Breaking the State-Society Bargain: Neoliberal Market Reforms and Resistance in Mexico

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The ability of Mexico's leaders to coopt those political and social actors who would otherwise collectively resist state policy initiatives has been well documented (see, e.g., Camp 1993; Centeno 1994; Cornelius and Craig 1988; Davis 1990; Lustig 1992a). Recent free market policy initiatives, however, have met significant collective resistance at elite and mass levels. What accounts for this anomaly? This paper argues that neoliberal policies have swept aside a nexus of patronage relationships that maintained allegiance to the state. This nexus of political, economic, and social relationships comprised a bargain between the state and society that facilitated social order and political control for almost 50 years. The paper hypothesizes that this bargain—rooted ideologically in the Revolution of 1910 and the Constitution of 1917—created a mutual obligation between state and society after it was institutionalized by President Cardenas in the late 1930s and represented a moral economy writ large. As Mexico's leaders have implemented free market policies, however,

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> this moral economy has been dismantled. Still, the paper argues that the old bargain is not so easily swept aside, as social and political actors resist free market policy initiatives because of the "stickiness" of the old bargain.

Why have top policy making officials in Mexico's government, members of the long dominant Institutional Revolutionary Party (PRI), openly fought over recent neoliberal reforms? Why have national, state, and local PRI public officials systematically undermined the market mechanisms that are linked to the long term fortunes of their party and the Mexican economy? Why have long quiescent peasants organized armed groups and battled the government over changes in land tenure, forcing the government to backtrack on some of its own reforms? In short, why has Mexico's political system lost its historical stability? Some have attributed these pathologies to a lack of democracy (Cornelius 1994b). However, this paper argues that these troubles, anomalous in the modern Mexican experience, originate in the institutional changes initiated through neo-liberal reform.

Looking at Resistance by Beginning with Reform

Neoliberal reform entails a redefinition of the state's role in economic development. As Grindle and Thomas have noted:

> In these new visions of economic development, the state was no longer to be the principal force for achieving economic growth and welfare. Such a change was significant for many developing countries because it implied a shift of power away from central government to the market (1991, 2).

The move from state-driven economic development policies to a free market model lies at the heart of Mexico's present difficulties. The old order was composed of a bargain between state and society and within the state itself and grounded in the longstanding institutions which enmeshed the state in the economy. This bargain consisted of a complex web of continually negotiated political, social, and economic patronage relationships—a culture that ensured political stability, social order, and secure subsistence.[1] The redefinition of the state's role in the economy has stripped these relationships of the patronage resources which formed their foundation. Without this foundation, political stability and social order have been weakened.

Neoliberal reforms began as a response to the huge economic crisis that gripped a debt-burdened Mexico in mid 1982. The price of oil, Mexico's leading export, began to plummet and a crushing debt burden arose, which caused rapid inflation, capital flight, and chaos in the financial and foreign exchange markets. These conditions soon led commercial banks to halt loans to Mexico. The demands of international lending agencies impelled Mexico's leaders to enact neoliberal reforms in exchange for further loans and a restructured debt burden.[2] The first neoliberal policies were established between 1983 and 1987 and included fiscal reform—primarily austerity measures that cut government spending and controlled wages and prices. Social spending received most of the cuts and fell by 33 percent during these years (Lustig 1992a, 79).

President Carlos Salinas de Gortari deepened reform during his six year term from 1988–1994, reaching previously untouchable areas of the economy with textbook neoliberal policies: divestiture of state-owned enterprise, deregulation, trade liberalization, and loosening of foreign investment restrictions (Lustig 1992a, 96–140). The institutions of state-led development were dismantled:

> Mexico has become an open economy in which the state's intervention is limited by a new legal and institutional framework. . . . The tendency is for the market to replace regulation, private ownership to replace public ownership, and competition, including that from foreign goods and investors, to replace protection. Nothing illustrates this change . . . more vividly than the pursuit of a free trade agreement with the United States (Lustig 1992a, 1).[3]

Each aspect of neoliberal reform represents an abandonment of the state intervention that had facilitated the bargain. Breaking this bargain has thereby led to the turmoil and resistance following the onset of market reforms.

Resistance From Above: National Administrative Elites

Broadly speaking, there are two groups within the PRI's national administrative elite. On one hand, the technocrats favor a strong private sector, free markets, and export-led growth encouraged by neoliberal policies. On the other hand, the old guard "dinosaurs" favor the dominant state and large social spending programs swept away by neoliberalism.[4] Many of these old guard elites resent the neoliberal reforms that "have saddled them with a set of highly unpopular and antipopular" policies (Cornelius 1988, 26). Reforms have eliminated a large share of the resources that helped them maintain personal power, wealth, and the PRI's predominance (Robberson 1994b). Without these patronage powers, the old guard elites have found it difficult to secure the way of life to which they were accustomed under the bargain.[5]

Given the rapid pace of neoliberal reforms, it might appear that the technocrats have won, but recent events demonstrate otherwise. Old guard party officials have resisted the programs of technocratic presidents Salinas and newly elected Ernesto Zedillo. The murder of José Ruiz-Massieu, the PRI Secretary General charged with enacting many reforms, represented a blow to neoliberalism delivered by the old guard. Officials in the national peasant organization, PRI Congressman Manuel Muñoz Rocha, former PRI President Ignacio Pichardo, and former PRI Secretary General María de los Angeles have been implicated in the assassination plot (Robberson 1994c; Mexico's Top Investigator Quits 1994). Raúl Salinas, brother of former president Salinas, has been linked to the old guard and implicated in the murders of both Ruiz-Massieu and PRI presidential candidate Luis Donaldo Colosio (Castañeda 1995). In an unprecedented move, 255 of 298 PRI deputies from the lower house of Mexico's national legislature recently presented party leaders with a document calling for the end of neoliberal reforms and a return to policies directed at the most disadvantaged sectors of society (Mexico Ruling Party Deputies Attack Economic Policy 1996).

Still, the technocrats have fought such resistance. Joaquin Hernández Galicia, leader of the huge oil workers union, opposed privatization of the state-owned oil company PEMEX. To stem assaults on his patronage powers and thus preserve union jobs, Galicia opposed candidate Salinas in the 1988 election; many workers voted for other candidates. Hernández was arrested the next year on charges of corruption, a move largely seen as retribution for his opposition to Salinas and his reforms (Harvey 1993, 20). More recently, federal judge Abraham Polo Uscanga complained of political pressure to illegally order the arrests of union leaders from *Ruta 100*, a bus drivers' union fighting impending privatization of a state-owned bus company. Uscanga's refusal to order the arrests hindered efforts to break *Ruta 100*, and his subsequent murder is linked to groups aligned with the technocrats (Golden 1995).

Resistance from the Middle: Public Officials and Social Control

Regional bureaucracies and technical agencies permeate the most local levels of Mexican society (Bartra 1989, 67), but this structure has only made officials at these levels more intransigent toward neoliberal policies. Facing a choice between short term survival and long term reforms, PRI officials, politicians, and bureaucrats have resisted reforms in order to please their established clients. As they reconfigure aspects of the old bargain, local officials raise the specter of instability as a rationale for their actions (Harvey 1993, 5–9).

Countering the intent of trade liberalization, local and regional officials have found ways to slow the tide of cheaper corn, potato, wheat, sorghum, oilseed, and meat imports from the United States, thereby protecting powerful local producers from foreign competition (US Senator Wants Access to Mexican Potato Market 1994; NAFTA, GATT and Agricultural Export Issues 1994b; Mexico's Top Investigator Quits 1994; Mexico Tightens Rules on Booming US Grain Imports 1995). Large dairy farmers, with the help of state and local officials, have used violence and vandalism to slow the business of competitors who import cheaper milk from the United States (Robberson 1994a). Bureaucrats have stepped up border inspections and denied permits, making United Parcel Service's foray into the Mexican market so unprofitable that the company canceled many services as a result (Preston 1995). New registration and inspection procedures have prevented the import of less expensive and higher quality U.S. medical supplies (NAFTA Trade Notes 1994). Massive state intervention has also protected private telecommunications monopolies (Robberson 1994a; Miltman 1994). In each of these cases, the interests receiving protection are those of businessmen or producers whose economic viability is threatened by the foreign competition encouraged in the neoliberal reforms. Public officials have undermined neoliberal reforms to protect their old clients. The pull of the old bargain, which provided stability and a secure subsistence for these actors, looms large in these actions.

Resistance from Below: The Zapatistas and the State's Response

The Zapatista rebellion in the state of Chiapas is an exceptional instance of collective peasant resistance in that it has forced the government to backtrack on its reforms. Though the terms of the bargain were never great in economic terms for these peasants, access to land—or at least the hope for access—provided a measure of security (Collier 1994, 37–51). Resisting changes in land tenure laws grounded in Article 27 of the 1917 Constitution—changes that will leave an estimated 143,000 subsistence producers without employment (*Gaceta* 1990, 17–20)—this organized group has waged armed warfare against the government for over two years, though a cease-fire has been in place most of that time. The rebels view the institutions of the old bargain as a guarantor of their land and livelihood: "As long as a new Constitution is not created, the one from 1917 is the true one for us" (Letter from Marcos to Zedillo 1994). Referring to the new policies, the chief Zapatista spokesman notes that "it was the reform of Article 27 that most radicalized the compañeros" (Interview with Subcommander Marcos 1994). In response to the state's actions, the rebels have propounded the Revolutionary Agrarian Law that demands the restoration of Article 27 and the redistribution of land to landless campesinos and laborers (Declaration of War 1993). Through these demands, the Zapatistas call for the restoration of the bargain that once ensured their security.[6]

The military activities of the rebels, coupled with popular support for their rebellion, has caused the government to turn over 13,350 acres of land to peasants in the insurrection area, with more giveaways promised in the future (Mexican Government to Shift Land 1994). Furthermore, the government has paid local landowners for an additional 600,000 acres seized and occupied by landless Chiapans (AMDH 1995; Battle Brews for Mexican Ranchers 1995). The peasant resistance motivated by the violation of the state-society bargain has thus forced the state to transform its initial reforms by once again redistributing land in order to maintain stability.

Resistance: So What?

Why is such resistance anomalous? Some scholars have argued that a unified and determined group of elites in an authoritarian system can successfully implement policies with little resistance (Hough 1990; Olson 1990). Others contend that the authoritarian Mexican regime has allowed presidents to make policy almost unfettered by institutional or ideological constraints and then impose the policies using the immense, highly centralized power of the office (Centeno 1994, 47; Lustig 1992a).[7] As Pastor has noted, Mexico's powerful technocratic leaders "share a consensus concerning past excesses of statism and protection and seem unequivocal in their commitment to free trade" (1994, 469). Moreover, even when it is within an actor's self-interest to resist or transform reform, the requisite collective action will not occur absent "coercion or some other special device" (Olson 1965, 2). In the past, Mexico's presidents have effectively moved resistance out of the realm of self-interest by coopting leaders, providing material benefits, and in some cases using repression (Camp 1993, 126; Cornelius 1988, 45; Davis 1990, 345). Further, since the late 1920s, PRI officials have settled policy disagreements privately; accepting defeat and playing by the rules has usually paid off in advancement and access to the fruits of higher office (González Graf 1986; Knight 1992). Because of this loyalty and stability, PRI has been "a party without militants"(Garrido 1987). Given this high degree of unity in the past, collective resistance by elites to neoliberalism is puzzling.

Against this background, the seemingly anomalous elite splits and collective resistance in Mexico can be explained by identifying the "special device" that makes people angry enough to resist. As Scott observes, insecurity can move people to militancy (1976, 34). In this case, insecurity is fostered by the shattering of the state-society bargain. What once ensured relatively compliant behavior now serves as the "special device" that sparks militancy.

This argument about resistance in Mexico has important implications for current thinking about the role of the state in economic development. The market mechanisms sought by neoliberalism, designed to affect the incentives and efficiency necessary for sustained economic growth, push for minimal state involvement in the economy (Kaufman 1990; Nelson 1990). The 1994 World Bank Development Report is typical of this approach in that it holds out free market provision of goods and services as the solution to underdevelopment. Paradoxically, it is the state that must diminish the role of politics in the economy, balancing the interaction between economic and political power (Callaghy 1989; Kahler 1989).[8]

The bargain brings up an interesting point of analysis to compare reforms that have taken place in different contexts. Both Turkey and South Korea implemented market mechanisms in a determined manner, successfully reducing the state's role in the economy. But, both of these developing nations lacked longstanding and deeply-rooted institutional orders and had suffered recent changes in regime type, changes in constitution, and/or crippling warfare. The introduction of neoliberal reform in such an unstable environment is bound to have different consequences than in an environment like Mexico's, where a great measure of social and political stability existed for almost 50 years.

When state involvement in the economy has been crucial to social control and political stability for such a long period, the free market hoped for under neoliberal reforms is probably not as free as its crafters would intend. In Mexico, public officials have subverted the market and injected the state back into the economy in a myriad of ways to re-establish the social control and political stability once secured by the bargain.

Mexico's State-Society Bargain

Mexico's old order consisted of a bargain between the state and society and within the state itself. The bargain was bounded by the longstanding institutions of the state-driven economy, institutions that originated in a popular revolution. From this bargain stemmed a web of continually negotiated political, social, and economic patronage relationships driven by state resources that ensured political stability and social order. Essentially, the popular origins of Mexico's bargain, together with the material inducements that flowed from it—albeit only initially or at best periodically for many—secured enough consent and conformity to legitimate and maintain the institutions of the state. As Hall points out, the rules and routines that are a part of any collectivity socialize people, shaping their interests and behaviors (1992, 91). People became accustomed to the rules and routines of the bargain, as these rules and routines lend predictability, security, and mutuality to political, economic, and social interaction.

Replacing this order from above through neoliberal policies effectively severed the complex web of patronage relationships that provided certainty to everyday life. This is exactly what made people angry enough and provided the "special device" that generates resistance by elites and masses in Mexico today. The bargain thus possesses a certain "stickiness" that undermines and transforms market reforms.

Origin and Elements of the State-Society Bargain

> The Revolution was a genuinely popular movement and thus an example of those relatively rare episodes in history when the mass of people profoundly influenced events (Knight 1986, xi).

Mexico's revolution, which lasted from 1910 to 1920, is the principal event that set the ideological constraints faced by Mexico's leaders up to the present. A "war of just about everyone against the ultraprivileged few"(Hellman 1994a, 47), the revolution created a national identity and a sense of natural mission. Class struggle, foreign economic penetration, land ownership patterns, and issues of local autonomy each played a part in the revolution. Most sectors of Mexican society had some stake in the tenets of the 1917 Constitution as the revolution "brought together the residents of villages and cities to a degree never achieved before or since" (Camp 1993, 37). Integral to the constitution was a project supported by elites who otherwise could agree upon little else: state-led economic and social development to mold Mexican citizens from a diverse population (Knight 1994b, 394–99). It was this project that set the basis for the state-society bargain institutionalized by President Lázaro Cárdenas between 1934 and 1940.[9]

In his inaugural address, President Cárdenas outlined his vision of the state's role in the economy: "The intervention of the state must be more substantial, more frequent, and more profound" (1978, 139). As such, Cárdenas renewed the Porfirian goals of economic development and political stability by centralizing political power in the presidency. He ended the disruptive infighting between political elites, nationalized natural resources, used the state to stimulate industrialization, and redoubled efforts to shape Mexican citizens through revolutionary economic nationalism (Knight 1994b). This great rise of state intervention under Cárdenas was no top-down measure, however; it emerged from a dialectic between state policies and public pressure for change (Knight 1993, 51–52).[10] Mexico in the early 1930s faced a huge budget deficit, falling living standards for the middle and lower classes, and high unemployment among labor and peasants (Ruiz 1992, 386–96). Cárdenas stepped into this predicament and mobilized support by implementing popular reforms.

Cárdenas vigorously enacted the egalitarian land and labor reforms outlined in the 1917 Constitution. He seized 49 million acres of privately owned agricultural land and redistributed it to *ejidos*, increasing arable land held by ejidos from 14 percent in 1930 to 47 percent by 1940 (Hansen 1971, 32; Ramírez 1989, 34).[11] Newly created state banks funneled capital to the ejidos to bolster production (Ramírez 34–35, 1989). Cárdenas also enforced constitutional provisions governing labor and vigorously supported both the organization of labor and labor grievances against foreign or domestic ownership (Hansen 1971, 30). The nationalization of foreign oil interests symbolizes the depth of state commitment to labor during the Cárdenas era, as a government-supported strike by oil workers was the pretext for nationalization (Ramírez 1989, 35–36). Through these egalitarian measures, including creation of large-scale social welfare programs, Cárdenas created popular institutions that underpinned the patronage relationships central to the bargain.

Economic nationalism, grounded in a fear of economic dependence on the United States (Bartra 1989, 63), also fueled state-driven development and meant that Mexico came first, so natural resources and business were to be controlled by Mexicans rather than by foreigners. At least 51 percent of any enterprise, with few exceptions, had to be owned by Mexicans (Camp 1993, 39). Indeed, the nationalization of foreign oil interests in 1938 was meant to end foreign exploitation and dependency within this industry (Gentleman 1984). For Cárdenas, economic nationalism spawned broad intervention in industry, finance, and business to maximize state revenue, thereby promoting social and economic improvement as a means to ending economic dependence.

Another reason for state-supported development lies in Mexico's status as a late industrializer. It was thought that nascent industry could not withstand foreign competition without state assistance.[12] The state possessed both the capital and the will to make investments in normally unprofitable short term investments (Lindau 1992, 231). Between 1940 and 1967, the state provided 30 percent of fixed capital investment, keeping production costs artificially low by providing cheap credit and large tax breaks as well as by subsidizing modern infrastructure for industry (Hansen 1971, 43–44, 49; Ramírez 1989, 43–45, 49). With tariffs and licenses on up to 70 percent of imports (Lustig 1992a, 14), foreign competition was nearly barred by the prohibitive expense of imports. When these measures failed to keep an ailing industry afloat, the state often took over. A fourth of the leading fifty Mexican firms in the 1980s, except banks, were state-owned

(Camp 1993, 132). All of this intervention played a crucial role in the bargain by enabling relationships of economic security for multiple sectors of society.

Who Benefited from the State-Society Bargain?

The patronage networks that grew within the institutional framework supporting state-led development served as the glue for social, economic, and political stability. Even though the benefits of the new order were often distributed in a distorted manner, they nevertheless helped secure broad support for the interventionist state and PRI (Hansen 1971, 173–81). Economic growth also caused mass support: "Legitimacy in both city and countryside rested on the widespread belief that life could be improved by working within the system" (Fox 1993, 3). Overall, the Mexican economy grew at an average annual rate exceeding six percent from the mid 1930s through the mid 1970s (Hansen 1971, 1–3). Accordingly, business fared well under the interventionist state. Regional and local PRI officials, politicians, and bureaucrats also had a huge stake in the bargain since this order provided immense opportunity for political and financial advancement either in PRI or in the bureaucracy (González 1987).

Using market intervention for capital, social spending, and jobs in the government and state-owned industries for the masses as both a carrot and stick, elites developed the dense networks of patronage relationships that secured social control (Morris 1991; Teichman 1988). Legal, financial, and political inducements linked unions with PRI, further expanding patronage relationships (Middlebrook 1995). By the 1970s, only the shape of government economic intervention, not intervention itself, remained an issue of contestation for elites. In interviews from this period, Camp determined that while pragmatic, elites still desired a large role for the state in the economy as either owner or coordinator (1984, 130–33).

State intervention therefore brought predictability to the lives of many. Wilkie (1990, 44) summarizes the benefits gained by various social sectors from the interventionist state in Table 1. These benefits and their institutional manifestations led to the social, economic, and political relationships that gave the bargain a moral force—maintaining and reproducing support for the state.

Yet material benefits alone did not account for political stability, for they tended to ebb and flow (Hansen 1971, 71–96; Lustig 1992a, 61–95). The moral force of the bargain's institutions, owing to their origins in the revolutionary tradition, also aided stability. Indeed, the institutions' emergence from a society-wide dialectic was crucial to their appeal (Knight 1994a, 90–98; Hamilton 1982, 128–37). The belief that Mexico was making progress towards the goals of the revolution also helped maintain pride in the system (Hansen 1971, 187–92; Levy 1990, 156).[13] In other words, the state was legitimate, if legitimacy is defined as the widespread belief in the "'substance and rules of the [state],' and trust in the ability of the political process to meet and resolve social, economic, and political crises" (von Sauer 1992, 261). In the 1980s, however, neoliberal reforms reconfigured Mexico's economic institutions, completely disrupting relationships established under the historical bargain.

Breaking the State-Society Bargain: Neoliberal Reform

Elements of Reform

Removing the state from the economy has dealt a severe blow to the bargain by eliminating many of the patronage resources that sustained it.

Table 1. Who Got What from the Mexican Bargain?

Ejiditarios	Land, credit and stable commodity prices
Small farmers	Protection from land seizure and subsidized inputs
Commercial farmers and ranchers	Credit, protection from land seizure and tacit permission to expand holdings
Organized labor	Social security insurance, minimum wages, and access to housing and health care
Organized urban residents	Access to piped water, phones, electricity, building materials, and subsidized food, clothing and medicine
Middle sectors	Subsidized food
Financial groups	Stable currency and protection from foreign ownership
Manufacturers	Government subsidies and credit, protective tariffs
PRI and public sector officials	Ability to profit from office via patronage relationships, selective enforcement of laws and administration of government funds
Bureaucrats	Jobs with access to patronage relationships, social security insurance, subsidized housing and consumer goods
Contractors	Public works construction projects

Deregulation, trade liberalization, and the elimination of foreign ownership restrictions have increasingly extracted the state from the economy, whittling away the patronage resources crucial to the bargain. Deregulation eliminated price controls on goods and services that once provided industry with low-cost inputs (Lustig 1992a, 111). Serious trade liberalization began with Mexico's entry into GATT in 1986, a remarkable move since Mexican leaders had long "maintained that the country should not be bound by agreements of international organizations lest national sovereignty be placed in jeopardy" (Cypher 1990, 181).[14] GATT membership led to a decrease in maximum tariffs from 100 percent to 20 percent, the elimination of official import rices, and the removal of import licenses from 95 percent of all products (Dornbusch 1990, 316; Grayson 1993, 11; Lustig 1992a, 53; Morici 1993, 49). Under NAFTA, 99 percent of tariffs will disappear by 2004, with the remainder phased out by 2009 (Morici 1993, 50). Foreign ownership restrictions for most sectors of the economy have been repealed; foreign stakes of 51 percent to 100 percent are now allowed in most cases, even in previously untouchable sectors (Cypher 1990, 182). Economic nationalism has fallen by the wayside as technocrats abandon the protective policies that had once secured the allegiance of business and labor to the state.

Divestiture has occurred as private buyers have purchased many state-owned enterprises. Of the 1155 firms owned by the state in 1987, only 232 remained state-owned as of 1992 (Pastor 1993, 18). Many of these inefficient firms drained state resources, but solvent enterprises and enterprises that occupied strategic economic positions were also sold (Gilly 1990, 273). Currently, plans are in the works to allow private and foreign investment in natural gas and petrochemical facilities, railways, ports, airports, and telecommunication firms (Mexico Gets First $1 Billion from Selloff Plan 1995; Mexico Plan Worries Investors 1995). The loss of jobs and patronage in state-owned industries alone has significantly damaged the bargain.

To advance deregulation and trade liberalization, the New Agrarian Legislation of 1992 officially halted land redistribution. Also, by eliminating *ejidal* village-held land titles and giving title to those who farm the land, this legislation has allowed marketization of *ejido* land and permitted commercial ownership (Lustig 1992a, 145). These changes have facilitated both the consolidation of small plots and leasing deals with foreigners; a lack of credit and subsidized inputs, together with foreign competition, has forced many peasant farmers to sell the land to commercial buyers (Harvey 1995, 25–26; Morici 1993, 49–50). In the end, the state has renounced almost every commitment to peasants.

Effects of Reform

Neoliberal structural reforms brought some improvement to the Mexican economy. Foreign investment flooded Mexico during the early 1990s, doubling from $17.1 billion in 1986 to $34 billion in 1991, while manufacturing exports rose rapidly (Pastor 1993, 19). By 1992 inflation was low and the budget was at a surplus (Pastor 1993, 19). GDP growth, which had averaged –0.48 percent from 1982 to 1986 climbed to an average of 3.39 percent from 1988 to 1994 (NAFTA Report 1995). As Table 2 shows, government expenditures have also shifted significantly. The shift away from economic and social spending required by neoliberal reform has certainly occurred. But at what cost? As more spending has shifted to debt service, the bargain's patronage networks that depended upon state economic intervention have suffered irreparable damage. Subsistence can no longer be assured by these old networks. Very few enjoy security and certainty under the new institutional order. Export-oriented industrialists and farmers have benefited moderately from the reforms, but the lion's share of benefits have flowed only to foreign investors (Wilkie 1990, 43).

Table 2: Budget Outlays by Category

	1972	1980	1992
Economic spending	34.3%	31.2%	13.4%
Social spending	46.6%	38.9%	28.8%
Administrative spending	15.0%	27.6%	55.5%
Defense spending	4.2%	2.3%	2.4%

Sources: World Bank Development Report *(1984, 269; 1994, 181)*
Note: Economic spending includes all funds allotted for regulation and support of business, economic development, employment creation, and industrial support. Social spending covers health care, housing, social security, and welfare programs. Administrative spending is comprised of debt payments and general public services. Columns may not sum to 100 percent due to rounding.

Living standards and employment prospects for the working classes and the rural poor have fallen drastically as 500,000 jobs were lost between 1988 and 1993, far short of the one million jobs per year needed to keep pace with population growth (Cornelius 1994a, xiii; Castañeda 1993, 65). The cost of basic necessities has skyrocketed with reductions in subsidies. Indeed, the loosening of price and wage controls has caused a 30 percent drop in the purchasing power of the peso from 1988 to 1994 (Golden 1994).

Trade liberalization led to the failure of nearly 9,000 small and medium-sized businesses between 1990 and 1992; 40 percent of those that remain are at risk of failure (Morici 1993, 52).

Owing to changes in the *ejidal* land policy, up to three million peasant families who depend on their land for subsistence will lose their plots (Gaceta 1990, 17–20). Lacking credit and cheap inputs, peasant and *ejidal* farmers have sold commercially viable land, leaving the countryside for insecure wage labor in the city (Grindle 1995). Public officials and bureaucrats have seen their job advancement prospects dimmed and their patronage mechanisms threatened or destroyed by technocratic reforms (Davis 1994, 388–91). Overall, insecurity is pervasive since reforms have produced far more losers than winners. Given all of this economic dislocation, nostalgia for the bargain is understandable.

Theoretical Premise: The Bargain as a Moral Economy Writ Large

Only a shared ideology, as opposed to coercion or material rewards, can maintain support for political organizations in the long run (Bratton 1994, 235–36). By ideology, I mean a personal, normative perception that incorporates moral and ethical judgments about "the fairness of the world" and the so-called system (North 1981, 49). A widespread ideological judgment of fairness, therefore, is needed to legitimate successful, stable political and economic institutions (North 1981, 205). Defined in this way, ideology is a glue that binds institutions. If state institutions are perceived as fair, then actors obey the rules out of a sense of moral obligation (North 1981, 53–54). Thus, fair institutions correlate with political stability and social order.

When are state institutions fair? This is where the moral economy plays a role. Some scholars apply the notion of moral economy to the quiescence and/or resistance of Mexican peasants (Knight 1986, 1994c; Tutino 1986), but a moral economy can also apply to all members of a developing society who are facing uncertainty. A moral economy involves social, economic, and political relationships that provide a stable and reliable means of subsistence under given circumstances. People feel that they have a moral right to these relationships. Profit maximization is not necessarily, or even usually, a function of the moral economy; a moral economy simply preserves a secure way of life for a social niche (Scott 1976, 4–5, 10). Different niches have different economic, political, and social needs; but all face insecurity of some sort and, therefore, claim a moral right to have these needs met (Scott 1976, 179).[15] Mexico's state- society bargain—a web of political, economic, and social relationships that secure subsistence through patronage—is simply a moral economy writ large. Often, these are personal relationships between actors of unequal wealth, status or influence, where loyalty stems from mutually beneficial transactions (Lemarchand 1972, 151–52). Yet, as long as survival is certain and life is predictable, the state institutions that underpin the bargain are deemed fair. Some may receive a bad bargain, but they go along as long as subsistence is reliable (Scott 1976, 13–34).

Hardin has observed that institutions develop a moral force of their own that serves as a barrier to change, as the behaviors and relationships that they routinize become ingrained and deeply-rooted (1990, 374–75). This is why a longstanding bargain can be "sticky" and act as an im-pediment to structural change. The bargain socializes routines and relationships that provide security in the face of uncertainty. As Kollock has found, actors show great commitment to pre-existing relationships that provide security, even in the face of potentially better relationships, when uncertainty is pervasive (1994). The institutions implicated in a longstanding bargain become part of the meaning of everyday life, then, as they lend certainty to otherwise uncertain political, social, and eco-nomic exchanges. The moral force that these institutions develop over time can spark militancy if they are altered, especially when alteration engenders insecurity.

Transformation of the institutions that underpin a strongly-rooted bargain jeopardize the moral economy by altering the relationships and routines long necessary for economic and/or political security. Collective resistance tends to follow such an extreme challenge to a group's economic, political, social, or cultural existence (Warman 1976, 89). With a bargain broken, individuals of all stripes may simply feel that they are not getting their due. The moral force of the old bargain serves as the special device motivating collective action to resist and transform reforms that have destroyed a secure, certain existence. Knight is correct when he insists that resistance of this kind is both materially and morally motivated (1994c, 46–47).

Facing resistance to bargain-breaking structural reforms, politicians confront a sharp dilemma: long term reform versus short term survival and social control. They can continue implementation, attempting to ride out or crush resistance; or they can transform the policies in a manner that preserves the old patronage networks. Since most politicians are interested in maintaining short term power and social control during periods of instability, they generally choose survival rather than long term policies (Ames 1987; Geddes 1994). Survival generally entails granting preferential treatment to large power centers, namely capital, and allowing local and regional politicians, bureaucrats, and party functionaries to accommodate local power centers (Migdal 1988, 247). By using preferential treatment and accommodation, officials can restore the old moral economy, hopefully quelling resistance. To the extent that they succeed, however, the stickiness of the broken bargain has undermined reform. For these reasons, the longstanding bargain leaves its imprint even on the most carefully crafted reforms.[16]

Conclusions

> State intervention in the economy and the existence of a 'welfare state' that is arbiter of social conflicts lies at the very foundations of the constitutional pact established in 1917. . . . The 'revolutionary' legitimacy . . . [of] PRI rests on these guarantees (Gilly 1990, 274).

> What is fascinating about the present conjuncture in Mexican politics is not only the gap between revolutionary precepts and actual practice . . . but also—perhaps more so—the overt abandonment of many of the precepts themselves (Knight 1994c, 64).

Ending the state's role as the central player in the economy has devastated the melange of social, political, and economic relationships that comprised the bargain. The moral economy of many has thus been violated; individuals from many different social niches have lost a sense of security. Pervasive fear of free trade and U.S. economic domination exists (Grayson 1993, 15), despite regime efforts to move away from economic nationalism. Privatization is an "ideologically and politically sensitive issue—with many sectors of society . . . opposing it" (Lustig, 1992, 105). The moral force of the bargain looms large, and has motivated political and social actors to resist and transform neoliberal reforms.

To understand why elites and masses now resist is to understand that neoliberalism and the old order of the bargain "represent two entirely different, openly antithetical . . . cultures" (Bartra 1989, 66). Cárdenas' institutions, grounded in the revolutionary tradition, had served as a basis for state legitimacy. As economic benefits flowed from these institutions initially relationships developed within the state and between the state and society that produced political, social, and economic security. This moral economy sustained political stability and social order. Breaking the state-society bargain with the antithetical culture of neoliberalism has sparked collective resistance because the secure relationships have vanished. To understand why the officials charged with implementing reforms have undermined them, we need only understand the object of resistance: reconfiguring the secure relationships of the bargain. Reform transformation is the only avenue to short term political survival for these officials.

This is not to say that neoliberal policies will be reversed. They will not. But, the new policies will certainly be transformed to approximate aspects of the old order. The pull of the old, longstanding moral economy will not disappear. For example, with the decline of the bargain creating a vacuum of social control, new social movements have not sought democracy (as some might expect). These movements have generally sought access to government funds (Hellman 1994b; Zermeno 1990). This shows a commitment to recreating their old moral economy. Further, faced with the choice between stability and political control or the long term administrative rationality of neoliberal reforms, many PRI officials have chosen the former; old patronage relationships have continued under a variety of new guises (Varley 1993). As one businesswoman has presciently observed, free trade and NAFTA will never end the centrality of patronage networks to the economies of even the most "modernized" states such as Nuevo León (Hellman 1994a, 157).

What Can We Learn from This?

To adequately manage economic reforms, Waterbury (1989, 281) has suggested that an elite-led coalition as small and unified as possible allows more resources to be directed towards reform rather than the maintenance of political and social stability. In Mexico, however, the maintenance of any coalition may be nearly impossible when reform sweeps away a longstanding bargain that provided security in some way to nearly every sector of society. The diffuse benefits provided by neoliberalism—the elimination of excess industrial capacity, increasing industrial efficiency, lower prices, and higher quality goods (Haggard 1990, 11–14)—seem small in comparison to the patronage relationships that are disrupted. Thus, a great deal of resistance exists in Mexico. This would suggest a need for more incremental change to ameliorate the dislocation caused by reform.

Waterbury also argues for an incremental reform process to minimize social instability and economic dislocation, with fiscal reform policies coming first, followed by deregulation and trade liberalization (1992). Mexico fits this pattern, but there has still been resistance. Similarly, Nelson (1989) calls for gradual reforms over severe, wholesale change; this may explain the source of Mexico's problems. The institutional basis for Mexico's bargain was in place for nearly fifty years. As it was dismantled, even over a ten year period, the effect was still wholesale change since the social, political, and economic relationships that people had depended upon for their entire lives were disrupted. Given this, resistance is understandable. Perhaps the state must target some resources for the maintenance of these relationships to ensure smoother implementation.

In a recent study of targeted social spending in Mexico, Bruhn found that the material benefits often did little to prevent resistance or to shore up support for PRI (1995). What can we then learn from Mexico where needed economic reforms collide with deeply-rooted social, political, and economic relationships? At the very least, development scholars should have more realistic expectations about the success of neoliberalism. An awareness that the free market which results from neoliberalism cannot be entirely free may help policy makers craft more manageable policies. Since neither incremental implementation nor targeted benefits have been successful in Mexico, it may well be that only popular participation in the policy making process can secure a stable reform coalition.

Notes

[1]Implicitly, this paper attempts to heed Laitin's (1986) call for cultural variables embedded in social and political realities—i.e., the bargain—to flesh out economic explanations for behavior.

[2]The International Monetary Fund was paramount in setting the terms of reform needed for further credit (Reding 1988, 618).

[3]The North American Free Trade Agreement (NAFTA), implemented in January 1 of 1994 will eventually create entirely free trade between the United States, Mexico, and Canada. While the intricacies of NAFTA as well as the economic crisis stemming from the peso devaluation are relevant to understanding the implications of neoliberalism in Mexico, they are not crucial to my analysis of the bargain and resistance. I am interested in the broad institutional changes that occurred well before NAFTA and the current crisis. Indeed, free trade represents "only a formal recognition of changes that had

already taken place" (Lustig 1992b, 1). It is the changes that had already taken place—and the economic figures that illustrate these changes—that are my object of study, for they initially broke the state-society bargain. See Lustig (1992b).

[4]These splits may be even more extensive, with four identifiable groups within the PRI leadership. See Rodriguez and Ward (1994).

[5]Rod Camp suggested in comments on an earlier draft of this article that much of the current public infighting is due to the fact that members of presidential circles previous to Carlos Salinas are not getting the access to patronage resources that they had expected.

[6]Unlike the other two categories of resistance, Zapatista resistance is not merely restorative. The rebels do value the protections contained in the 1917 Constitution, however, they clearly seek a new set of social, political, and economic relationships—modeled partly on the old, but more sensitive to their indigenous traditions.

[7]Also see Camacho (1980), and the chapters by John and Susan Purcell and by Evelyn Stevens in Malloy (1977).

[8]For a detailed explanation of how states create and support markets see chapters five and six of Polanyi (1957) and Chaudhry (1993). Polanyi makes clear that states must regulate the pace of economic change to make it more "bearable" and less "destructive" (76).

[9]Anne Norton writes that the American "Constitution is at once text and nation. It is the act that founds the nation and the sign that marks it. It is the expression and the annunciation of a collective identity"(123). This assertion resonates for the case of Mexico, as the identity of the Mexican citizen, in many ways, did not precede the 1917 Constitution. The bargain created in its image expressed and annunciated an identity that does not readily cohere with the ideology of neoliberal reform, adding to the "stickiness" of the old bargain. See chapter four of Norton (1993).

[10]Porfirio Díaz ruled Mexico from 1877 to 1880 and again from 1884–1911. As a liberal-positivist, Díaz sought peace and progress by using the state to end political instability and lead economic development.

[11]Ejidal lands were farmed collectively by indigenous and peasant communities, allowing subsistence through small plot cultivation with limited surpluses. Initially, communities did not have actual title to the land, so they could not sell it.

[12]See Cardoso (1979) for an explanation of this rationale.

[13]Scott writes that contestation never disappears within a given moral

economy [bargain] (1985, 307–11). Yet, as long as the "minimal cultural decencies that define full citizenship" within the bargain are met, and this requires a certain level of material resources, those who receive the worst of the bargain will go along (Scott 1985, 236–38). The existence of the longstanding institutions bounding Mexico's bargain attested to the state's commitment to meeting minimum cultural decencies for many.

[14] GATT is the General Agreement on Trade and Tariffs, an international agreement negotiated to reduce trade barriers.

[15] Michael Taylor supports the contention that one's moral economy is a product of one's location in the social structure (1989, 135).

[16] Ken Jowitt makes a similar argument about the "stickiness" of the old Leninist bargain in the former Soviet Union and Eastern Europe. See Jowitt (1992).

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