 1997). This does not mean that labor had a unified voice. There were disagreements among individual unions. But overall the labor unions were able to control their constituencies once agreements were reached, and their top leadership enjoyed a high degree of legitimacy in the eyes of their members.

The business sector's participation in the Pacts is more complicated. As noted above, the Law of Chambers of Commerce and Industry of 1936 established compulsory affiliation for all individual firms to their respective chambers of industry or commerce. Under these circumstances it is not clear how much legitimacy the heads of the business chambers enjoyed vis-à-vis their members. In the context of the Pacts, this potential problem was partially addressed by having the above-mentioned Business Coordinating Council (CCE) be a main interlocutor for the business community. In this regard, the CCE, which was voluntarily created in 1975 and organized independently of any government decision, was presumed by most Mexican business persons of being able to adopt more independent views than would have been the case with many of the government-mandated chambers. Thus, as noted by Puga and Luna (1983: 3), “despite the fact that the CCE is constituted by heterogeneous business interests, … it has become without a doubt the most important and legitimate representative of the private sector in the country, its legitimacy and unity derived in part from the presence of the main economic sectors and more powerful firms in the country.”

This privileging of the CCE as interlocutor in the Pact context carried consequences. On one hand, the CCE, as an umbrella organization, was generally able to adopt a longer-term and more universal perspective than would likely have emerged from more narrowly organized industry or sector associations. Without the full-hearted support of this industry-straddling top business association, an association that could adopt a bird's eye view and counter parochialism and short sighted proposals, it might have been difficult for the Mexican government to proceed as it did in terms of trade liberalization. In this context, the testimony of an ex-head of the CCE is revealing (Author’s interview):

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27 The issue of having an associational structure for business that actually represents its constituency came to a head less in the Pacts than with respect to trade liberalization and NAFTA. Thus, as discussed in detail in the next section, when the government invited the business community to offer its advice in conjunction with the NAFTA talks, the CCE formed an associational structure, COECE, which effectively bypassed the existing cumbersome and non-representative chamber structure.
Of course, liberalization should have happened 15 years earlier, and we would have been better off, and, as it happened, Mexico really had no choice at all but to agree to NAFTA. I supported this opening even though I was criticized and insulted by some of my peers in the business community. The reality is that they were scared of competition and did not understand it would be good for us in the long run… In preparing for the NAFTA negotiations, the CCE discovered that there was insufficient understanding of how liberalization would affect the economy. What existed was that many of the business organizations, and even some of the larger firms, had an office or a person or at least a file cabinet in which information relevant to imports or exports for the sector was available. However, no organization had anything resembling a global view.

On the other hand, the CCE as an organization does not effectively represent the small and medium enterprise (SME) sector (Luna and Tirado, 1982). In political terms, therefore, the strong presence of the CCE in the Pacts and, subsequently, in COECE (the consultative body which helped with the NAFTA negotiations) “magnified the interests of large financial-industrial groups that were in a reasonably good position to absorb the costs of economic liberalization” (Kafuman, Bazdresch and Heredia, 1994: 391). To the extent that this diminished the clout of the “protectionist coalition that maintained and strengthened an inward-oriented, import-substituting development model and defeated the occasional attempt to open the Mexican economy to foreign competition” (Thacker, Mimeo: 2-3), it arguably simply sped up a necessary liberalization of an antiquated system of protection. However, to the extent that this prevented important issues of concern held by the SME sector with respect to both the matters under discussion in the Pacts (e.g., prices, wages, productivity, etc.) and later in COECE from being brought to the table, the privileging of the position of the CCE represents a form of institutional capture of these consultative bodies.

This discussion has highlighted the importance of trade issues to Mexican economic reforms in the late 1980s and early 1990s, as well as touching on the overlap between the economic Pacts and COECE as consultative bodies concerned with trade issues. Thus, we now turn to a more detailed discussion of the Coordinadora Expresarial de Comercio Exterior, that is, COECE, which was created to help the government prepare for the trade negotiations with the US and Canada.

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24 See Thacker (Mimeo) for a detailed discussion of coalitions associated with trade liberalization efforts in Mexico.
IV. COECE and the NAFTA Negotiations

Some segments of Mexican business have been known for their opposition to trade liberalization, and they had blocked Mexico's entrance into the General Agreement on Tariffs and Trade (GATT) in 1979 (Kaufman, et al, 1994). Consultation through the negotiation forums created by COECE (Coordinadora Empresarial de Comercio Exterior) was an important factor, though not the sole one, that helped to mute business opposition to reform. The least that can be said of the difference COECE made is that, had the government simply used its coercive powers to unilaterally impose reform measures, it is doubtful whether or not business support for NAFTA would have been as widespread as it had become by 1993.

COECE was not only an advisory committee to the government for NAFTA (and today for European Economic Community relations), but it was also a communication channel between SECOFI (which was in charge of NAFTA negotiations) and the business community. It is in this role as a communication channel that one can surmise some continuity between the Pacts and COECE, in the sense that the success of the former paved the way for the smooth functioning of the latter. In general, the Pacts transformed the nature of state-business relations in an authoritarian setting and demonstrated to business groups that the government was willing to consult with business and, in some cases, to allow business perspectives to help inform economic policy decisions. Moreover, as investor groups took part in Pact meetings, and once the threat of hyperinflation was reduced, they acquired a better sense of the direction in which the government was headed. This information helped to reduce uncertainties regarding planning for future investments. Furthermore, since the government had made trade liberalization an integral part of the Pact meetings, this had already helped mute opposition to NAFTA by the time COECE was created in March 1990, following the government’s announcement of its intentions to pursue NAFTA. And last but not least, COECE's activities were facilitated by the fact that when the focus of the Pact was shifted away from "inflation control" towards "productivity issues," a serious attempt was taken to examine carefully and to understand the productivity chains for different sectors. The information that was accumulated in this context eased COECE's task of helping the government put together intelligent proposals regarding the NAFTA negotiations.

Other factors included "the coercive powers of the state, the control of business associations by big business sympathetic to reform, the link of stabilization with liberalization, and the preexisting support for trade liberalization" (Maxfield and Schneider, 1997: 206). This is because, once certain bottlenecks in certain sectors were identified using the productivity chain analysis, it became possible for the Mexican side to move away from a static analysis ("if I open up my economy, my domestic manufacturer of commodity x can't compete, because the cost of the similar item in the U.S. or Canada is cheaper"), towards a dynamic one ("when I open up my economy, my domestic manufacturer of commodity x will have access to cheaper inputs and its competitiveness will also increase through measures to modernize; therefore, my manufacturer will be able to compete with the U.S. and Canada")
These continuities between the Pacts and COECE aside, there are differences. Perhaps most significantly, given the specialized knowledge on the international economy that was necessary to prepare Mexico for the upcoming negotiations, it would have been unwise for the government to rely primarily on the existing compulsory business organizations. As one interviewee from the government side noted to the authors:

The heads of these organizations are selected primarily for their ability to operate within the system through their connections to the government, rather than for their knowledge of the particular industry. We therefore had to reach directly into the most productive firms within each industry and invite those businessmen who were knowledgeable about the industry but did not take part in the Chamber's activities to work directly with us. This is why COECE was created.

In other words, for COECE to be effective as a consultative mechanism, it required a membership that could legitimately and authoritatively represent Mexican manufacturing interests. Given the agenda dictated by NAFTA, the Mexican government needed to create a flexible mechanism to deal effectively with the changing international circumstances and the needs of Mexican industry. We will therefore combine our first hypothesis about the institutionalization of CMs with the last one, regarding member composition -- successful institutionalization of COECE entailed a membership composition which was representative. Similarly, the issue of credible commitments (hypothesis 2) was also intertwined with the effectiveness of monitoring and accountability (hypothesis 3). This is because what is meant by monitoring here is not monitoring of the US and Canada's compliance with the agreement by the Mexican side. Rather it is monitoring by Mexican businesses of their own government. This monitoring ensures that the government will respect the previously agreed joint position during the actual NAFTA negotiations, and will be held accountable for explaining any deviations from this initial position. Without the promise by the Mexican government to allow this to happen, commitments made by the government would not have been credible. We will therefore combine the two hypotheses regarding credibility and accountability and address these issues together below.

A. Institutionalization of COECE and Member Composition

The impetus for COECE came from the government, which invited the private sector to advise the government on matters relating to NAFTA. Since Mexico had only begun serious trade liberalization in the mid-1980s, SECOFI had scant analytic capacity regarding the international competitiveness of different Mexican industries. Nonetheless, the government refused to foot the bill for COECE. Financing for COECE, in fact, came either directly from wealthy individuals, or indirectly from private enterprises that agreed to assign some their top officials to COECE to work on NAFTA. Not surprisingly, this led to the voice of big business being strongest within COECE. Furthermore, at least initially, important voices within the CCE did not want to take responsibility for advising the government on NAFTA. They argued that it was "shrewd business" to let the government officials do what they want, and then ask them to clean up the mess in the event that undesirable consequences followed from the government's decisions (Author's interviews).
It was in this context that a prescient leadership made a difference. Upon the invitation of the Minister of SECOFI, Jaime Serra, to join the government in an advisory capacity, the leading business organization, CCE, appointed a businessman, Juan Gallardo, to head up the effort regarding NAFTA. Gallardo enjoyed the full support of the CCE's president at the time, Rolando Vega, who was in favor of NAFTA. In turn, Gallardo asked Guillermo Güemes who was at the time with BANAMEX, to help him launch COECE as a serious institutional player by devoting full time to it as General Secretary. The initial mandate of the leaders of COECE was to convince the private sector that business people should take primary responsibility for NAFTA negotiations by participating energetically in the preparatory work and by trying to affect the outcome to the maximum extent possible.

The institutional innovation in the founding of COECE was that it was at the same time under the umbrella of the CCE, and also independent. Despite its origins as a vehicle for the expression of business opposition to the “statist” policies of President Luis Echeverría, the government subsequently recognized the CCE as an official interlocutor. The governance structure of the CCE is quite cumbersome in the sense that "it is constituted by heterogeneous organizations and it aggregates diverse interests" (Luna, 1999). That is, CCE brings together the confederations of Chambers of Commerce (CONCANACO) and the Confederation of Chambers of Industry (CONCAMIN). These two confederations often have opposing interests because in Mexico, as much commerce is import-based, chambers of commerce favor liberal trade while industry and its chambers seek protection of domestic markets. Besides those two confederations, the CCE is currently affiliated with the following organizations: the Employer's Confederation of the Mexican Republic (COPARMEX) founded in 1929, the Mexican Association of Insurance Institutions (AMIS) established in 1940, the Mexican Businessmen Council (CMHN) constituted in 1962, the Agricultural National Council (CNA) founded in 1984, the Mexican Association of Brokerage Houses (AMIB) born in 1980 and the Mexican Bankers Association founded in 1928 and reincorporated into the CCE in the nineties after the re-privatization of the banking system.

Despite the fact that the CCE is constituted by heterogeneous interests, it has now become the most important representative of the private sector in the country. At the same time, the structure of representation in the CCE creates a number of problems. First, the heterogeneity of interests often makes it hard to come up with joint positions acceptable to the membership at large. Second, as Professor Luna notes:

The overall effect of dividing membership according to the economic sector in which the activity of the firms take place (e.g. manufacturing, agriculture, finance, services and so on), is that regional and local interests end up being under-represented. And last but not least, big corporations (most of them involved simultaneously in both, financial and industrial activities) are over-represented through the Mexican Businessmen Council (CMHN), and through the specific financial sector associations: the Mexican Bankers Association (ABM), the Mexican Association of Insurance Institutions (AMIS).
Although big corporations account for 0.011 percent of indirect affiliation, they hold 50 percent of the votes within the directory of CCE (Luna, 1999).

Given these structural features and biases in the operation of the CCE, it would have been unwise to establish COECE as a constituent member of the CCE. Had this been the case, it would have been difficult to get some dynamic firms -- which were not active in the operation of the official chambers -- involved in the preparations for NAFTA. On the other hand, it was also politically expedient to have the chambers participate in the effort for two reasons. First, although representation was not perfect under the mandatory membership system, these chambers still provided a "voice" mechanism for their respective members in the political arena. Had the Chamber presidents resisted NAFTA, they could have mobilized the discontent in their individual industries and the resulting business defection could have undermined the NAFTA process. Second, at least some Chambers had collected relevant information regarding firms in their industry, and therefore they were a repository of knowledge which would be useful to tap for NAFTA. It was therefore necessary to involve the official business organizations in the NAFTA process, but in such a way that they would act in a constructive fashion rather than being moved by protectionist instincts.

The decision-making body in COECE consisted of an executive council that drew members from various Chambers and Associations belonging to the CCE. But the representation in the council was in an individual capacity, rather than in the capacity of the official representative of the Chamber or Association. This way, the executive council members were given a free hand to mobilize support from the leading and dynamic firms in their industry, irrespective of the inclusion of the heads of these firms in the governing body of the official Chamber. (Often the founders/heads of dynamic export-oriented firms did not seek positions in official Chambers.) Consequently, according to a former top level official in SECOFI (Author’s interviews):

COECE informally brought together the best people who would truly represent their industry, but it did this without threatening the position of the heads of official Chambers. The people who worked at COECE were independent from the Chambers, but they also sought support from the Chambers for their position and informed the heads of the Chambers about the ongoing discussions with SECOFI.

In the beginning, the executive council of COECE was composed of eight members, Mr. Gallardo, Mr. Güemes and the rest representing six basic sectors, i.e. industry, agriculture, trade, banking, insurance and finance, respectively. But later, as it became known that NAFTA would be negotiated along horizontal topics cutting across sectoral lines, as discussed below, the organization of the executive council changed to include horizontal divisions: market access, public contracts, rules of origin, services, norms, resolution, and, unlawful practices. Both the sector and horizontal divisions drew on a membership of 8 to 10 individuals, who represented major firms. Furthermore, each of
these nominated 2 to 13 individuals to be in charge of the "SECOFI link." The general coordinator, Gallardo, was the official counterpart of the Minister himself. And finally, COECE was still under the general umbrella of the CCE since, apart from the executive council, COECE was governed by a board with representatives from the 10 confederations and associations which govern CCE. These organizations are: Concamin (Confederations of Chambers of Industry), AMIB (Mexican Securities Industry Association), CMHN (Mexican Businessmen Council), AMIS (Mexican Insurance Institutions Association), CNA (National Agricultural Council), Concanaco (National Confederation of Chambers of Commerce), Coparmex (Employer Confederation of the Mexican Republic), ABM (Mexican Bankers Association), Canaco-Mex, and CEMAI (the external relations branch of the CCE).

The most important function of the executive council, prior to NAFTA negotiations, was to mobilize individual industries (more than 200) to draw up detailed industrial studies. These studies would later prove to be the analytic backbone of Mexico's negotiating strategy in NAFTA. It was through these studies that key firms and the most important businessmen in each industry got involved in COECE. The focus of these studies was to determine the comparative strength of the particular industry in question, to diagnose structural bottlenecks, and to specify the desirable pace of trade liberalization. The involvement of the official industry chambers in these studies varied. Some chambers (such as construction) had more resources than others and were able to pay consulting firms to undertake these studies. Other chambers did not have the necessary financial sources and/or background knowledge to take a leading part in these studies. The writing process lasted nearly a year, from December 1990 until September 1991. According to those who had access to these studies (Author’s interviews), "some of them were incredible in detail and sophistication, others were a page long." It is not possible to check on this statement since all resulting reports, named "industry diagnostics," were kept confidential.

The next challenge which decision-makers faced consisted of translating these diagnostics into operative positions regarding Mexico's opening salvos in NAFTA. To this end, officials in SECOFI met several times with industry representatives, in addition to the regular weekly meetings with the COECE executive committee. Overall, "in the two years following the March 1990 announcement, various groups of representatives of business and government negotiators had 1,333 meetings, roughly a dozen a week" (Puga 1994: 9 cited in Schneider 1997: 205). The basic challenge in these meetings was to organize these individual studies under relevant branch categories (like fibers, apparels, and textiles which formed three different industries in a single industrial branch) in order to formulate an operative strategy for NAFTA.

Naturally this kind of "synthesis" was not an easy process. Often the different industries belonging to the same branch had differing views regarding the pace of liberalization, the optimal strategy regarding "horizontal" issues such as "rules of origins," and so on. The apparel industry, for instance, had a very permissive view, not wanting the rules of origins to go any further than cloth, whereas the fiber industry wanted almost all manufacturing steps in the production process to take place in Mexico. When such radical
disagreement was at stake, officials in COECE convened a meeting of all the key players belonging to a single branch (such as apparel, fibers and textiles, constituting three different industries, but a single branch). Internal differences were first addressed via the coordination provided by COECE. When these differences could not be resolved and radical disagreements persisted, then state officials (SECOFI) acted as arbiters. One important aspect of this conflict management process was that SECOFI officials would not consult with individual firms or official Chambers until after they had gone through the internal negotiation process within COECE. This filtering process was a crucial "rule of the game" respected by all parties. Furthermore, according to an academic expert, his process sometimes provided business actors “especially strong motives for reaching upstream-downstream agreements because, if they failed to do so, some less informed SECOFI officials would make a unilateral decision.”

It was only after exhausting these internal channels that industry representatives belonging to a single branch or the so called "production chain" were invited to SECOFI in order to formulate a strategy acceptable to all parties.

Clearly this arbitrage was not a smooth process, and it involved the exercise of discretion by decision-makers. Since SECOFI was itself organized along the lines of key "production chains" lines, general directors at SECOFI who were in charge of these lines had considerable authority in resolving differences. By attempting to formulate positions acceptable to all parties, the officials in SECOFI draw upon distinct resources. One obvious resource was SECOFI's own analytic capacity. Unfortunately, given that Mexico's trade liberalization had only begun in earnest in the mid-1980’s, SECOFI's experience with analyzing issues related to international trade and global markets was modest. Furthermore, according to a government official, academic studies relating to NAFTA ordered by SECOFI in order to enhance the analytic capacity proved to be "of limited use since these studies reached macro conclusions in favor of trade liberalization but did not address the strategic and pressing issues, such as rules of origin, which were new to us" (Author's interviews). Under these circumstances, SECOFI mobilized two other resources: experience in conflict resolution with business, and common sense. The former was a legacy of the Pact itself, as the success and experience with Pacts is credited with having established "basic rules of the game" in resolving intra-business and government-business conflicts. As one high level official noted (Author’s interviews):

When important issues were at stake, we had meetings with the presidents of Chambers and the heads of major firms. These were the same people who had dealt with us in various pacts -- and we had learned from this (Pact) experience on how to approach conflict ridden issues.

But according to the same official, there still was no substitute for "common sense" as "the general attitude of basic industries was such that they wanted the U.S. and Canada to eliminate tariffs for their products, they wanted to buy inputs freely with no tariffs, yet they asked for 150 years of protection for their own products!" Under these conditions, SECOFI officials asked "a lot of questions to industry representatives, and exercised common sense

33 Author’s communication with Ben Ross Schneider.
in order to find a common denominator which also made sense as an initial opening position vis-à-vis the U.S. and Canada.” And if all failed and agreements could not be reached, "then the Minister of SECOFI (Jaime Serra Puche) and the head of COECE (Juan Gallardo) got together and made the final decision."

Yet whatever the final position may be, i.e. the "strategy document" for each production chain, it was also riddled with two kinds of uncertainty. First, since Mexicans did not know the US and Canadian positions and how far these foreign officials were willing to go to accommodate Mexican demands, these documents could not constitute more than a mere oral promise to be respected during actual NAFTA negotiations. In other words, unlike the Pact accords, which were legally binding, these documents were not binding and enforceable. Second, although these documents were the product of a process of cooperation between the government and the business community prior to NAFTA, there was no guarantee that the same process would continue during the negotiation of NAFTA. In short, the "credibility" of the "strategy documents" was not perfect from the point of view of businessmen, because they were not quite sure how much control they had regarding the translation of these positions into actual policy, i.e. the NAFTA agreement itself.

The credibility of these diagnostic studies was enhanced, and government intentions clarified, as the government allowed the actual negotiations to be closely monitored by Mexican business through its representative, COECE. The institutional vehicle which enabled such monitoring is known as the "next room" phenomenon, described in detail below. In this manner, Mexican business was consulted and indirectly included in the negotiations. It is to the specifics of this process that we now turn.

B. Credibility and Monitoring by COECE during NAFTA Negotiations

Unexpectedly for Mexican officials, when negotiations took off, the agenda shifted away from sectors to issues. That is, NAFTA negotiations were organized in 16 horizontal topics cutting across sectoral lines, and two topics focused on single industries. The "horizontal" topics resulted in decisions in different areas, such as "rules of origins," "foreign investments," "unfair trade practices," "intellectual property," etc., which had an impact on all of the 200 individual industries. At the same time, the two non-horizontal topics concerned the auto and textiles sectors. These two sectors were deemed to be too complex and important to tackle under the rubric of other, cross-industry concerns.

This said, the previous studies and mobilization of industry proved to be an invaluable asset for Mexico. COECE formed committees of ten to twelve people each to advise Mexican officials in each of the eighteen topics. Six of these advisors were appointed by the six basic sectors in COECE's executive committee, and the rest were selected from among professionals who had expertise in the particular topic. Nonetheless, when experts were heavily represented, some industrial branches felt bypassed and feared that their earlier efforts may have been wasted. These fears were understandable in view of the fact that the US side allowed only public officials to be physically present in the meetings. Consequently the well-entrenched fear held by the Mexican private sector that
the government would act unilaterally irrespective of previous consultations once again came to the fore.

Eventually an ingenious solution was found to allay these fears. The resulting institution is now known as the "next room" or "adjoining room" phenomenon. That is, during the NAFTA negotiations in Washington DC, the industry representatives that had been chosen by their respective chambers were either literally in the room next door, or in Mexico City, but in either case in constant communication with COECE through links by email. These industry representatives, who often were private advisors, had access to the original "industry diagnostics" or "policy papers," but since these papers could not foresee all contingencies, they exercised a great deal of discretion in their judgement as to whether a proposed rule was acceptable for their industry. COECE people, therefore, mediated between the chambers and Mexican officials conducting the negotiations. When asked about the relevance of a particular industry's position in shaping the outcome, one Mexican official, who was in charge of the "rules of origin" negotiations, exclaimed: “I never gave away anything without checking it with the relevant industry representatives” (i.e., through the mediation of COECE).

During the NAFTA negotiations, therefore, COECE functioned more like a communication channel between industry and state officials than as an advisory committee. But there were cases when the industries whose fate was discussed in the negotiations did not have representatives in the room "next door." Under these circumstances, COECE acted directly as an advisory body and exercised its own judgement, although not independently from the original "position paper." One COECE representative recalled the following anecdote (Author’s interview):

The positions during the negotiation were defined by the advisors or, in the case that there were no representatives of a sector, the position papers. There were no representatives of the sectors only two or three times. I can remember the case of gelatin. Mr. Gallardo came running to the office saying there were no representatives of the sector and that the negotiators could not present a position in this matter. I said, yes we have a position paper and showed it to him. The negotiation was done along the lines of the position paper the chamber had given us. The studies served as a back up.

In short, there was a constant flow of information between the government and business regarding what was happening in the negotiations, and with the help of both Mexican and US lawyers hired by COECE, private sector groups had a chance to review the draft proposals and propose changes. For example, when "tariffs" were discussed as one of the 18 discussion topics, all industrial branches had a say when their turn to give feedback came up. This dynamic of communicating with state officials through multiple forums

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32 The way to give feedback was mechanically simple. The proposals or clauses that industry representatives did not agree with were crossed out and new proposals were put in brackets. Thus, when the final form was disclosed, industry representatives were able to see that they had made a real impact.
and two-way communication helped to appease skeptics in the business community and contributed to the garnering of support for trade reform.

In addition to the institution of the "adjoining room," which enhanced the credibility of COECE by providing a mechanism for business to monitor what was happening during the NAFTA negotiations, COECE also set up a high-level advisory committee. This *Consejo Asesor Internacional* (Advisory Committee for International Trade) consisted of 22-23 people drawn from various communities: unions, business, agriculture, and academic experts. The mandate of the committee consisted of providing analytic backup and formulating broad consensus, as opposed to specific positions (the purview of COECE), regarding various issues discussed in NAFTA: rules of origin, tariffs, unfair trade practices, etc. Demonstrating his commitment to processes of dialogue and consultation, the Minister of SECOFI, Jaime Serra, met twice a month with the committee in order to inform them about the progress and relay the concerns of these multiple constituencies back to government negotiators. Because this advisory committee involved both business and labor leaders, using the same tripartite structure and consensus-orientation as the Pact, its opinion was eagerly sought. The difference with the Pacts was that business representatives in the committee were not drawn from official chambers, but from the members of the Consejo Mexicano de Hombres de Negocios, a voluntary association which culls its 20-30 members from Mexico’s biggest businesses. As a government official put it (Author’s interview):

> Very important business people were present in this committee: such as Henry Davis, Manuel Arango, Hector Larios and others. These people did excellent studies on different issues: finance, the environment, investment, etc. These studies were paid for by the members of the Consejo … and studies were given to Jaime Serra, Minister of SECOFI.

Despite the intricate organizational setup and COECE’s impressive institutionalization, business-government and intra-business negotiations for NAFTA were anything but conflict free. To take the example of the textile production chain, earlier it was mentioned that there were major differences between the initial position papers of the apparel, the fiber, and the textile industries. Nonetheless, despite these initial differences, private businessmen in the production chain ultimately drew up an agreement acceptable to all parties. The resulting agreement, on the important issue of "rules of origin," adapted a "yarn forward" rule, which was very favorable to domestic textile manufacturers in the three countries, since this "tight" rule of origin implied that apparel manufacturers had to buy domestic yarn. In other words, the more permissive rule of origin sought by the garment chamber, that would have enabled garment manufacturers to import freely the cheapest fabric, was rejected. Why did this happen?

The representatives we have spoken to from the textile and garment chambers gave us the following reasons. First, despite recording the differences, the "industry diagnostics" had done a "fantastic job," and even before the start of NAFTA negotiations, the differences between the three parties' positions had narrowed considerably, thanks to numerous intra-industry meetings as well as meetings with SECOFI. Second, once NAFTA negotiations
were underway, the process of negotiating with "outsiders" created a feeling of "common destiny" among insiders. This feeling rendered the insiders more understanding toward each other, hence more willing to compromise. Third, the businessman, Dr. Jacobo Zeidenweber, who represented the production chain, albeit himself a textile manufacturer, had the respect of all three (i.e. textile, fiber, and apparel) sides. This is because he was perceived to be very fair and experienced -- given that he was a past President of the Industry Chamber, Concamin. A related point is that the same representative had forged friendship ties with the heads of major textile mills in the US (such as the Guilford and Burlington mills). Consequently, he was expected to mobilize these pre-existing ties during NAFTA to the benefit of the whole production chain, and not only to favor the textile industry. Last but not least, it was a win some - lose some situation. Thus, even though the garment industry gave an important concession regarding the rules of origin, overall it came out ahead because it got its way on a number of other crucial issues, such as the tariff preference levels, for various goods it manufactures.

We were also told that the yarn forward rule of origin in NAFTA protects the products of the region more strongly than is the case in Europe. Clearly, then, private sector representatives from the three countries resolved some of their differences by imposing burdens on those non-NAFTA yarn producers who were not party to the negotiation but who wanted to export yarn to NAFTA countries.

The authors raised the question of whether or not private businessmen in the auto and textile sectors basically drew up their own agreements and had officials from the three countries simply confirm these agreements. Government officials admitted that private sector influence, which cut across the three countries due to the presence of multinationals, was strong in the auto and textile sectors. However, even in the negotiations for these sectors, the government sides were not passive agents. More specifically with respect to Mexico, we were informed that SECOFI officials operated with a conception of "national interest" and sometimes defended this interest against the preferences of their own private sector. For example, a conception of "national interest" inspired government officials when they opted for a tight rule of origin in textiles, even though more permissive rules would have led to greater garment exports. The reasoning for this was that the garment industry is known to be a migrant industry. When wages increase, manufacturing moves offshore, and it was thought that, following NAFTA, real wages in Mexico were bound to go up. Therefore, the concern of the government side was to protect their own textile industry, which was not only an important creator of value added in manufacturing, but was also perceived to be less susceptible to migration.

Moreover, the authors were told that there were times when the negotiators from all three countries ganged up together against the multinational firms whom they thought were skewing the process too much in their favor. One Mexican official referred to this dynamic as a "strange thing we did not anticipate," adding, "during the negotiations, who was negotiating against whom kept changing." This was especially the case in autos where the U.S.-based multinationals active in the three countries (Chrysler, General Motors, and Ford) stood for very tight rules of origin. During the negotiations, even the Mexican side kept
calling Detroit before they would state a position. But government negotiators from the three countries ended up on the same side by defending less tight rules of origin, because they did not want to close the Mexican market to companies that would avoid operating in Mexico if they were obliged to buy a majority of auto components domestically. Hence, the interests of those not present at the table were to some extent -- but not perfectly -- accommodated.

In short, it would be a mistake to conclude from the COECE experience that government actors did not have an independent set of preferences. In this sense, negotiation and consultation with business does not imply that the government is reduced to the role of a mediator. At the same time, the consultative process ensures that civil actors learn about government preferences early in the process, and that they have a chance to shape, influence and redefine government preferences. The consultative process therefore is more open, transparent and fair compared to the absence of consultation, even though, at times, it is painfully slow.

Of course an evaluation of the effects of NAFTA for the Mexican economy is beyond the confines of this paper. The authors were struck during the period of field research, however, by the high level of support and enthusiasm for NAFTA to be heard within the business community. And one of the goals of this report was to highlight the role of consultative institutions in generating this support. Consultation, when it is inclusive and provides a real "voice" mechanism to the participants -- as opposed to top-down imposition of participation and rubber stamping for civilians -- ensures transparency and fairness. Equally important, however, is that consultation is structured around certain basic rules, and the participants abide by these "rules of the game." In the case of COECE three such rules can be detected: a sequential and stratified process to address conflict, professionalism on the part of COECE representatives, and efforts to discourage clientelism.

By a "sequential and stratified process" to address conflict we refer to the three-tiered process which existed to tackle conflicts among the members of a productive chain. First, different chambers would come together and try to resolve differences. In the next stage, COECE's leadership (Gallardo and Güemes) would function as referees and attempt to conciliate between different parties when disputes arose within a productive chain. Only after this second process was complete did the officials involved in the disputes listen to the parties and reach a binding decision. In this way many disputes got resolved before they reached the apex or the third tier. In addition, at the time conflict ridden issues were presented to the decision-makers, opposing positions were already formulated in a sophisticated way. In other words, Ministry officials intervened at the point where different sides had amassed a great deal of factual information to back up their position. Thus it was

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33 One interviewee gave the following example: "Gallardo was key to solving one of the most complicated negotiations: transportation. There were many very different interests within transportation: teamsters, small transport vehicles, every kind of transportation from all kinds of organizations, from chambers like CONCAMIN, CANACINTRA, to unions, such as CTM, CROC, and companies such as PEMEX."
easier for SECOFI officials to reach decisions than it would have been the case at the beginning of the process.

"Professionalism" on the part of the COECE leadership simply refers to the rule that those COECE members who represented multiple sectors did not promote the interests of their own sectors at the expense of others. To give an example, the business representative for textiles, who also represented the fiber and garment industries, was a textile manufacturer. Yet, as detailed earlier, the garment industry received a number of crucial concessions and in our interviews with garment manufacturers and chamber representatives, we were told that they had no objection to having a textile manufacturer represent the whole chain. They have been proven right in this regard. A more dramatic example can be given from the sugar industry. The head of COECE, Mr. Gallardo, was a major player in this sector through his company, Grupo Azucarero Mexicano. But he refused to become the industry representative for sugar, and the Chamber nominated somebody else. It is believed that the sugar sector was hurt by the negotiations, and Mr. Gallardo distanced himself from the process, never intervening. Professional attitude and objectivity of those at the helm of COECE certainly enhanced its credibility and its acceptance in the business community at large.

The rejection of "clientelism" was another important rule. By clientelism we mean the reciprocal relationship that could exist if well connected business persons, who might personally know top officials, could bypass the established conflict resolution procedures in efforts to seek direct favors from the top negotiator in exchange for some payoff (legal or illegal). Such attempts were of course made but, to our knowledge, to no avail. One Mexican official, in fact, told us how clientelism was aborted at the outset (Author’s interview):

Not everybody was happy with the way we reached decisions. Some big guys, among them top exporters, threatened me once. They shouted at me, told me that they would go see the Minister, and punish me. So I told them, fine. Go and see him if you can. He normally does not accept individuals who are not sector or industrial chain representatives. But let's assume he talks to you. He will tell you that he is not well informed on this particular issue; that I know more than he does; and so you guys should come and see me. That is what you will end up doing … and perhaps knowing that you went over my shoulders, we will then be on less friendly terms!

The interesting thing here is that the self-confidence of this official was the product of the Minister's unwavering stance to respect the rules and to discourage clientelism. Without this commitment at the very top level, perhaps many of COECE's efforts towards institutionalization would have suffered setbacks. Successful institutional design seems difficult without political commitment to respect the rules at the top level. Thanks to this commitment, there is no doubt that COECE succeeded in multiple fronts: it helped to mobilize support for NAFTA; it harmonized conflicting interests in the private sector; it helped to transform a submissive private sector culture towards more self-assertion; and it
carried the achievements of Pact forward by further institutionalizing shared economic decision-making power in Mexico.
V. Discussion and Conclusion

In offering summary evaluations of consultative processes in Mexico, particularly the Pacts, it is important to be clear as to the yardstick being employed. Since the Pacts invoked a heterodox approach to inflation control, including an incomes policy (i.e., wage and price controls), which extended government control over the economy, they might reasonably be critiqued from the standpoint of the so-called “Washington Consensus” (Williamson, 1994). The Washington Consensus is a package of market-oriented reform measures often recommended for developing economies by the World Bank and other international financial institutions. It includes measures intended to improve both macroeconomic policies so as to achieve economic stabilization and liberalization policies oriented toward structural adjustment. While the Pacts included measures which helped with macroeconomic stabilization, they also increased, not decreased, government controls over parts of the domestic economy.

The author’s believe, however, that it is too narrow an evaluation to only view the Pacts through the lens of the Washington Consensus. One issue is that the Pacts helped initiate political and economic dynamics, particularly with respect to the government and business community, that helped undergird subsequent market-oriented reforms. For example, the Pacts contributed momentum to Mexico’s ongoing trade liberalization, including facilitation of the NAFTA agreement. From the government perspective, therefore, the regular meetings with prominent business and labor representatives provided by the Pacts offered convenient forums to discuss the continuing need for trade liberalization and to signal its intention to further liberalize trade in the future. From the perspective of the business community, the government’s willingness to take business views seriously in the course of meetings associated with the Pacts indicated an evolution in government-business relations in which greater business input into economic policy decisions, including the timing and process of trade negotiations, became possible.

Beyond this, however, if the Pacts are evaluated just through the lens of the Washington Consensus, it ignores the internal standards for success established by the participants themselves. Put otherwise, it is possible to disagree with the wisdom of specific actions, such as implementation of an incomes policy, adopted by a consultative dialogue while yet recognizing success in the implementation of those actions. In this regard, the Pacts were successful to the extent that wage and price controls were implemented and helped curb inflation. No doubt, the Pacts were not particularly successful as devices for enhancing productivity, which had been another aim of participants. Nonetheless, it is worth highlighting the contrast between the stabilization achieved in Mexico after 1987 and the chronic and severe inflation in Brazil and Argentina.

34 Following gradual measures from 1983-85, Mexico more fully committed to a liberalization process, including efforts to dismantle much of the system of official prices, import licenses, quotas and other sorts of quantitative controls, by joining the GATT in July, 1986. As a result, the Mexican economy was more open to trade than most of the other Latin American economies by the time the Pacts were initiated (Córdoba, 1994: 243-44).
around the same time frame. Both of the latter nations had periodic stabilization plans that failed, and it was the heterodox plans (Cruzado and Austral, respectively) that are believed to have failed worst of all. The successes of Mexico’s Pacts were, at least in part, due to careful analysis of the failure of these (and other) heterodox stabilization efforts by Mexican government officials. For example, Mexico sent study missions to Argentina, Brazil and Israel to specifically identify problems encountered during other stabilization efforts (Bruno, 1993; Golob, 1997).  

Furthermore, by focusing on the ability of a consultative dialogue to achieve the goals established by participants, it becomes possible to investigate the procedural and organizational dynamics that contributed to that success. The bulk of this report was oriented around providing details on such dynamics, particularly with respect to our four hypotheses concerning a) institutionalizing dialogue with respect to a specific agenda, b) establishing a context for stakeholders to make credible commitments, c) creating monitoring and sanctioning mechanisms, and d) ensuring legitimate and authoritative member composition to reflect the major stakeholders. As opposed to simply summarizing the detailed discussions of these hypotheses above, let us instead point out several of the more significant findings.

Key to the success of the Pacts in controlling inflation, as well as to the success of COECE in contributing to the NAFTA negotiations, was the fact that these consultative dialogues came to be understood by participants as the primary vehicles for the achievement of their respective goals, that is, they became well-institutionalized. Two elements were crucial in this regard. First, the Mexican government made it clear that these consultative processes had distinct missions, both by having top level officials participate and by discouraging end runs around the dialogues by business or labor participants seeking special favors. And second, the mandate of the dialogues themselves was kept narrowly defined, for the most part, and this enabled participants to devote their energies in focused manners. Reinforcing the importance of this latter issue, in fact, was the relative failure of the Pact mechanism when it was called on to address the less pressing and more vaguely defined issue of “productivity” on top of the well-understood mission of combating inflation.

As regards the issue of credible commitments, the Mexican experience, particularly with the Pacts, is quite instructive. On one hand, it is difficult to establish credibility under authoritarian conditions, particularly given initial mistrust among participants. That is, what was to prevent the PRI from reneging on its own promises? On the other hand, in the Pacts credibility was combined with flexibility – no small feat given that the latter can easily be taken as undermining the former. Certainly, the participation of high level officials, including not just Ministers but two different Presidents on and off, in the activities of the

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35 Pedro Aspe, a major architect of the Mexican Pacts, also implicitly acknowledges the extent to which Mexico benefited from learning lessons from failed stabilization plans elsewhere. He notes that among the problems which contributed to the Argentinean and Brazilian failures were a) incomplete fiscal reform (thus large deficits), b) incomplete change in the institutions that create price momentum, c) excessive expansion of aggregate demand (lack of control of demand that led to current account deterioration), and d) inadequate relative prices (lack of a system that would take care of the sectors that were lagging behind due to price controls) (Aspe, 1993: 21-2)
Pacts, lent an air of seriousness to the proceedings. Perhaps most significant, however, was the decision to initially structure agreements around short time frames in conjunction with the detailed specification of actions the government agreed to take to put its own house in order. This allowed a quick turnaround time for “proof” to be provided skeptical business participants, and their equally skeptical constituencies, that the government was serious in pursuit of anti-inflation goals. And it was this ability of the government to provide clear and convincing evidence of its intentions that allowed the flexible implementation of the specific policies associated with successive Pact agreements.

Mexico’s consultative processes also provide useful lessons as regards the importance and possibility of monitoring compliance with agreements and sanctioning defectors. No doubt, the regular follow-up meetings to the signing of Pact agreements (eventuating in the creation of the follow-up commission, CSEP), was crucial to ensuring not just that government was keeping to its word but that the labor and business communities were doing so as well. At the same time, the regular meetings also facilitated trust-generation among participants inasmuch as it was the same personalities generally present. Furthermore, the delegation of some monitoring tasks to the private sector, as occurred when ANTAD (the national association for department stores) agreed to keep tabs on producers and wholesalers, also demonstrated creativity in implementation for monitoring. Two caveats apply though. First, there is a high transaction cost to the monitoring of prices and wages as it entailed literally hundreds of meetings of many otherwise busy, not to mention high level, Mexican government, business and labor personalities. Less costly and more efficient mechanisms, particularly functioning markets, are preferable over the long run to this sort of (limited) command economy. And second, Mexico’s ability to gather the required information reflected pre-existing institutional capacity, most centrally in the form of PROFECO (Federal Consumer Protection Agency) which had previous experience with wage and price controls.

As regards membership composition, the centrality of the CCE (Business Coordinating Council) to the effectiveness of both the Pacts and COECE was a double-edged sword. On one hand, as an umbrella organization, the CCE was capable of helping present business perspectives which escaped narrow traps of short-sightedness and parochialism as would be likely were individual industry or sector chambers the main business voices. On the other hand, the reality of the CCE as an association was that it most effectively spoke for the interests of larger firms, particularly multinationals and those associated with the financial sector in Mexico. Thus, the SME sector had little voice in either the Pacts or COECE. While this may have been the political price necessary to ensure that liberalization proceeded despite the voices of protectionism, it is difficult to dispute that this also ensured that the legitimate concerns of the SME sector with respect to price and wage controls (i.e., things discussed in the Pacts) or with respect to trade liberalization (i.e., things discussed in COECE) were not likely to be heard.

Lastly, one feature of Mexico’s experience with consultative processes, the generation of trust among initially mistrusting stakeholders, particularly stands out and is worth emphasizing. At the initiation of the economic pacts in 1987, generalized mistrust
was evident between the Mexican government, business and labor sectors. Particularly notable was the extent of business mistrust of government. Business was wary of government policy pronouncements, not just as a result of the general disarray in government economic policy throughout much of the 1980s, but because of the historical pattern of policy crisis associated with years of presidential succession. Indeed, in the previous succession in 1982, one of the departing actions of outgoing President Lopez Portillo had been to nationalize the banks.

In other national contexts, such high levels of mistrust between the government and business sectors is often sufficient to undermine consultative mechanisms as participants find themselves unable to come to agreements and unwilling to trust each other’s promises. How did Mexico avoid this from happening? Several steps helped alleviate this problem. These included information-sharing, establishing a short time-frame for the first agreement, setting specific and quantifiable goals for agreements and, perhaps most importantly, having the government – the more powerful participant – take unambiguous steps to signal that its promises were credible. The Mexican Pacts also established monitoring and sanctioning mechanisms to selectively reward and punish business and labor participants as a means of encouraging compliance with agreements. What this accomplished was to minimize the incentives that labor or business participants had to renege on their promises if not defect altogether from the Pacts.  

In all, therefore, the Mexican experience with consultative processes suggests the importance of recognizing the interplay between institutional design and the over-time creation of greater trust and other social resources which together constitute “social capital” (Putman 1993). Certainly, the relative absence of trust initially underscored the importance of clever institutional designs for the early years of the Pacts. Subsequently, however, the Pacts a) helped generate denser networks through which government, business and labor participants could exchange information and hear about each other’s preferences, b) enhanced reciprocal knowledge of reputation among participants due to the repeated personal interactions, and c) led to growing consensus on the need and desirability of trade reform, particularly among Mexican government and business elites. In turn such trust and social capital aided the formation and activities of COECE, the influential trade liberalization consultative body, during negotiations over NAFTA.

To conclude, it is useful to briefly discuss possible future uses for consultative processes in Mexico. In this regard, the future of state-business collaboration in Mexico will no doubt be affected by the current systemic transformations that cut across society and politics. The old system rested on the centralization of power in the hands of a PRI leadership that did not face significant opposition in the parliament. A corollary to the executive branch’s dominance in the one-party state was the existence of a centralized labor movement, unified by a charismatic leader, and the existence of well-organized official

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36 For example, in the context of wage and price controls, a labor union able to strike for higher wages would be better off both with respect to other unions which continued to limit wage demands and with respect to the company if it continued to limit price increases for its products. Monitoring and sanctioning mechanisms, however, diminish the gain that would otherwise accrue to the union through such actions.
business chambers that were part of a hierarchical structure of interest representation. The concentration of power in the hands of business and labor leaders, and the relative absence of parliamentary opposition to the executive branch facilitated the reaching of binding agreements in the social pacts.

Furthermore, crucial resources were available to decision-makers to reward labor and business leaders who went along with the government initiatives. First, decision-makers could easily allocate economic rents associated with what remained of the system of trade protection (e.g., local content requirements), with the system of labor incorporation (e.g., wage premiums) and, in the 1990s, with the privatization policy and bank bailouts, as rewards for participation and cooperation. Second, and this was especially important for business groups, in a non-transparent environment where the type of information which facilitates business planning was not available to the public, participation in the consultative forums was a means to gain privileged access to information with respect to overall government intentions.

Now these macro variables are undergoing significant transformations. Greater transparency in the availability of information following the Peso crisis will reduce the reward available to business and labor groups from participating in a consultative mechanism. Significant economic reforms and NAFTA have also reduced opportunities to capture and allocate economic rents. Democratic reforms have strengthened the parliament at the expense of the PRI executive. A new Law of Chambers of Commerce and Industry abrogated the compulsory affiliation system that was introduced in 1936, in favor of voluntary affiliation, resulting in an almost immediate drop in membership and the rise of new, rival organizations. Last but not least, with the death of Fidel Velázquez, the labor movement is no longer unified by a charismatic leader and is in search of new mechanisms to represent workers’ interests. All in all, the concentration of power at the top levels of the government executive, business, and labor has been eroding, making it harder to reach centralized and binding agreements.

With the onset of globalization there are also significant changes in the nature of policy challenges faced by the government. In 1987, a central goal of the Mexican government was to control inflation. To this end, labor unions agreed to a strict wage control policy in return for the promise to protect real wages by making wage contracts contingent on exchange rate stability. With the benefit of hindsight we now know that the resulting exchange rate policy was too rigid and led to the overvaluation (and ultimately the collapse) of the Peso. But labor was not the sole constituency with a stake in ensuring a slow crawl of the Peso exchange rate. In addition, "The Mexican financial community, consisting of private as well as state-owned banks, benefited from the overvalued exchange rate, at least in the short-run, because they owed millions in dollar-denominated loans to international banks. Between 1988 and 1994, banks' external short-term debt had nearly tripled from $8.6 billion to $24.8 billion" (Auerbach, 1997). With the collapse of the currency and the successful implementation of NAFTA, it is unlikely that future Mexican governments will again opt for currency controls. The exchange rate regime is now floating in Mexico, as opposed to a crawling peg. Furthermore, thanks to increasing foreign trade,
Mexican exporters now make up a strong pressure group that would object to overvaluation of the currency in the name of maintaining the domestic purchasing power. Under these conditions it is doubtful whether the government can make credible promises to maintain real wages and employment levels.

Thus, for these various reasons, it is quite unlikely that Mexico will rely in the foreseeable future on highly institutionalized Pact-like consultative dialogues. Reflecting this reality, the newest Pact that was signed on February 24, 1998 is called the "Agreement for Cooperation and Consultation among Productive Sectors." The dialogue between the "productive sectors" (business, agriculture, labor, and the government) continues but this so-called "Agreement" is quite different than the previous Pact accords as it neither stipulates binding commitments on the part of the participants nor specifies concrete action programs. Thus, the prevailing perception in Mexico is that this accord, unlike the previous Pacts earlier in the decade, is not likely to be particularly central to actual decision-making processes. In at least partial contrast to this loss of function for the Pacts, however, is the experience of COECE. Following the conclusion of the NAFTA negotiation process, COECE was, essentially, put into hibernation. Recently though it has been reinvigorated and is now playing a leading role in the negotiations with the EEC. Thus, while it is accurate that the importance and prominence of consultative mechanisms in Mexico has declined, it would be misleading to claim they no longer matter at all or that there will not be opportunities for structured consultations among government, business and labor over specific economic reform challenges.
Appendix I: Interview Schedule

Interviews Conducted in Mexico City, Mexico, in March 1998

(Mr.) Miguel de la Madrid. Former President of Mexico (1982-1988).

(Mr.) Mario Suárez García. Former President of the Workers Congress. Trade Union leader.

(Mr.) Rafael Riva Palacio Pontones. Former President of the Workers Congress. Secretary General of INFONAVIT

(Mr.) Arsenio Farrell Cubillas. Former Minister of Labor. President of the State Comptroller Office.

(Dr.) Fernando Clavijo. Former Advisor to President Salinas de Gortari. President of Analítica Consultants.

(Mr.) Bernardo Ardavin Migoni. Former President of COPARMEX (employers' union). Vice President of FUNDES.

(Dr.) Luis Rubio. General Director of CIDAC (consultancy services).

(Honary) Roberto Casellas. Former Ambassador of Mexico to many countries, career diplomat. Consultant to Arsenio Farrell Cubillas.

(Dr.) Jaime Serra Puch. Former Minister of Industry and Trade. Former Minister of Finance. Partner in SAI (Law and Economics Consultancy).

(Ms.) Norma Samaniego. Former President of the State Comptroller Office. Former Vice President of the Ministry of Labor. President of Santa Fé Consultants.

(Mr.) Pablo Reyes Pineda. Undersecretary of the Ministry of Labor.

(Mr.) Basilio Gonzáles. President of the Tripartite Minimum Wage Commission.

(Ing.) Jorge Ocejo Moreno. Former President of COPARMEX (1988-1991). Former Congressman from the National Action Party (which is in opposition to PRI).

(Mr.) Hector Larios Santillán. Former President of CCE (the umbrella group for all employer associations and business chambers). The President of Aquilas de Occidente (transportation company).

(Dr.) Gladis López. Mexico City office of the World Bank.
(Mr.) Joost Draaisma.  Mexico City office of the World Bank.

Interviews Conducted in Mexico City, Mexico, in June 1998

(Mr.) Agustín F. Legorreta.  Former President of CCE.

(Mr.) Alberto Gómez Alcala.  Director of Economic Studies at Banamex.

(Mr.) Juan Sánchez Navarro.  Former President of CCE.  Founder of the Mexican Council of Businessmen, CMHN.

(Ms.) Ruth Ornelas.  Associate Director of Economic Studies in CCE.

(Mr.) Francisco Hernández Juárez.  General Secretary of Telmex Union.

(Mr.) Raúl Riquelme Cacho.  Vice President of the National Meat Packers Association.

(Mr.) Joel López Mayren.  General Secretary of the Confederacion Obrera Revolucionaria.

(Dr.) Cristina Puga.  Director of the Facultad de Ciencias Políticas y Sociales,UNAM.

(Mr.) Rene Espinosa.  General Director of COMCAMIN.

(Mr.) Eugenio Carrión.  Former Undersecretary of SECOFI.

(Mr.) Guillermo Güemes.  Former General Secretary of COECE.  Deputy Governor of Banco de México.

(Mr.) Gilberto Vázquez Ahedo.  General Director of CEMAI (External Relations Branch of CCE).

(Dr.) Pascual García de Alba.  Former Economic Advisor to Jaime Serra Puche.  Uand Undersecretary of SECOFI. Commissioner in the Anti-Trust Commission.

(Mr.) Omar Domínguez Vega.  Project Manager in the Apparel Chamber.

(Dr.) Fernando Salas.  Head of the Economic Deregulation Unit, SECOFI.

(Mr.) Gustavo Beool Martínez.  Economic Deregulation Unit, SECOFI.

(Ing.) Juan Morales Doria.  President of the Deregulation Commission, CCE.

Interviews Conducted in Mexico City, Mexico, in December 1998
(Dr.) Jacobo Zeidenweber. Textile industrialist and former President of CONCAMIN.

(Mr.) Juan Manuel de Nigris Davila. Technical Secretary of COECE.

(Dr.) Aslan Cohen. Former General Director of SECOFI.

(Mr.) Miguel Angel Lozada. Director of Foreign Trade in CONCAMIN.

(Dr.) Ricardo Acosta. SECOFI.

(Dr.) Roberto Tovar. SECOFI.

(Mr.) Fausto Cuevas. General Director of the Mexican Association of the Auto Industry.

(Mr.) Javier Zarco Ledesma. General Director of Material Resources, SECOFI.

(Dr.) Enrique Espinosa. Former General Director of SECOFI.

(Ms.) Paulina Hernández. Former official of COECE.
Appendix II: Methods and Interview Instrument

This report draws heavily from the results of a series of confidential, semi-structured interviews held by the authors with high-ranking government officials and nationally-influential members of the business and labor communities who had participated in the Pact or COECE. Interviews were conducted in Mexico City, Mexico, in March, June and December, 1998. In addition, a number of informal informational interviews were held with other policy-makers and academics. The complete roster of interviews, 43 in all, is contained in Appendix I.

As semi-structured interviews are a particular and somewhat uncommon research tool, it is useful to explain why we chose to use them as well as how they operate. The choice to use a semi-structured instrument reflected the nature of the research. On one hand, the research team was most concerned to gain in-depth knowledge held by participants in Mexican consultative mechanisms and did not believe this would be possible using either a survey approach or highly structured interviews. Furthermore, based on previous interviews with elites, as well as on advice from our local expert consultants, the research team believed that the use of highly structured interviews would impede frank and open discussions. On the other hand, the use of wholly unstructured interviews would not have allowed any evaluation of the representivity of a particular interviewee’s comments. Thus, a semi-structured interview was the best choice for achieving the desired substantive depth without sacrificing validity.

Semi-structured interviews involve the use of a standard set of questions for all interviewees which, however, are combined with unstructured follow-up questions determined by interviewer discretion. By asking a standard set of questions, the research team was able to gather information on issues of interest from all interviewees. As reflected in the interview schedule below, standard questions closely followed theoretical hypotheses guiding the research. By asking unstructured follow-up questions, however, the research team was also able to tailor questions to categories of interviewees (e.g., government versus private sector) as well as able to allow interviewees to expand on what they considered to be of most relevance.

Standard Interview (Mexico)

A. Introduction and Warm-Up
1. Describe World Bank/PSD project on Consultative Mechanisms
2. Describe process of interview

B. Regarding CM Origins
1. What were the important (political, economic, social) factors which led to the need for consultations between government and private sector?
   -- Who were the most important people involved in initiating consultations?
2. What were the basic purposes, functions, of these consultative processes?
-- Did these purposes change over time as consultations proceeded?
3. What were the circumstances which led you (your firm, your organization, your office) to become involved in these consultations?
-- Were you involved with previous consultative processes?

C. Regarding Commitment Credibility

4. In your experience, did the CM increase or decrease the level of trust between politicians, civil servants, labor leaders and the business community?
5. In your opinion, were the PM and other politicians truly committed to these consultations?
-- What about civil servants, were they truly committed?
-- What about members of the business community, were they truly committed?
-- What about labor leaders, were they truly committed?

D. Regarding Monitoring Mechanisms

6. Were there procedures to facilitate follow-through for suggestions or decisions generated during the consultative process?
-- How did these procedures operate?
7. Did the PM and other top politicians follow-through with promises or commitments made during consultative meetings? Examples?
-- What about civil servants, did they follow-through? Examples?
-- What about the business community? Examples?
-- What about the labor leaders? Examples?

E. Regarding CM Membership

8. Were all important economic actors represented in the CM?
-- What were the consequences of excluding them?
9. Were any economic actors too heavily represented?
-- What was the consequence of this?
10. Are you aware of important issues or concerns which members held but felt unable to address during these consultative processes?
-- Can you offer a specific example?

F. Warm-Down

11. How successful do you judge this CM to have been?
-- Can you name specific accomplishments?
12. What could be done to make such consultative processes more successful in the future?
13. What recommendations do you have for the World Bank or for other countries in terms of building Consultative Mechanisms?
Appendix III: The Economic Deregulation Council

One unheralded but significant consultative mechanism at work in Mexico today is the Economic Deregulation Council (EDC). The EDC was established in 1995 to advise the Ministry of Commerce and Industry (SECOFI) on priorities for the activities of its Deregulation Unit. The Economic Deregulation Unit was established in 1988, but fortified in November 1995 when President Zedillo enacted an "Agreement for the Deregulation of Business Activity" aimed at reducing red tape, and created the EDC as a governance structure. One key participant states that the agreement formed part of the government's response to the peso crisis: "During the '94 crisis, businesses said to the government, 'We need to compete. Since you can't lower taxes, can you help us redesign regulation'"?

The EDC is chaired by the Minister of Commerce and Industry, has as its technical secretary the head of the Economic Deregulation Unit, and is comprised of representatives of business, labor, agriculture, academia and government. By most accounts, of these members, only business and government are active. The government members include the Ministers of Finance and Labor, the Governor of the Bank of Mexico, and the Comptroller General. Business participants represent the leading business organizations: the Business Coordinating Council, the Confederation of Industrial Chambers, the Confederation of Chambers of Commerce, Services and Tourism, the Mexican Council of Businessmen, the National Chamber of Industry, the Mexican Confederation of Business Owners, and the Business Coordinating Council's Deregulation Commission.

EDC is most active in establishing or affirming the priorities of the Deregulation Unit in reviewing the existing stock of business formalities, which are defined in law as anything requiring the exchange of documents between business and government. Of course, this authority would be pointless if the Unit had not been granted real powers. But by accounts from both business and government, the Unit is highly effective at forcing Ministries to review, reduce and revise their regulatory formalities. It has done this in a sequential process, reviewing 4-5 ministries per year. In each case, affected businesses are engaged through the EDC to comment on particular problems imposed by the relevant Ministries' bureaucratic formalities.

Among the EDC's and Deregulation Unit's successes are a 45% reduction in the number of formalities required by the Ministry of Commerce and Industry, a 33% reduction in formalities required by the former Ministry of Mexico City, a 42% reduction in formalities required by the Ministry of Health, a 48% reduction in formalities required by the Ministry of Labor, and an 8% reduction in formalities of the Ministry of Foreign Affairs. Most other formalities in these ministries were reformed to simplify compliance or rationalize their requirements. Eight other Ministries are in earlier stages or review. Once Ministries are reviewed, their formalities are published in a registry, and no formalities may be added without their addition to this (on-line) registry. In more concrete terms, the deregulation unit provides several examples of achievements:
• In the maquiladora industry, among other improvements, an administrative response
time for all formalities of 7 to 10 days was established, importation procedures were
cased, and land use permits eliminated.
• Sanitary controls, which had created a large backlog of inspections delaying business
start-ups, were eliminated for 92 of 297 activities, and licenses were eliminated for 81%
of the 106 activities formerly subject to them.
• Foreign investment registration and authorization procedures were streamlined to
essentially eliminate bureaucratic approval of foreign equity participation in real estate
purchases, and eliminate restrictions on firms with minority foreign ownership.

A key business participant suggests "half" satisfaction with the process -- the
satisfaction coming both from the real influence of businesses on the process and the real
reduction in formalities. However, there is apparently a big division between reforms of
written formalities and reforms in the actual bureaucracy with which domestic business
must contend: "It's not showing up much as a better environment for business. Up to now,
we cannot tell everyone what we're doing [for them]… In Mexico, there is corruption, and
if you don't know what is your right and the inspector comes to your business, [you can't
contest]."

The failure to affect administrative practices may account for the fact that several
business leaders consulted in the course of the CM study about the EDC were either
unaware of the EDC or assessed its accomplishments as minimal.
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