STATE CAPTURE IN MEXICO: BUSINESS ELITES AND THE SALINAS ADMINISTRATION (1988-1994)

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DEDICATION

This thesis is dedicated to my beloved guardian angels Mom, Linda, Junior and Uncle D. Mom thank you for being my driving force in life and for pushing me to accomplish so much because of you "I am".

Linda you are not only my sister you are my best friend and I will be forever eternally in debt with life for having put you in mine. Junior, "carnal", my own unique twin here I am after all those days of "la cuestion". Tio thank you for being such an important part of my life. Everything I do and everything I am is for the four of you. I love you and words cannot begin to explain how much I miss you.

STATE CAPTURE IN MEXICO: BUSINESS ELITES AND THE SALINAS ADMINISTRATION (1988-1994)

by

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During the late 1980s and 1990s, Mexico decided to modernize its economy by implementing a series of privatization initiatives of state-owned enteprises. These initiatives were developed within a weak legal institutional framework and a collusive pattern of business elite relations. Triggering a process of political and policy change where privatization altered the relative power of business elites, empowered corporations as political actors, and changed the nature of business-government relations to a point that private interests "captured the state", a process associated with corruption. I argue that the economic reforms conducted under President Carlos Salinas de Gortari empowered business elites to a point where they could "capture the state" by establishing a privileged relationship, making them the direct beneficiaries of the privatization process, and hindering political and economic democratization. This study is evidenced by cases such as Telmex and Carlos Slim Helu, Televisa and TV Azteca, and the mining industry. Cases that exemplify monopoly conditions as examples of the perpetuation of state capture by business elites.

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ABBREVIATIONS

BMV	*Bolsa Mexicana de Valores*
CCE	*Consejo Coordinador Empresarial*
CFC	*Comision Federal de Competencia*
CMHN	*Consejo Mexicano de Hombres de Negocios*
COECE	*Coordinadora de Organismos Empresariales de Comercio Exterior*
COFETEL	*Comisión Federal de Telecomunicaciones*
GDP	*Gross Domestic Product*
IFE	*Instituto Federal electoral*
IMF	*International Monetary Fund*
ISI	*Import Substitution Model*
MXN	*Mexican Peso*
NAFTA	*North American Free Trade Agreement*
NCC	*National Contributors Congress*
OECD	*Organization for Economic Co-Operation and Development*
PAN	*Partido Accion Nacional*
PEMEX	*Petróleos Mexicanos*
PES	*Pact of Economic Solidarity*
PRONASOL	*Programa Nacional de Solidaridad*
PRI	*Partido Revolucionario Institucional*
SAT	*Secretaria de Administración Tributaria*
STRM	*Sindicato de los Telefonistas de la Republica Mexicana*
TELMEX	*Telefonos de Mexico, S.A.*

CHAPTER ONE: INTRODUCTION

Transition economies happen when governments shift from a central authoritarian regime to one of an "open" free market. Mexico started transitioning its economy in the late 1980s, under President Miguel de la Madrid, after its collapsing petroleum prices and higher international interest rates made the import-substitution economic model impossible to sustain. Since then, Mexico has enjoyed two decades of a free market economy and has endured various economic and political crises.

During this period the International Monetary Fund and the World Bank became fierce advocates of the neoliberal agenda championing deregulation, less social spending, and democratic principles as replacement of authoritarian regimes. In the 1990s, President Carlos Salinas de Gortari enacted a series of economic liberalization initiatives that included increased privatization of state-owned enterprises, removal of trade barriers, and trade agreements all part of a macroeconomic stabilization strategy. President Salinas championed the neoliberal premise that if economic transparency was prioritized within a state it would yield democracy and economic development. The outcome, however, has not been as expected the liberalization of the economy led to a "captured state" by big businesses where severe political, social, and economic imbalances have increased.

Currently, a significant percentage of the population continues to live in poverty and high levels of inequality still exist. Mexico's inequality is among the highest of any OECD (Organization for Economic Cooperation and Development) country and its income inequality has not fallen significantly since liberalization of the economy.[1] The Gini index during liberalization of the economy in 1992 was 0.51 and the current Gini index is 0.48.[2] In 2005, for example, per person income for the richest ten percent in Mexico was $44,035 dollars and the lowest twenty percent of the population had a per person income of $1,848 dollars (Rhoda and Burton 2010). Statistics have concluded that the richest ten percent of the population in Mexico "are wealthy even by world standards" (Rhoda and Burton 2010, 89). Mexico's national poverty line was 53 percent in 1984 and in 1996 the poverty line increased to 69 percent.[3] Despite Mexico's attempt to develop economic equality the state is basically controlled or strongly influenced by economic elites. Of course, economic modernization in Mexico did bring about positive outcomes such as a growing middle class and mass consumption. Real economic, social, and political competition, however, is limited to the country's elite.

In light of these problems, it is of great interest to study the dynamics of the economic liberalization and the privatization process conducted under President Carlos Salinas de Gortari (1988-1994) and the effects it had on Mexico. Why did Mexico's economic disparity augment after its economic liberalization? How were business elites favored under Salinas? What were the consequences of this empowerment?

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[1] Mexico signed the Convention on the Organisation for Economic Co-operation and Development on May 18, 1994 (OECD 2013).

[2] Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality (Rhoda and Burton 2010).

[3] Data is collected from the World Bank indicators illustrating how Mexico's national poverty increased after the economic liberalization and has not statistically fallen since 1984 (World Bank 2013).

Research Problem

State capture is defined as a legal institutionalized form of corruption and political control where powerful actors, based on their economic interest and their own advantages, affect a democracy and people's rights (Hellman and Kauffmann 2001). State capture is perpetuated in an authoritarian government because of the tight grip the government already exerted on the country. As a result, liberalizing the economy generates conditions such as economic concentration and power allocation by the oligarchs or corporate elites. In state capture the laws, policies, and regulatory environments are shaped by the political and business elites to their own advantage. In the case of Mexico, President Carlos Salinas de Gortari enacted a series of privatization initiatives by selling Mexico's state-owned enterprises such as its telecommunications, railroads, electricity, steel, natural gas, and the entirety of its banking system. This process further empowered corporations as political actors and created a privileged relationship between the corporate-private sector (big business) and public sector.[4] As Hellman and Kaufmann point out, a state capture cycle begins when the policies and reforms start to be defined by powerful firms and corrupted state officials (2001). The case of Mexico demonstrates how the privatization process was biased towards medium-small sized firms and the general population. Creating an economic imbalance through the protection of certain large business groups (Johnson 1998). The imbalances, the initial privatization set forth, still exist in present day Mexico, and have negatively affected the development of a competitive liberalized economy for the country. A majority of the population is still living in poverty and inequality is still an issue of grave concern. This hinders real economic competition and limits equitable economic

[4] For the purpose of this analysis the terms "corporate" and "big business" are used interchangeably.

growth. This thesis introduces some of the research needed in order to estimate the causes and consequences of state capture and how such grand form of corruption damages the state and the nation as a whole. Through examination of Mexico's case, this paper attempts to address the question of why a liberalized economy fell into a captured state, and what are the costs associated with this condition.

Hypotheses

H_1: Mexico's transitioning government suffered from corruption because of a one-party system and fell into a "captured state" through big business concentration.

> Single authoritarian regimes where power is highly concentrated in the executive's decision allow a transfer of state resources to big businesses.

H_2: Privatization under President Salinas's policies empowered big business groups in Mexico

> Liberalization of the market produced economic concentration through preferential treatment given by the executive to the business elites who became the main beneficiaries of the privatization process.

H_3: Privatization contributed to capture of the state by big business groups.

> Big business groups and government developed a privileged collusive alliance through a mutually beneficial relationship.

H_4: State capture produces social, economic, and political imbalances.

> By disproportionately hurting the poor, hindering economic competition, neglecting consumers, increasing income inequality, and slowing democratization.

Purpose of the Thesis and
Research Questions

This study will analyze the economic policies implemented under the Salinas administration, in order to demonstrate the effects that the liberalization of the economy had on the general welfare. Evidence will show how the oligarchs or Mexican corporate leaders promoted institutionalized legal corruption by adopting policies that favored them both economically and politically in the privatization process. Variables such as regime type, a culture of corruption, and strong collusive relationship between the business elites and government are all factors that generate the conditions of a captured state. This thesis argues that the economic reforms conducted under President Salinas empowered Mexican business elites to a point where they could "capture the state" by establishing a privileged relationship, making them the direct beneficiaries of the privatization process, and hindering political and economic democratization. As such, the following issues will be examined:

How did the historical "cozy" relationship between the public sector and business elites contribute to a captured state in Mexico?

How does the perpetuation of corruption and regime type influence a transitioning economy's democratization outcomes?

How did the privatization process specifically empower business elites?

How do empowered corporations alter the nature of the business-government relations?

What are the effects and consequences of state capture by businesses elites?

Limitations

Finding credible primary and secondary sources has been a problem in this study in order to demonstrate the validity of the sub-unit cases. Specifically, finding reliable and scholarly sources to analyze how certain business elites were able to capture the state. Corruption is not documented in Latin American countries thus posing a limit to this thesis. At the time of the economic liberalization, newspapers and magazines were controlled either by state-owned enterprises or private monopolies. This damaged the ability to properly document historical evidences by scholars or journalists. More so, specific documentation to validate preferential treatment to certain elites during the Salinas administration is very limited.

Definition of terms

For the purpose of this analysis, business power and influence depends on firm size (large business vs. small and medium size business). Business elites, large economic groups, private corporations, economic elites, and big business all constitute the definition of large firms as the most powerful business actors in Mexico. This analysis illustrates specific cases of big businesses economic activity and economic competition within specific sectors. The collective actions of business elite associations are also analyzed.

For this thesis preferential treatment is defined as the ability to form a close relationship with the executive branch resulting in confidential information given to the private sector, purchase of legislation, and capture of the judicial system. Privatization and liberalization are highly interrelated but need to be differentiated in this analyzes. Judith A. Teichman refers to privatization as,

> "The sale of state enterprises to the private sector…. liquidation of public companies, policies opening up economic sectors previously reserved exclusively to the state, and the transfer of public sector activities to the private sector through franchising or contracting out" (1995, 4).

Whereas liberalization includes,

> "The removal of restriction from the goods, financial, and service markets. Liberalization is supposed to facilitate the efficient allocation of resources and, as a result, create opportunities for an increase in income. But efficiency is contingent on innovation and capital availability. Liberalization is normally accompanied by transparency of trade policies and a push to have simplified rules and nondiscriminatory practices in trade arrangements and market operations. Liberalization of the goods market refers to the removal or minimization of impediments to the flow of goods across national boundaries. These impediments include tariffs and nontariff barriers" (Sage Publications 2009).

For this thesis the term "privatization" refers to the selling of state-owned enterprises and "liberalization" refers to the opening of the economy.

Overview of the thesis

Coming from a comparative historical qualitative approach, this thesis is divided in three sections. First, in order to establish the independent variables a historical analysis of the private and public sector is conducted. Identifying the pervasive history of corruption, the authoritarian one-party system rule, and the crisis of 1982 as the events that led to liberalization of the economy. The second part of the thesis analyzes the dependent variables through the economic polices enacted under President Salinas and how it led to preferential treatment and empowerment of businesses elites. Finally, review of business elites cases that were benefited with the privatization process will be analyzed.

CHAPTER TWO: LITERATURE REVIEW

This chapter analyzes the body of literature in the field as a way of providing a scholarly background for the present case study. Looking at the theoretical contributions and empirical studies relevant to the privatization process, state capture, and transition economies in Russia, Ukraine, Serbia, and Peru.

Privatization

The idea of supporting privatization policies can be traced back to Adam Smith and his classical liberalism. Traditionally recognized as the father of laissez-faire, Smith envisioned an ideal economic environment where the private sector would be free from government regulations, monopolies, and tariffs. In the 20th century, classical liberalism was advanced through Neoliberalism. Campbell and Bakir studied how pre-Neoliberalism started to gain force after the 1970s, when governments studies argued that financial reforms were being crippled by "needless barriers to competition" and "serious anticompetitive situations" (2012, 535). Therefore, the need to remove barriers to geographic, price competition, deposits, and compartmentalization became highly desired (Campbell and Bakir 2012, 535). The theory of economic Neoliberalism, accredited to Milton Friedman, centers on a set of policies such as economic liberalization, free trade, market competition, and privatization. Economists viewed privatization as a remedy needed because of the public sector's inability to offer proper and competitive goods; while the private sectors potential to interact in an open economy to yield productivity and efficiency was also highly desirable. Privatization was theorized to improve productivity in the public sector by providing alternatives to goods and services (Savas 1987). Privatization would create pressure on government's involvement in the economy augment competition and democracy. Boycko, Shleifer and Vislny's economic theory of privatization concluded that a pressure group was needed for government to be accountable and in turn this would lead to the restructuring of firms (1996). The theorists argued that privatization and market deregulation would eliminate politicians using state-own enterprises and government regulations to their own benefits, thus improving overall general welfare of a state (Boycko, Shleifer, and Vislny 1996). Major proponents of privatization included the World Bank and the IMF who praised market competition and instituted it as the *status quo* in the 1980s for those requiring their assistance. On the other hand, the literature also developed on the negative aspects of privatization and economic reforms.

From a critical perspective, scholars such as Manzetti and Blake analyzed the effects of privatization and deregulation in three Latin American countries. Concluding that unless market reforms were instituted in a "context of transparency", they would be used as "new means to pursue old corrupt ends" (Manzetti and Blake 1996, 662). Central to this thesis are the authors' hypothesis that the use of the executive power had enormous influence on the privatization process and described how the "sale of insider information in the economic reforms" proved to be the most common patterns found in the countries studied (Manzetti and Blake 1996, 685). Megginson further argued how "privatization had not ended state involvement in the economy, but rather transformed it" (2000, 22). The author argued that the sale of state-owned enterprises conducted in nontransparent manner gave insiders the ability to manipulate the "transactions in their favor" (Megginson 2000, 24). Empirical evidence has demonstrated the correlation between privatization and the capture of economic interests by the private sector. MacLeod, studying the effects of privatization and state autonomy in Mexico, concluded that the Mexican state "drew heavily on the resources and personnel of the private sector, i.e. elites, outsourcing critical tasks in the privatization process to the private sector" (2005, 38).

The literature on economic reforms center on the positives market efficiency, productivity, and general welfare. The literature on economic reforms also acknowledges the negative effects of corruption by the government. A situation highlighted by the most critical literature. The literature on economic reforms and state capture would develop as privatization unfolded in several parts of the world in the 1980s and 1990s. Mexico is an important case since it will be one of the first countries to adapt neoliberal reforms and initiate the privatization of state-owned enterprises after the 1982 peso crisis.

State Capture

The literature on state capture has gathered prominence in recent years and several theories have been advanced to explain this phenomenon. Scholars view state capture as the alliance between the state and business elites where both seek exclusive benefits to advance their own interests. State capture can be traced back to the idea of collective action by the private sector and its ability to influence regulation. The theory of collective action introduced by Olson, explains how if a group, i.e. the producers or firms, have a common interest they will collectively pursue such interest as to achieve it (1965). Olson's idea of collective action evidences the arbitrariness of the majority and minority in a democracy. Olson exemplifies how the producers, majority, will lobby more effectively thus resulting in better regulation to their interest and damaging consumers or the minority. Regulatory capture and regulation are further explained in Stigler's supply and demand theory. Stigler, focusing more on the demand side, conceptualizes how firms lobby more effectively and coercively to further their economic interests and "as a rule, regulation is acquired by the industry and is designed and operated primarily for its benefit" (1971, 3). Regulations are passed for the benefits of large firms who are better organized and favor regulation, not for the protection of the consumers. The idea of regulatory capture and political influence is advanced through Peltzman's theory. Peltzman furthers Stigler's theory focusing on the supply side of regulation through the "legislator". The legislator in order to remain in power will associate with interest groups and in return the interest groups (firms) will offer political financial support in exchange of favorable legislation (1976). Both authors emphasize on the interaction between government and the private sector and on the advancement of their exclusive interests' contingent upon regulation. Regulatory capture, in simple terms, is viewed as the ability by large firms to influence the state to a point where favorable legislation is obtained. As the theory of regulatory capture rose, so did the theory of corruption and its effects on public sector governance.

Regulatory capture is not necessarily illegal, large firms can lobby better than consumers for legislation to serve their specific interests. Rather, as Philp's regulatory capture theory demonstrates, it becomes illegal once the legislators pass a regulation because of a bribe or inducement of threat serving specifically the interests of the industry (2001, 2). With regards to corruption, the World Bank defines it as "the use of public office for private gain" and studies have found how public administration corruption emerges in the presence of monopolies and undermines polices that aim to alleviate society (World Bank 2013). The concepts of regulatory capture and corruption gave rise to the theoretical framework for state capture and the effects it has on a state. Philp defines state capture as "the actions of individuals, groups or firms in both the public and private sectors to influence the information of laws, regulation, decrees and other governmental policies (i.e. the basic “rules of the game”) to their own advantage by means of illicit and non-transparent provision of private benefits to public officials” (2001, 2). State capture influences government in the interests of large firms and at the detriment of the general welfare.

Luis Ocampo Moreno points out how the poor are the ones who suffer most from non-representation in developing countries. The marginalized sectors experience state capture when no legislation is conducted in their interests thus the idea of “decision buying” damages the poor sector at a greater extent (2001). Macher, Mayo, and Schiffer also explore the detriment of a firm’s influence on government policies. The authors constructed a country-level, industry-level, and firm-level characteristics study to determine large firms’ abilities to influence government’s decision-making entities (Macher, Mayo, and Schiffer 2011). Important to this thesis is their finding of how a state’s legal system heritage (i.e. regime type) and institutions have severe effects on the level of influence the firms believe they have over the public sector decision making in regards to “new rules, regulations, and laws” (“ibid. 21”). The authors also find that the higher the industry concentration is, the stronger the support for firms to influence government decision-making bodies will be (Macher, Mayo, and Schiffer 2011). This proposition is important and will guide the Mexican case, focusing my studies on business, state capture groups, and regime type. This type of study is especially needed given the scarce empirical evidence available for country studies in Latin America. Since most of the literature has been centered on Russia and the former Soviet republics.

Transition Economies and State Capture

Transition economies and the relation to state capture have been subject to in depth study by the World Bank. Prominent researchers Hellman and Kauffmann have laid out the dynamics of state capture as the ability to "shape the laws, policies, and regulations of the state to their own advantage by providing illicit private gains to public officials" (2001, 1). The authors theorize that state capture occurs in transition economies where new policy formation is taking place and have a history of "greater concentration of power and limitations on political competition" (Hellman and Kauffmann 2001, 3). This transition was exemplified in the 1980s in Latin America and the former Soviet Union republics. State capture is defined as either high capture, seen as a serious problem, and low capture a modest problem (2001). In a study done by the World Bank on corruption in transition economies, evidence shows how this practice has become pervasive. The "rules of the game" have been changed to the advantage of a particular group who has captured the framework of the new institutional environment (World Bank 2000). The "root" of the problem are part of the states' "historical legacies, economic structures, and transition paths" ("ibid., 81").

In a study done in 1999 by Hellman, Jones, Schankerman, and Kauffmann using the World Bank's Business Environment Survey (BEEPS), the authors identify the effects of state capture in a transition economy and distinguish the influence large firms have on the state. The authors conclude that state capture is a form of grand corruption conducted by the private sector through the purchasing of decrees and legislation (Hellman et al. 2000). The link between state capture and privatization is established in another study conducted by Hellman and Schankerman in 2000. The degree of state capture in a state is related to the privatization process, and the outcome of privatization process is contingent upon good governance. In high captured states, the progress of economic reforms is “influenced by powerful vested interests” and as a result “lower quality of governance occurs” (Hellman and Schankerman 2000, 553).

In a subsequent study done in 2003 by Hellman, Jones, and Kauffmann, the authors provide an analysis of the dynamics of state capture and the small number of firms that manage to, “capture the public officials within various levels of the state and are able to extract concentrated rents and to purchase individualized provision of underprovided public goods” (771). The authors discover that influence is inherited through state capture and the benefit of the captor firm depends on the level of the captured state, high or low. The firms are able to capture the economy through regulation and laws in their favor, which are factors that weaken legitimate reforms, transparency, political accountability, and economic competition (Hellman, Jones, and Kauffmann 2003, 771).

As evidenced by the literature in state capture, the effects of state capture are quite negative, yet individual case studies are needed to further the analogies. In addition, in the cases of Russia, Central Europe, and the former Soviet republics there are several studies on state capture but few exist on Latin America. In 2005 Slink, Yakovlev, and Zhuravskaya conducted a micro level data analysis of preferential treatments given by government from 1992-2000 to firms in Russia (284). The authors analyzed how the capture of legislature and regulatory agencies by a few politically influential firms has affected growth in Russia. Discovering how politically powerful firms obtain higher “profitability, sales, and employment” compared to other firms, how capture of government alienates the firms with no political power, how small business growth is affected by capture, and how in regions with higher levels of state capture firms benefit the most from preferential treatment (Slinko, Yakovlev, and Zhuravskaya 2005, 312). Another study of Russia reveals that the, "democratic institution and the states poor accountability to the public made government susceptible to capture" by the politically powerful firms who have since controlled the "rules of the game for the economy" (Yakovlev and Zhuravskaya 2006, 1). The authors believe powerful firms have created obstacles to competitive business and altered the direction and progress of the economic reforms. Concluding that no significant changes in the level of state capture occurred in Russia between Yeltsin and Putin's terms ("ibid., 8"). The literature on Eastern European has also been advanced in a study by Pesic. The author argues that Serbia's political parties act as the mediators being used to "appropriate state institutions" (Pesic 2007, 1). Serbia, as a transitioning economy, has not been able to separate its political and economic sectors. Pesic concludes that non-definition of the sectors has created a "non-transparent and unaccountable" government undermining the legal institutions and creating "systematic corruption" (Pesic 2007, 30). States that face transitional problems is a reflection on the government's inability to democratize the economy before implementing the reforms. Gould and Hetman analyze the relationship that developed after the privatization process between the business sector and the public sector. The authors analyze Ukraine with two theories: "market reform theory", which arguably would create a business class and produce a growing market, and "political competition theory" as an explanation to why market reforms failed in Ukraine (Gould and Hetman 2008, 1). The authors believe "illiberal politics" created a "business access to politicians" that in return used the policy to "guarantee them a profit" (Gould and Hetman 2008, 1). As evidenced by the literature, the theory of state capture started to be analyzed in reference to business empowerment through corporations rather than through corruption.

Omelyanchuk's study in 2001 analyzes the "economic actors influence" in the state to capture the state's institutions to extract advantages (2001, 1). In a study conducted by Frye in 2000 to assess business lobbying by 500 firms in Russia, the author separates capture and elite exchanges. Capture happens when firms "exercise influence over state policy while bearing little cost for their efforts" and elite exchange occurs when "successful lobbyists representing corporations gain influence by providing benefits to state officials" (Frye 2002, 1021). The author's evidence shows how success in lobbying depends on a firm's type and level of government, how lobbyists use business associations as means to obtain favorable treatments, and how elite exchange rather than capture serves to "characterize business-state relations for the majority of firms" in Russia ("ibid., 1031"). The neoliberal agenda introduced in the 1980s and 1990s reinforced favorable treatment to economic elites. In a study conducted in Latin America by Durand in 2009, the author demonstrates how state capture "flourished under Neoliberalism" policies and corporations thrived under a weak civil society creating a new private sector power in Peru (185-190). The case demonstrates how economic elites, under authoritarian conditions, have been able to control government through "institutional reforms in order to defend rents" and continue their capture of the state (Durand 2010, 204). The literature demonstrates the link between business elites and economic concentration through privatization policies.

The dynamics of state capture have to be analyzed individually, on a case-by-case scenario, in order to fully understand the underlying conditions of how a state was specifically captured. This thesis seeks to understand if the transition economy phenomena had similar effects on Mexico as it did on Russia, Eastern Europe, and Peru.

CHAPTER THREE: METHODOLOGY

The following chapter will present the methodological approach used to explain the choices made in this thesis to make a qualitative case study, the selection of Mexico as a case, and the design of the case study. Furthermore, this chapter describes why a comparative historical data analysis is used to interpret events against the theoretical literature as well as to investigate specific cases of privatization.

A Qualitative Case Study

This study relies on methodological tools offered by comparative historical analysis to evaluate the effects of the liberalization and privatization process in Mexico. A qualitative case study approach was selected to expand the knowledge of events in Mexico and to develop a more tangible framework of state capture and, as a result, privatization under the administration of Salinas. Specifically, the case of Mexico demonstrates how the economic liberalization exclusively benefited the economic elites who in turn captured the state through the privatization process. Illustrating, how it favored concentration of economic power in the hands of a small and increasingly powerful group of Mexican conglomerates.

Since the goal is to explain state capture through a historical context, a qualitative case study approach is appropriate. The qualitative study approach attempts to objectively study the subjective states of their subjects (Bogdan and Biklen 2003). The research emphasizes collecting descriptive data in specific settings, uses inductive thinking, and emphasizes understanding the subject's point of view (Bogdan and Biklen 2003). As a result, the researcher spends a great amount in the empirical world collecting data, adding to knowledge, interpreting the data, and giving meaning to it.

Since this study aims to explain state capture in relation to a specific Mexican context during one administration this work can be defined as a case study. In order to understand a phenomenon in depth, the Mexican case study is used providing "a detailed examination of one setting, or a single subject, a single depository of document, or a particular event" (Bogdan and Biklen 2003, 258). The case in this thesis is Mexico during its privatization process and the effects it had on the state as the policy was emphasized by the Salinas administration in a moment when Neoliberal policies guided the Mexican state and became official policy orientation.

Selection of Cases

The ability to look at sub-units within a larger case, i.e. Mexico and its economic liberalization, is conducive "when you consider that data can be analyzed within the sub-units separately (within case analysis), between the different sub-units, or across all of the sub-units" (Baxter and Jack 2008, 550). Information on how the specific chosen cases were privatized, who acquired them, and how this proves that certain elites benefitted from the process will be observed.

Mexico is almost a perfect example of corruption on two levels: illegal corruption and legal corruption. Mexico has a history of pervasive illegal corruption, the collusive agreement between one party (PRI), who controls the state, and private corporations. Therefore, the economic liberalization under President Salinas makes Mexico an important case study to show the effects corruption and regime type have on the ability to form a “captured state”.

In order to better illustrate the case of Mexico, sub-unit cases will be observed, focusing on the business groups under President Salinas and how privatization resulted in preferential treatment. Sub-units cases such as the telecommunication industry, Telmex under Carlos Slim Helu, broadcasting network with Televisa and TV Azteca, and the mining industry will be discussed.

Reliability and Validity

Reliability and validity are viewed in qualitative research as a tool to replicate a study, where validity is “well grounded” and reliability provides “sustainability”. Reliability in a qualitative study is the “consistency between the data collected or reported and the empirical world studied, referring to the accuracy and description of the research site than to the researchers interpretation of what the findings mean or how they relate to other research and theory” (Bogdan and Biklen 2003, 261). Thus, reliability makes the study dependable and trust worthy. In this thesis, reliability can be achieved by studying the historical context of Mexico within the analyzed time frame and the events thereof.

Validity is defined as the extent “to which an account accurately represents the social phenomena to which it refers” (quoted in Silverman 2010, 439). In this thesis, validity is attained by comparing state capture by business elites through comparison and analyses of the monopolies, duopolies, and oligopolies created after privatization of key state-owned enterprises. In order to reach validity state capture is measured in this study through preferential treatment conditions such as direct finance, tax breaks, subsidies, capture of the judiciary, and purchase of legislation. Preferential treatment is defined as the ability to form a close relationship with the executive branch resulting in confidential information given to the private sector, purchase of legislation, regulations, direct finance from government, tax breaks, and capture of the judicial system. For this study, state capture is contingent on two conditions: first, economic groups (private sector) must be able to influence legislation by providing some benefits to public offices and second, the influence must be concentrated in small number of powerful firms (Hellman and Schankerman 2000, 553). This thesis seeks to establish validity over reliability.

Data Collection

The collection of data comes from varied primary and secondary sources in order to establish greater understanding of the case and sub-units for this thesis. Newspapers, videotapes, scholarly journals, narratives, documentation, video files, interviews, books, and library archives all contributed to understand the phenomena as a whole.

Data Analysis

The data was analyzed using several strategies. First, in order to establish what caused the shift to market reforms a historical analysis of presidencies of Luis Echeverria Alvarez and Jose Lopez Portillo is conducted. Second, in order to illustrate what caused the business elites to acquire exclusive benefits during the liberalization process, a comparative historical analysis was chosen to describe, interpret, and explain the relationship between the public sector and business elites. Third, an interpretive analysis comparing the economic policies instituted under President Salinas are explained. Fourth, the objective and systematic reconstruction of the data is used to establish the empowerment of business elites during President Salinas and reinforce the theory of "state capture" by business elites. And finally, a data analysis was done on sub-unit cases in the private sector observing the degree of state capture through preferential treatment conditions such as confidential information, purchase of legislation, regulations, direct finance from government, tax breaks, and capture of the judicial system.

CHAPTER FOUR: HISTORICAL CONTEXT

Mexico had a one party system for seventy-one years, the Institutional Revolutionary Party (PRI), who lost its one-party authoritarian rule in 2000 with the election of Vicente Fox (PAN). Currently, the PRI is back in power and the effects this will have on the country are still to be seen. Nonetheless, the high concentration of political and economic power the PRI enjoyed for seventy-one years helped shape the current capture of the state by the oligarchs. Until its economic liberalization, the state held a strong leadership role that characterized the industrial substitution model and shaped an alliance with the private sector until 1982. State-owned enterprises played a major role in the state's ability to hold a strong central authoritarian grip in the economy. The post-revolutionary governing structures helped form the small, but strong, oligarchs and business elites. The economic groups flourished by aligning themselves with the ruling party, PRI, either politically or through intermarriages between families. In this system, the politicos from the PRI defined the "rules of the game". The oligarchs played the game and developed through state patronage from "trade protection to "mexicanization laws", from government contracts to concessions, and actual monopolies" (Cardenas 1998, 33). The relationship between the private and public sector gradually empowered the oligarchs, who were able to manipulate the political process and economic elite associations to further influence government. As a result, the oligarchs eventually were able to pressure and manipulate policy formation and shape the emerging rules to their advantage. Such has been the collective action by the CMHN (Consejo Mexicano de Hombres de Negocios) created in 1962 by Bruno Pagliai. Originally, the CMHN had twelve close knitted elite business members who functioned as a pressure group with similar incentives to influence the highest realms in government (Ortiz 2002). The CMHN became a strategic economic civil organization aimed at promoting the business elite's interests through legislation and manipulation of power. In its initial years, at a time when socialist trends started to emerge in Mexico, the CMHN's objectives were to promote Mexico's "real image", attract foreign capital investment, limit the public sectors role, and promote the political economy of "stabilizing development" (Ortiz 2002, 109). The association's political and economic power resides on the member's vast capital, therefore the threat of retrieving such capital from productive investment or even speculated capital flight exerted great control over government (Ortiz 2002). Since its initial operating days, the association has been heavily linked to the executive and the party in power. CMHN members have been known to directly meet with presidential candidates to discuss policies that would be in the interest of the private sector, but historically have left the decision of choosing the next presidential candidate directly to the current president (Ortiz 2002, 118). The influence the CMHN has on the presidential candidate's nomination would be extremely noticeable in the election of Carlos Salinas de Gortari. Initially, the CMHN started as a public relations association exerting some influence on government. As the years evolved, the dynamics the association created were biased against medium and small size enterprises who where not represented in the CMHN interests. This would further augment with the liberalization of the economy. As a result, throughout the years the public sector and private sector developed a privileged relationship limited only to the business elites. In order to fully understand the relationship between the private and public sector the administrations of presidents Luis Echeverria Alvarez, Jose Lopez Portillo, and Miguel De La Madrid will be briefly examined. When President Carlos Salinas took office in 1988 the relationship of the private and public sector had not been stable, given the economic decisions and strong leadership of the state.

History of Private - Public Sector Relations

In the first phase of the relationship between the public and private sector, the business class was involved in the economy with a limited role (Alba 2006). The alliance between government and the private sector relied on the government's ability to provide an appropriate investment climate and in exchange the private sector would abstain from entering politics. Eventually, however, big businesses favored the creation of a strong and well-organized sector. President Echeverria opposed the creation of the strong sector and started to alter the alliance by enacting a shared development strategy that ended all governmental talks with the private sector. The strategy included a series of interventionist policies, redistributive, and social welfare policies (Heath 1998). The government became distrustful of the private sector believing they, "were not in the best interest of society as a whole and could not produce sufficient jobs" (Heath 1998, 39). The Law of Foreign Investment was enacted in this period, leaving the private sector to fear the law's restrictiveness and its inability to attract capital; the state also nationalized more than 700 enterprises between 1970 and 1976 (Teichman 1995; Alba 1996). The economic policies enacted by President Echeverria marked an erosion of trust by the private sector and the relationship started to disintegrate, prompting the business sector to initiate economic and political reforms by targeting disinvestment and capital flight (Alba 1996). Through the CMHN initiatives and leadership, the private sector took action and created the Consejo Coordinador Empresarial (CCE) (Ortiz 2002). The CCE, along with the CMHN, would come to play a strong role in helping business elites capture the state during the privatization process. As indicated in the Consejo Coordinador Empresarial website, the CCE was established in 1976 as a defense against the interventionist policies that where seen as populist oriented. Further, under President José Lopez Portillo (1976-1982) the public sector continued to become heavily involved with the economy of Mexico.

Initially, the CMHN and CCE saw the election of José Lopez Portillo as positive, given his background as finance minister under President Echeverria, and made no resistance to his election. President Lopez Portillo's background in finance led the public sector to believe he would initiate modernization of the economy, and in turn achieve a status of "high recognition" that would grant Mexico credibility and a privileged status before the IMF and World Bank (Ortiz 2002, 119). In his term, however, the government continued to purchase private enterprises and started to directly compete with the private sector in some areas of the economy. Concomitant to the state's acquisitions, the discovery of new petroleum reserves led President Lopez Portillo to leverage the petroleum reserves for new economic development lever, by attracting foreign finance and instituting a period of economic growth and uncontrolled expansion of state-owned enterprises (Teichman 1995, 37). President Lopez Portillo effectively instituted a "mixed economy" that guaranteed the private sectors participation while retaining political control and expanding the role of government in the economy. Portillo's initiatives, for example, included compensation to the agricultural sector by paying for the lands that had been expropriated under President Echeverria, offering an economic stimulus through products made in semi-public businesses or *paraestatales,* establishing tax reforms, enabling credit loans to businesses, and assuring the private sector that the national market would be protected from foreign investment (Alba 1996, 34). As a response, the CMHN realized they had to formalize its own interests in the political decision-making in order to directly influence economic policy formation.

The CMHN further strengthened its relationship with the government by reconfiguring its mission and pursued frequent meetings with the president and important political figures. At the same time, the CCE developed a public campaign to promote and legitimized the private sector, i.e. business elites, initiatives in the public realm (Ortiz 2002). Hence, legitimization of the public and private sector occurred bringing growth in Mexico's GDP, however, this soon would change.

In 1982, the declining petroleum prices and the rise of international interest rates promoted government to enact a series of anti-capitalist measures in an attempt to curb a financial crisis. In the midst of this crisis, Lopez Portillo nationalized eighteen private sector banks, leading to a severe capital flight, currency speculation, and political crisis. The private sector, specifically the CMHN and CCE, felt that Lopez Portillo's decisions changed the "rules of the game" an implicit pact that had established important agreements even under President Echeverria's term and that had been in place for years (Ortiz 2002, 122). The decision to nationalize the banks led to considerable tension and broke the relationship between the business elites and the private sector. Furthermore, the private sector knew the economic crisis was triggered because of government's disastrous economic policy decisions, in particular, the monetary policy.

Starting in the 1970s, Mexico borrowed heavily from world markets to support expensive government policies. Given the high prices in the oil market, Mexico received foreign loans from private banks in high numbers because of its oil resources that serviced as payment leverages to the international banks. The oil boom, however, also increased the state's debt and when Mexico was unable to pay back the loans it caused the debt crisis of 1982. As indicated on the Emerging Marketing Trading Associations website, this is viewed as the lost decade of economic stagnation when international credit and capital flows to Latin American nations, and to the private sector was severely suspended. Prior to the crisis, the "oil boom" strategy led Mexico to establish a high GDP. Figures 1 and 2 demonstrate how in 1981 Mexico's GDP was $250 billion U.S. dollars with an average annual growth of 9%, by 1982 its GDP was $173 billion with an annual growth -1%, and by 1983 its GDP was at $148 billion and a negative growth of -4%. The economic crisis produced high inflation, production halted, and growth rates became negative leading Mexico to adapt neoliberal economic reforms. This, in turn, created important effects on private-public relations because it eventually weakened the political sector and empowered the business elites.

Figure 1: Mexico's GDP Growth 1981-1984, *Source*: World Development Indicators

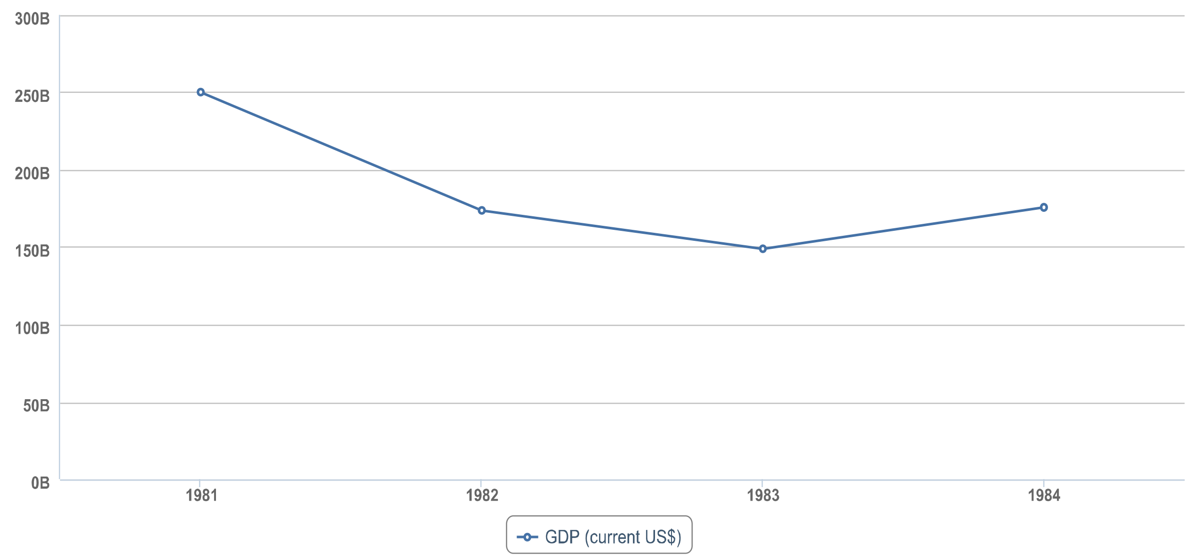

Figure 2: Mexico's GDP in Billions 1981-1984, *Source*: World Development Indicators

Government was overspending, developing at any cost, and in 1982 with the accumulated deficit Mexico had used to support their policies a massive external debt occurred. In order for Mexico to adjust, new policies would need to be enacted that reduced the role of the state in the economy and expanded the private sector. After 1982, no foreign lending was available until Mexico renegotiated in mid-1989 (Cardenas 1998). The crisis of 1982 made government realize that foreign investment and pro-private sector policies were necessary to allow competition. Thus, Mexico moved away from the import substitution model it had followed for many years. Mexico's fiscal policy would need to change in order to increase revenues and cut non-interest yielding expenditures, build confidence, encourage the inflow of private capital, increase the global competitiveness of the national market, and reform the rules that governed the economic policies of goods and investments (Lustig 1998, 2). As a result, the economic crisis of 1982 marked a new era of policymakers and policy making in Mexico.

Given the economic realities Mexico was facing, the transition to a new type of politics occurred with the emergence of a new type of political elites knows as the "*tecnicos*". The *tecnicos* where characterized as professional economists who had bureaucratic career expertise, degrees in economics, believed in a professional administration, and were deeply committed to the principles of free market (Centeno and Maxfield 1992; Boylan 2001). President Miguel de la Madrid (1982-1988) was the first president that did not correspond to the classic political standards of traditional Mexican government. In Mexican politics, *politicos*, were qualified because of their strong support to the dominant party, the PRI, had electoral experience, sustained the ideals of the Mexican Revolution, and followed political guidelines in policy formation (Centeno and Maxfield 1992). In contrast, even if the *tecnicos* also came from the political ruling elite, their agenda shifted from tight state-centered economic policies to a neoliberal approach. The task for economic liberalization started under President de la Madrid who implemented strong austerity measures and started to review the role of the public sector in the economy, thus, generating the conditions of private sector empowerment.

De La Madrid began the process of limiting the role of the state in social and economic activities through deregulation, decreased social spending, and increased trade and investment liberalization. Part of the austerity measures included a bail out from the International Monetary Fund (IMF) that came with certain conditionalities. Such compliance with the IMF came at a severe cost to the lower income population and augmented the economic imbalance in society. The measures required that Mexico reduce the public sector deficit from 18% to 8.5% during 1983 and reduce the amount of money the public sector could borrow from abroad (Cornelius 1985). This in turn resulted in reduced spending in government social welfare programs. The emergency loan provided by the IMF, thus came at a severe cost to the poor of society by augmenting the economic imbalance. Privatization of the state-owned enterprises also commenced under de la Madrid with the enactment of La Ley de Entidades Paraestatales (Law of State-Owned Enterprises) in 1986 (Cardenas 1998).

By 1988 de la Madrid had decreased the public entities to 412 and public sector contribution to the GDP of Mexico had been cut by less than 20 percent (Cardenas 1998, 28). In order to address the issue of inflation and introduce the new export oriented policies the Pact for Economic Solidarity (PES) was signed in 1987. The Pact, created by then Secretary of Economic and Social Policy Carlos Salinas, dedicated government to "further expenditure reductions, a restrictive credit policy, privatization tax and price increase, and further trade liberalization while guaranteeing the maintenance of prices of basic product at their 1987 price levels" (Teichman 1995, 88). In order to keep prices down, the labor sector agreed to restrict public sector goods. By 1988 PES reduced inflation to 51.7% and real GDP grew by 1.4%, exemplifying the government's commitment to deregulation by the private sector and signaling to foreign investors the pledge to economic liberalization (Kleinberg 1999, 75). The CCE, and in essence the CMHN, directly included the business elites under the Pact. Large economic groups, composed by key members of the CCE, now favored the alliance between government and businesses (Luna and Tirado 1993). As a result, during de la Madrid's administration, large economic groups would start to restructure as the liberalization and privatization process would unfold and the group would experience growth.

The CMHN had long advocated economic reforms and they were was enacted under de la Madrid's administration given the Presidents background and close alliance to the business elites. Considerable tension, given the nationalization of the banks by Lopez Portillo, between the public and private sector was evident once de la Madrid took office. Publicly, the CMHN restrained from voicing its opposition but did it in a private meeting. The meeting held in 1982 between de la Madrid and the CMHN pressured the then future president for change:

> Threatening to protest and declare opposition not only against Lopez Portillo's government but against mine as well…I (Miguel de la Madrid) intervened and asked them to lower their level of opposition and to wait till I arrived at the presidency to see what agreements we would come to…under great unwillingness (by CMHN members) somehow I was able to convince them…I could not offer a solution (at the time). Many of them wanted me to immediately ban the nationalization of the bank law… however, I explained that would be highly difficult given that Congress, who had approved it, was also starting (a new term) with me (Ortiz 2002, 121).[5]

The new relationship created between the private and public sector became evident when the CMHN started to be consulted by the government over macroeconomic policies, a practice that continued under the Salinas administration, up to the point where the economic elites were given classified information of the privatization of state-owned enterprises. The CMHN consolidated a privileged relationship in the privatization process by directly having systematic information given by the Secretary of the Treasury (Secretaria de Hacienda), as requested by then president de la Madrid, who stated that the point was to inform the businessmen of the new "structural reforms".[6] Hence, the *técnicos* were able to establish close ties with the private sector under conditions where the empowered corporations gained increased prominence as political forces.

[5] Interview with Miguel de la Madrid.

[6] This is evidenced in a document given by Francisco Gil Diaz, then Director of the Economic Bank of Mexico, to the CMHN where a documented session between the economic elites and Pedro Aspe took place in September 1988. Aspe gave them classified information about the new toll roads concessions that would take place, even before the information was made public (Ortiz 2002, 124).

Summary

In post-revolutionary Mexico an alliance existed between the private and public sector, however, the private sector did not interfere in politics and only big businesses were incorporated into the alliance as a subordinate partner. The state's authoritarian structure allowed for the creation of an economic elite closely tied with the party, a relationship that became more institutionalized with the creation of the powerful CMHN. The oligarchs shared an interest for years in maintaining the state's corporatist authoritarian structure and its protectionist strategy of the import substitution industrialization model (Kleinberg 1999, 73). This led a small percentage of the population, specifically large economic groups, to increasingly control the economy and benefit from tax evasion, subsidies, and laws enacted to favor their interests ("ibid., 73"). During the terms of Presidents Luis Echeverria and Miguel Lopez Portillo, the government imposed a strong control over private sector activities and thanks to the discovery of untapped petroleum reserves became the private sector's main competitor. This broke the political pact that had existed between the public sector and business elites, and culminating with the creation of the CCE and the reform of the CMHN. Tensions rose over the years in the cozy, occasionally unstable relationship between the private and public sector, forcing the private sector to object to the states interventionist model, ISI, and to its macroeconomic policies that limited their expansion. By the 1970s and 1980s the state's corporatist authoritarian structure and protectionist import substitution economic model started to falter. The culminating factor of change was the 1982 financial crisis along with the resentment by the private sector of their exclusion from economic policy decisions. International and domestics factors led to the economic crisis of 1982 that brought about a new breed of politicos known as the *tecnicos*. In this context, the history of the private and public sector started to take a different path under President de la Madrid. The business elites wanted to ensure the next president would follow the neoliberal reforms already in place. And for the first time in Mexico's history, the CMHN played a considerable role in the election of President de la Madrid's successor.

President de la Madrid conducted a private meeting between the CMHN and possible candidates under the umbrage that such strategy would result in a democratic succession by granting the opportunity for each candidate to express their views of the problems Mexico was facing, its international stance, and their respective agendas (Ortiz 2002, 125). In reality, this meeting was aimed at ensuring that the candidate to be chosen would be one that continued the economic liberalization process. This was accomplished with the election of Carlos Salinas de Gortari, who was the Secretary of Economic and Social Policy, and who eventually would continue the modernization of Mexico's economy. During the 1990s the *técnicos* neoliberal philosophy, along with empowered business elites, dominated Mexico's economy and politics. Transitioning Mexico from a strong central authoritarian government to that of a captured state governed by large economic groups.

CHAPTER FIVE: MODERNIZATION OF THE ECONOMY UNDER SALINAS

The privatization process started under de la Madrid but it was under Carlos Salinas de Gortari (1988-1994) that the process was accelerated. Salinas implemented important and drastic political, social, and economic changes in the state. He introduced the National Solidarity Program (PRONASOL), amended article 130 which established the relationship between the state and church, initiated an educational reform, introduced tax reforms, was further able to lift state controls over the economy, privatized many state owned companies, and was able to integrate the private sector into the negotiations of NAFTA (North American Free Trade Agreement).

As a result, the private sector, specifically business elites, enjoyed a great amount of political and economic participation during his term and became privileged actors of the new economic model. Not all of the private sector, however, was equally benefited by the economic policies introduced. Rather, structural adjustments in the liberalization of the economy affected small and medium size enterprises. The liberalization process gave preference to the economic elites who through associations like the CCE and the CMHN, were able to shape the policy making process to their own advantage. Part of Salinas "ideal" plan was to introduce a transparent consultative mechanism where all of the private sector would participate in key policy decisions. In practice this initiative was only beneficial to large economic groups.

Salinas started a direct and constant communication policy with the CMHN through his secretary of finance Pedro Aspe who repeatedly briefed the association over the management of public finances and economic reforms. The information given to the CMHN was more detailed than the one given to Congress or to the public, specifically, the information concerning the re-privatization of enterprises and management of the principal macroeconomic strategies (Ortiz 2002). In February 8, 1989, for example, Salinas held a reunion with the CMHN under the pretense to discuss important "business legislation", in reality the meeting addressed the issues that created confrontation and political divisions (Ortiz 2002, 127). The meeting culminated with an agreement to develop important reforms on agrarian issues, the state-church relations, and a new education reform ("ibid., 127"). The CMHN needed Salinas to strategize on the business image of Mexico and confront the social challenges that posed a threat to the economic reforms. The influence and objectives of the CMHN is evidenced through the power they exerted on Salinas to initiate the reforms. The CMHN shaped the consultative mechanism to their advantage not only in the economic aspect but social and political as well. Furthermore, important political and social reforms were enacted under President Salinas.

In order to strengthen its support from society the PRI started a welfare renovation program. The conditionalities the IMF had implemented under de la Madrid's government introduced deep cuts in social welfare spending. The peasant's dissatisfaction with the land reforms contributed to severe unemployment, social protest, and elimination of small and medium size enterprises. Therefore, the PRI needed to be legitimized before the eyes of the electorate to continue in power. Salinas's strategic approach was to implement PRONASOL, a welfare program, and then continue with the economic reforms. It is also important to note that Salinas came from the political and economic elite.

Salinas's father was Senator and Secretary of State and his mother belonged to one of Mexico's most prestigious and influential families. Salinas was part of his father's initial *camarillas* and, as mentioned earlier, was the Secretary of Economic and Social Policy under

President de la Madrid.[7] *Camarillas* are part of a small percentage of the Mexican population who determine "who exercises political power rather than the electoral at large" (Camp 1990, 86). The formation of *camarillas* has played a pivotal role in Mexican politics. Previous to his presidency, Salinas had been connected directly and indirectly to important political figures such as presidents Lazaro Cardenas Del Rio (1934-1940) and Miguel Aleman Valdez (1946-1952) (Camp 1990). As Camp illustrates, *camarillas* formation benefits the private sector by forming close allies with important future political figures, which are formed through educational institutions (Camp 1990). The case of Salinas demonstrates the exclusive relationship between economic elites and the public sector.

Economic Reforms

Salinas's immediate response to the economic problems Mexico was facing was to address both its macroeconomic and microeconomic problems. The reforms had two main objectives: first, a series of measures would be conducted to re-establish macroeconomic stability, lower inflation, and protect the states international reserves (Boylan 2001, 142).. Second, it would replace six decades of state-led development with an outward oriented development strategy that benefited the private sector ("ibid., 142"). However, despite President de la Madrid's austerity measures, and attempts heal the relationship with the private sector, the economy was still in crisis when Salinas took office. In 1988 inflation still remained at over fifty percent of the GDP, growth rates had stagnated below two percent, and foreign reserves where little over above $6 billion dollars (Boylan 2001, 142). President Salinas continued to enact a

[7] In Mexican politics, political cliques are referred as "camarillas" (Camp 1990).

series of measures to modernize and stabilize the economy while continuing to implement the Pact for Economic Solidarity, introduced under President de la Madrid. Salinas introduced the Brady Plan, privatized all major industries including banks, reduced inflation, introduced a new fiscal reform, and culminated the reform process with NAFTA. He believed that in order for macroeconomic stability to occur, inflation had to be reduced and this was further achieved through the Pact of Economic Solidarity.

As mentioned, the PES helped reduce inflation and currency devaluation. The PES was reinforced in 1989 under Salinas and proved to be successful in reducing inflation to nearly twenty percent of the GDP and leveling it to about ten percent by the end of 1992 (Forbes 1992). Salinas's administration dealt with the debt crisis through an agreement enacted under The Brady Plan. The plan's main logic was derived from the common practices of the U.S. corporate world in order to manage Latin America's countries that had been affected as a result of the 1982 economic crisis. The debt agreement plan was introduced by U.S. Treasury Secretary Nicholas F. Brady in March 1989 and negotiated in Mexico that same year. The plan offered reduction of debt, both in interest and capital, in exchange for reforms deemed necessary to promote investment and internal savings while encouraging the return of capital (Teichman 1995). As indicated on the Emerging Marketing Trading Associations website, the basic principles were: First, banks would provide debt relief in exchange of a guarantee of collectability in the form of principle and interest collateral. Second, debt relief needed to be linked to the deepening of economic reforms, and thirdly, the resulting debt would be tradable in order to allow creditors to diversify risk through the financial and investment community (EMTA 2013).

The Brady Plan was part of a neoliberal agenda and was aimed at facilitating foreign investment, privatization of public enterprises, and trade liberalization. Both the IMF and World

Bank backed up the voluntary debt reduction. It was considered that in order for the liberalization of the economy to occur, the renegotiating of the debt agreement was necessary to re-build confidence in the Mexican economy nationally and internationally. Between 1989 and 1994, the Brady Plan reduced Mexico's international net transfers by $4 billion dollars per year (quoted in Teichman 1995, 90). Nonetheless, even after enacting the Brady Plan economic difficulties still persisted in Mexico.

The Salinas administration determined the need to concentrate on stimulating economic growth in Mexico. Arduous negotiations followed with the private sector reaching an agreement with the Bank of Advisory Committee.[8] Further, the agreement included important structural adjustment such as modification of its foreign investment laws. Mexico adopted the Regulation for the Law Promoting Mexican Investment and Regulating Foreign Investment[9] (Teichman 1995, 91). The law specified that permission was not required for foreign companies to take over national firms and export companies' no longer required official authorization to be established ("ibid., 91"). The new international debt relief agreements produced indications of structural transformation in Mexico by guarantying the neoliberal policies.

Two important events also contributed to Mexico's recovery: the government's decision to privatize the banks and Mexico's interest in negotiating in a free trade agreement with the United States, i.e. NAFTA (Lustig 1998, 11). NAFTA in turn would favor "capital repatriation and foreign investment" ("ibid., 11"). The political partnership with the United States reshaped the "real image" of Mexico, as the CMHN had long advocated, attracting foreign investors. As such, new debt reduction agreements followed between Mexico and commercial creditors. The

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[8] The agreement reached was "49 percent of the external debt would benefit from a reduction of interest rates, 41 percent would have the principal reduced, and a small group of banks chose to lend new money, affecting 10 percent of the debt" (Teichman 1995, 239).
[9] The law was established in 1989.

IMF extended its funding and the "World Bank pledged to lend an estimate $2 billion dollars a year from 1989-1992, and the Inter-American Development Bank (IDB) also increased its lending" (Lustig 1998, 11). Figure 3 shows Mexico's GDP annual growth during the administration of Salinas from a 1.2% in 1988 to 5.1% 1990. And by 1994 it began to reduce to 4.5%. As a result, Mexico was able to polish its global reputation, as a place for investment, and stand out from Southeast Asia and Eastern Europe (Golob 1997, 127).

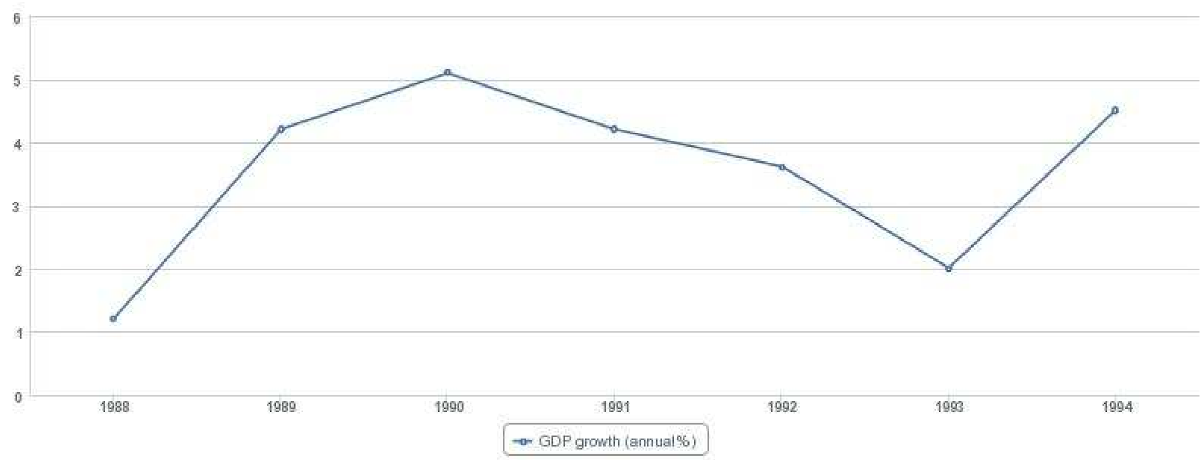

Figure 3: Mexico's GDP Annual Growth 1988-1994, *Source*: World Development Indicators

Another macroeconomic strategy adopted under the administration of Salinas was the reformation of the tax system through strict fiscal discipline, which lowered its public sector deficit to 5.6 percent of its GDP by 1989, and by 1992, had established a surplus of 3.4 percent in its GDP (Golob 1997, 97). Nonetheless, the tax reforms contradicted the neoliberal agenda by taking away from the tax relief to the private sector according to the supply side economic principles.[10] Yet, the tax reforms, based on the same principle as privatization, aimed at stopping the state from subsidizing the private sector at the expense of society (Golob 1997, 134). The tax reform proved favorable to large economic groups by not raising taxes particularly on the rich (Alba 1996, 42). Rather, the reform of the expansion of the tax base was largely aimed towards small and medium size enterprises ("ibid., 42"). Mexico has long been considered a state where tax distribution has been openly favorable to some groups in return for economic or political favors. The financial sector, for example, does not have to pay taxes for gained revenue of stocks (Alba 1996). Nonetheless, large economic groups resented the new tax reforms and new legislation was adopted because of the group's inconformity.

In 1992, the National Contributors Congress (NCC) association was created and was headed by the interests of business elites who pushed for inclusion of a Declaration of Contributors Rights to the Mexican Constitution. In 1993 Pedro Aspe, Secretary of Finance, was pressured to ingratiate the government with large economic groups resulting in the federal government's decision to halt creation, or modification, of fiscal dispositions that already existed (Acosta and Ortega 1992). The enactment and modification of legislation, along with the creation of the NCC, is a clear example of how big businesses influenced the restructuring of the "rules of the game" by adapting legislation that benefited their economic interest exclusively through political association with the ruling party.

[10] The supply side economic principles is the school of economic theory that stresses the costs of production as means of stimulating the economy; advocates policies that raise capital and labor output by increasing the incentive to produce (Princeton).

Privatization and NAFTA

In simple terms, privatization is the transfer of ownership of a state-owned enterprise to the private sector. The International Monetary Fund and the World Bank became fierce proponents of privatization instituting it as the “global trend”. Under their influence, Salinas privatized many state-owned enterprises, as a pragmatic response to the country’s macroeconomic and financial needs, and introduced open market reforms as a way to reduce the debt and the public sector deficit. Through privatization, Salinas was able to continue the integration of Mexico into the world economy and attract foreign and national investment. The privatization process was successful because of the strong central one-party authoritarian government that already existed in the country. The party in power, PRI, with the support of the national business elite, enacted legislation that led to a smooth economic transition. As mentioned, the process of privatization claimed to be transparent and fair to all of the private sector but in reality economic elites were the primary benefactors. In the end, privatization empowered Mexican private corporations and reversed the relationship that had traditionally existed with politicos.

The privatization process started with a company presenting sealed bids, a bidding price, and other conditions to a commission who in return decided who obtained control of the company (*Mexico: Privatization, Deregulation and Liberalization* 1990). Political opposition surged when government announced its decision to privatize state-owned enterprises, predominantly through the labor unions. The state-owned enterprises with large concentration of labor unions, however, were privatized through negotiations with the union leaders. Given the large economic rewards the union leaders would obtain, they convinced workers privatization was necessary. Labor union members were not aware of either the specificities of the new laws or that many of the leaders would loose influence once it was privatized. Such was the case of the workers' labor union of Telmex, where the leaders received a percentage of the company in stocks once it was privatized. Labor union leaders that became resistant to the privatization process faced severe consequences. Joaquin Hernandez Galicia "La Quina", for example, was the leader of the Mexican Petroleum Union and the strongest powerful labor union leader at the time. La Quina held a strong and powerful control over five of the eleven members in PEMEX board of directors, congress representatives, senators, and governors in the oil municipalities. In 1989, president Salinas incarcerated La Quina under suspicion of electoral fraud, illegitimacy of his union labor post, homicide, and illegal possession of arms (Teichman 1995). La Quina was considered untouchable in Mexico and through his incarceration Salinas was able to legitimize his presidency through an "anti -corruption" strategy. This was to further promote his neoliberal agenda and at the same time take control of PEMEX. Through the removal of the "old *charro* leadership, the administration installed an equally corrupt, though complacent, replacement" (Teichman 1995). Other strategies employed by union leaders wanting to privatize was to declare bankruptcy as a tactic to obliterate the ground personnel of the labor union as the case of Aeromexico proved (*Mexico: Privatization, Deregulation and Liberalization* 1990, 43).[11]

The most important public enterprises privatized where the banking, airline, petrochemicals, transportation, telecommunications, food and agriculture, railroads, steel, and mining industries. By 1993, the state had reduced its state-owned enterprises to 210 (Ramirez 2000, 58). During 1989 to 1992, the state separated itself from more than 100 firms, in which it had majority share, accumulating gains of 6.5 percent of the GDP and the sale of the banks

[11] Aeromexico was Mexico's national state-owned airline.

netted government $12.6 billion ("ibid., 58"). Figure 4 shows Mexico's GDP during the administration of Salinas. The modernization of the economy attracted foreign investor (multinational corporations) and capital began to fly back into Mexico. Thus, cementing the importance of NAFTA to Salinas's macroeconomic strategy in the privatization process.

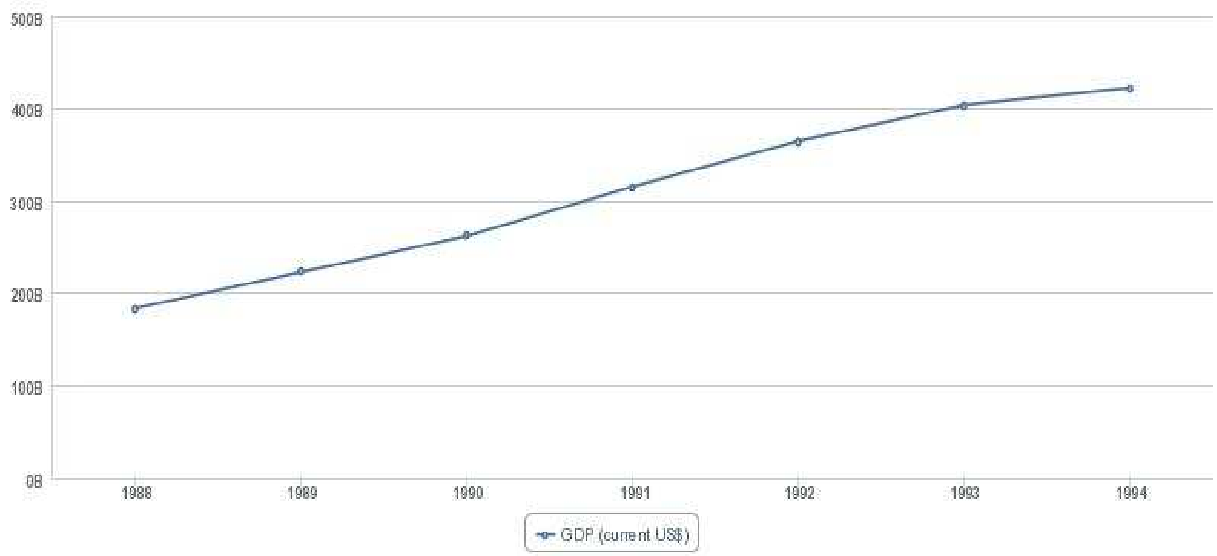

Figure 4: Mexico's GDP in Billions of Dollars 1988-1994, *Source*: World Development Indicators

The North America Free Trade Agreement (NAFTA) was an agreement signed by Mexico, Canada, and the United States that eliminated trade and investment barriers between the three countries creating a trilateral trade block. NAFTA was signed in 1992 but was not officially enacted until 1994. As stated, Salinas's macroeconomic strategy included the need to attract foreign capital in order to stabilize the exchange rate and fund the deficit to prove to investors that a sound economic policy was in place. A free trade agreement, along with unregulated foreign investment, was intended to produce job growth and establish a middle class sector in Mexico (Faux 2003). The Salinas administration needed to foster economic growth and aimed at “creating near 1 million jobs per year in order to absorb population increases and facilitate social spending” (Castañeda 1993, 73). Salinas’s team believed NAFTA was a necessary tool to continue the modernization of Mexico. Economically speaking it would provide foreign investment and politically it would link Mexico to the United States ensuring Mexico’s path towards becoming a first world nation.

Salinas’s team was able to sell NAFTA to the Mexican population and to large economic groups with exaggerated alleged benefits. This re-established the coalition between the public and private sector. In Mexico, NAFTA was enacted with a top down approach strategy. Elite business associations, such as the CCE and CMHN played a vital and active role in the negotiations (Alba 2006). The lobbying of the associations proved to be extremely important for the enactment of NAFTA. As previously mentioned, the CMHN met with Salinas’s administration early on in his mandate and established social, political and economic reforms that needed to be in place in order to improve Mexico’s image to foreign investors. Through the elites associations, large economic groups influenced the NAFTA negotiations. In April 1995, for example, the president of the CMHN at the time, Antonio del Valle, mandated that each member donate 10,000 dollars destined to finance the activities the COECE (Coordinadora de Organismos Empresariales de Comercio Exterior) had in Washington (Ortiz 2002; Alba 2006). Evidencing how negotiations of NAFTA created a collusive relationship between the public and private sector. One were the latter developed a role in designing a captured economy for the large economic groups. Medium and small size businesses, however, were not included in the corporate system that developed with the privatization or NAFTA. With unregulated free trade and foreign investment small and medium size enterprises were left to compete within their own national market against cheaper imports from Asian countries. Events such as the economic recession of the 1980s, the adjustment policies, and the financial crisis of the 1990s only exacerbated the situation for small and medium size enterprises (Alba 1996, 61). Thus, leaving small and medium size enterprises struggling to survive in order to compensate for their economic weaknesses, social dispersion, and political disadvantages ("ibid., 61"). The polarization within the private sector increased with the creation of elite associations, backed by big businesses, which only advocated for the interests of large economic groups. Medium and small size enterprises did not have appropriate representation or associations during the economic liberalization (Luna and Tirado, 1993). Big business were able to restructure their enterprises by continuing to export in high numbers in contrast to the disadvantages small and medium size business confronted. Furthermore, it is a question of debate if NAFTA was a democratic social demand or an imposition on the country by the government and business elites.

Mexico's society, at the time of privatization and liberalization of the economy, was not a modern or democratic country. It was composed of a vast sector of peasants, the urban working poor, small and medium size enterprises, and the small percentage of economic elites. As such, Mexico's social and economic polarization generated a "rule of the law" that favored large economic groups, i.e. those who supported Salinas' economic strategies (Castañeda 1993, 71). A survey conducted in 1993 revealed that the richest 10 percent of Mexicans, those earning 32.8 percent of the national income in 1984, saw their income jump to 37.9 percent by 1989 and the poorest 40 percent from 14.3 percent to 12.9 percent (Castañeda 1993, 71). Figure 5 illustrates the income distribution by the highest (red) and lowest (blue) 10 percent of the population in Mexico from 1987 to 2012.

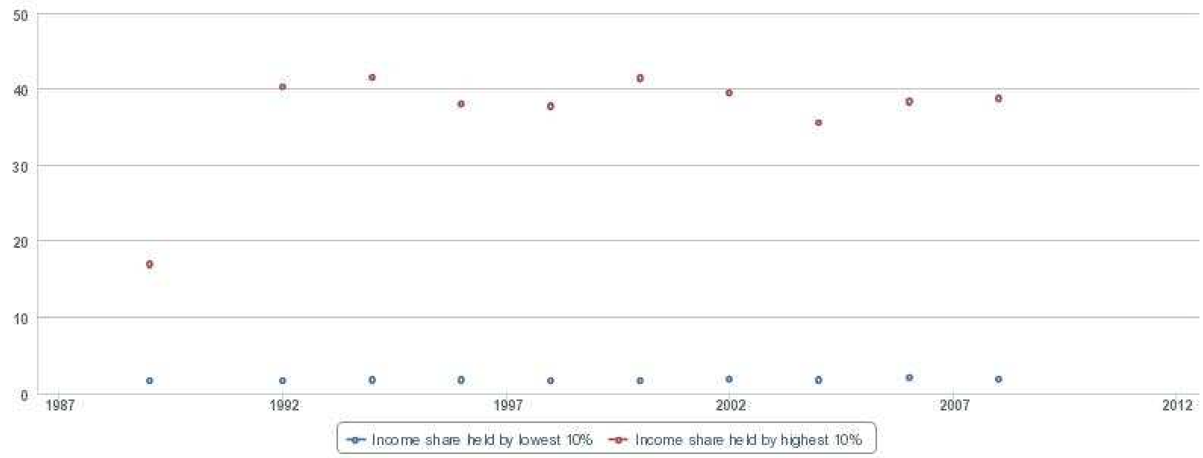

Figure 5: Income Distribution 1987-2012, *Source*: World Development Indicators

NAFTA produced disappointing economic results and the expected dynamic growth promised by its advocates did not occur. A study conducted after fifteen years of NAFTA's incorporation, by the Carnegie Endowment for International Peace corroborates Mexico's fairly poor economic improvement under the agreement. Even if some positive economic results did occur, "exports and foreign direct investments tripled from the 1990s making Mexico a leading supplier of electronics and cars raising productivity in Mexico to 80 percent, the actual annual economic growth averaged only 1.6 percent per capita between 1992 and 2007" (Malkin 2009). Domestic investment fell because of the small and medium size enterprises inability to compete with foreign companies, competition from imports produced job losses, and public sector investment was restricted through the macroeconomic policies, i.e. less social spending on social programs. Even if jobs were created, because of Mexico's relatively cheap labor compared with the United States, government's goal of producing one million jobs per year was not attained. NAFTA produced disappointing economic results because of its foreign investment strategy rather than channeling economic benefits into its own parts of the economy (Malkin 2009). In terms of per capita income the Mexican economy stagnated and income inequality rose to extremely high levels.

The privatization process and NAFTA were not equally distributive and the rewards ultimately went to the hands of those who supported Salinas and his policies. Salinas emphasized the privatization of the economy selling the enterprises to “friends” or economic groups linked to the PRI. As a result, business elites and the oligarchs were exclusively benefitted with the privatization of the state-owned enterprises and NAFTA. Thus, instead of the process adhering to an “open free market” principle the liberalization of the economy institutionalized monopoly practices in Mexico.

The economic concentration that occurred under Salinas is still in effect in present day Mexico corroborating that the direct and primary beneficiaries of the privatization process became the big businesses. Large economic groups benefited in four ways: 1. State-owned enterprises that had some private participation were sold to the private corporate sector, 2. State-owned enterprises were sold to groups that already owned similar companies in the same industry, 3. Private enterprises bought state-owned firms that benefited their production chains, and 4. Large economic groups bought state-owned enterprises just to diversify their holdings (Cardenas 1998). As such, the privatization process created a strategic business alliance between the public and private sector, specifically big business (Kleinberg 1999). One where the large economic groups dominate concomitant to the their increase in economic power. The new challenges that occurred under liberalization of the economy, as well as privatization of state firms, had an important impact on the development and restructuring of large economic groups (Cardenas 1998). The principal beneficiaries became the big business groups including the financial sector, large export firms, and the financial and economic groups that united them.

These alliances gave big businesses the power to bypass the state and create their own rules both domestically and internationally. The state started "to disappear" under the business strategic alliance and the business sector accumulated the power to influence legislation. An economic liberalization where decentralized decisions were taken from the state and established by the private sector was created through the handing over of the economy to the business sector (de la O 2002). The alliance is still present in Mexico, as demonstrated by the monopolies conditions that exist. Public policy is shaped by big businesses, a process that started under Salinas by favoring them over small and medium enterprises and was further consolidated under NAFTA.

Summary

President Salinas enacted many social, economic, and political reforms "apparently" for the general welfare. Salinas introduced PRONASOL, amended article 130, created the educational reform, introduced tax reforms, was able to further lift state controls over the economy, privatized many state owned companies including the bank, and was able to integrate the private sector into negotiations of NAFTA. Through the social and political reforms, backed up by the CMHN, Salinas was able to legitimize his government. As such, Salinas's government acquired new credibility that seemingly took into account the "general welfare" resulting in a smooth transition for the economic reforms. Initially, society believed Salinas's intention was for the general welfare. Cases such as La Quina's imprisonment, led the population to believe that change would occur under the new presidency. Nonetheless, as the reforms demonstrated they were not geared towards all of the population but rather aimed specifically to benefit the business elites. Tax reforms were also instituted contrary to the dynamics of the neoliberal approach. Tax reforms, however, were restricted by the business elites through associations, such as the NCC, that stopped unfavorable tax legislation. Studies of NAFTA have shown that it produced disappointing results and income inequality rose.

CHAPTER SIX: COMPARATIVE ANALYSIS

The following cases illustrate the acquisition of key industries in the Mexican sector by business elites during the privatization reforms of President Salinas. Close allies to the Salinas administration acquired the telecommunication, television, and mining industries. The acquisition of key industries by economic elites has produced severe political constraints in market competition creating a barrier to Mexico's economic development. In that regard, it is important to point that economists believe that the concentration of power by dominant actors affects consumer prices and has made Mexico less competitive in international markets.

Telecommunication Industry: Telmex and Slim

Carlos Slim Helu's fortune sums up to $73 billion dollars, according to Forbes 2013 List, which alone makes roughly 6.3 percent of Mexico's GDP. Head of the conglomerate Grupo Carso, Slim has accumulated enterprises in the fields of communication, retailing, finance, and technology. Slim is currently considered to be the richest man in the world and his telecommunication empire is the basis of his fortune. Carlos Slim Helu took advantage of the economic crisis Mexico faced in the 1980s and purchased enterprises in a time when capital flight became common practice. With the privatization of Mexico, Slim, a close allied to Salinas as evidence through "money donations", bought the nation's crown jewel: Telefonos de Mexico, S.A. (Telmex). This has enabled Slim to acquire much of his vast fortune through the monopoly of the telecommunication industry in Mexico.[12]

Telmex was founded in 1947 and in 1972 the Mexican government bought the company. With the privatization of Telmex, the company moved from a government monopoly to a private monopoly. The telecommunication industry was lacking in investment, infrastructure, and better services all reforms that Carlos Slim offered to address but at a very high price for consumers. President Salinas's economic modernization plan had always put Telmex at the center of the privatization process. Salinas knew that Telmex would be highly profitable given the type of industry and the fact that the enterprise had not suffered severe economic losses with the crisis of 1982. As such, the sale of Telmex gave the government US $6 billion in profit, the largest sum obtained from any state-owned enterprise (Clifton 2000, 67). Telmex constituted the majority percent (30%) from the sale of all the state-owned enterprises that totaled $20 billion ("ibid., 67"). The sale of Telmex at the beginning of the 1990s represented the most important single privatization in Latin America and was among the most important in the OECD region (Clifton 2000). More importantly, with the sale of Telmex President Salinas delivered an international message of Mexico's willingness to modernize and privatize the economy.

The first step in the privatization of Telmex was to establish initial concessions where the regulatory and quantitative goals were specified for international long distance, national, and local telephone services (Sacristan 2006, 59). While at the same time, restricting the capital and tariffs of Telmex, conducting fiscal adjustments, and reaching an agreement with the labor union

[12] Slim's telecommunication empire includes America Movil one of the largest mobile network companies in the world, who owns Telcel and Telmex among other telecommunication companies. America Movil operates in 18 countries in America, including the U.S.A, and for the year 2012 the company reported 262 million subscribers and revenues of $59 billion dollars (americamovil.com). Telcel is the leading wireless company in Mexico with 70 percent of the mobile subscribers and, as Telmex, is target to harsh criticism due to its monopoly practices.

("ibid., 59"). The STRM (Sindicato de los Telefonistas de la Republica Mexicana) showed no resistance to the privatization of Telmex demonstrating a new type of union behavior. As mentioned, the real reason behind the acceptance of the union was an agreement reached between the government and leaders of the STRM agreeing that the union would get 4.4 percent of the company's shares (Clifton 2000). The government divided Telmex among three types of shares: AA stock (20 percent with full voting rights only to be owned by Mexican Nationals), A stock (20 percent with full voting rights and no restrictions), and L stock (60 percent with limited voting rights and no ownership restrictions) (*Mexico: Privatization, Deregulation and Liberalization* 1990; Ellis 1999).

The selling of Telmex was completed within two phases. First, as mentioned, the union received 4.4 percent of the shares and the government then sold its remaining controlling stakes, 20.4 percent, to Grupo Carso who in association with Southwestern Bell and France Telecom paid $1.76 billion (Sacristan 2006; Ellis 1999). The ownership of 20.4 percent of the shares permitted Grupo Carso to retain 51 percent of the voting rights among the stakeholders (Relea 2011, 27). Southwestern Bell and France Telecom were chosen because of their technological expertise and to help improve Telmex infrastructure. The second phase occurred between 1991 and 1992, when the remaining stocks were sold in the global stock exchange market and to the general public (Sacristan 2006; Ellis 1999). Preferential treatment was given to Slim to buy Telmex. He received direct finance from the federal government for $426 million dollars at an interest of 10.68 percent for six months (Carmona 1990). Many critics believe the price Slim paid for Telmex was not the company's true value. More so, the government did not set any regulatory agency framework and did not require the company to be subject to anti-trust laws. As a result, Telmex enjoyed unregulated monopoly for six years. With the privatization of

Telmex an increase in the annual revenue per telephone line of the company went from $440 dollars in 1989 to $710 dollars in 1990, a sixty-one percent increase (quoted in Relea 2011, 27). Even if Telmex was reformed under Slim, the increase in telephone fares after the privatization affected consumers negatively. Slim continued to use his influence to shape government and fend off competitors such as MCI and AT&T in order to monopolize the consumer base (Thompson 2006), a sign of state capture. The way the Salinas administration privatized the telecommunication industry allowed Slim to monopolize the industry and negatively affect Mexican consumers and businesses.

In 2010, Slim's America Movil bought Telmex International and Telmex Carso Telecomm, which included just under 60 percent of Telmex, for $23 billion as a stock-and-cash deal (Harrup 2011). In 2011, Slim bought the remaining 33.03 percent shares for an estimated $4.5 billion, through a combination of cash and credit lines, allowing Slim to control 92.99 percent of the company (Harrup 2011; El Universal 2011). Currently, this allows Slim to have majority control of Telmex, who with Telcel, controls eighty percent of the Mexican telecommunications market. As a recent OECD study demonstrates, Telmex dominates 80 percent of the fixed line market and 70 percent, through Telcel, of the mobile phone market (OECD 2012). As OECD has demonstrated, the telecommunication sector plays an important role by improving productivity and economic growth while allowing the government to claim improvements of the "provision of public services" (2012). Therefore, Slim's unregulated monopoly of the telecommunication sector hinders competition in the country and elevates consumer prices.

The telecommunication industry in Mexico has the highest prices among the OECD countries. The lack of competition results in low infrastructure and poor market penetration leading to a burden in the welfare population with an estimated loss of USD $129.9 billion to the economy (2005-2009) or 1.8% GDP per annum (OEDC 2012). Thus, the monopoly of the telecommunications industry not only hurts consumers but also severely damages the Mexican economy. Among the OECD nations, Mexico ranks 34th for fixed line, 33rd for mobile, and 32nd for broadband markets ranking last in "terms of investment per capita" (OECD 2012). Telmex also dominates the landlines and DSL broadband Internet services a total of 8.7 million of the market's 10 million subscribers (Freedom House 2012). Broadband service is still very limited in urban areas, at about 50 percent, and in rural areas it is only 25 percent (Freedom House 2012). This weakens incentives for other companies to expand services to rural areas and puts alternative competitors in a disadvantage to expand their services (Freedom House 2012). The anti-competition environment has been perpetuated by the dominant operator, Telmex, who exploits the institutional framework to its advantage operating in a condition of a captured state.

Slim's unregulated monopoly has been substantiated through his ability to control the judicial system and its preferential treatment with the executive. The Federal Competition Commission (CFC) has repeatedly sanctioned Telmex and its anti-competitive practices. In April 2011, for example, the CFC sanctioned Telcel for its monopoly practices in the wireless sector with an $11 thousand 989 million (MXN) fine. Telcel challenged the CFC in court with technical, economical, and judicial evidence that did not uphold the CFC's argument of Telcel promoting monopoly practices, thus, the lawsuit was dropped (Ezquivel 2012). The current legal system, systematically allows Carlos Slim and his telecommunication empire to continue with monopoly practices by allowing the overturning policies of the CFC and its regulatory decisions. Once the cases are brought before the judicial system, the courts give a minimal fine or in most cases do not uphold the CFC's findings (Relea 2011; OECD 2012). An agency that has both the power and autonomy to enforce competition over the enterprises is needed in order for competition to evolve. The CFC and COFETEL, the established regulatory Federal Commission of Telecommunications, do not currently have such powers. The CFC should act as the main division, with COFETEL among its regulatory agencies, in order for a transparent system to develop and eventually hinder this type of monopoly practices. The OECD has repeatedly called for reforms to stop the monopoly practices in the telecommunication industry in Mexico, proposing means to:

1. Ensure low barriers to entry and contestable telecommunication markets,
2. Ensure that regulations and regulatory process are transparent, nondiscriminatory and applied effectively,
3. Institute a transparent policy and regulatory agency, and
4. Reform regulation to permit competition and eliminate them except where clear evidence demonstrates that they are the best way to serve the broad public interest (OECD 2012).

More so, large economic groups have continuously enjoyed tax breaks given directly by the government to them. For the fiscal year of 2006, for example, Telmex had an average of $17 billion (MXN) in "differed taxes" owed to the SAT (Secretaria de Administración Tributaria) (Zuniga 2007).[13] In 2009 the Mexican newspaper *La Jornada*, launched an investigation to identify how much big businesses owed to the SAT. According to the SAT, as of 2009 the private sector owed $453 billion (MXN) in outstanding taxes and half of the amount owed was by the 60 largest economic groups that operate in the BMV (Mexican Stock Exchange) (Fernandez-Vega 2009). Slim's empire, as the report states, had a debt for outstanding taxes of $70 billion (MXN) distributed as follows: an average of $4 billion owed by Grupo Carso, average of $20 billion owed by America Movil, average of $23 billion owed by Telecom,

[13] The SAT is the "Mexican Tax Administration", an agency equivalent to the IRS (Internal Revenue Services) in the United States.

average of $15 billion owed by Telmex, and an average of $7 billion owed by Telmex International (Fernandez-Vega 2009).[14] Currently, the SAT has offered a "fiscal amnesty", a reduction of about eighty percent, to economic groups and individuals to pay their outstanding taxes (Gonzalez 2013). Slim's economic expansion continues to exploit the weak institutional framework, evidencing his ability to "capture the state" economically, socially, and politically. Under conditions of a "captured state", big businesses obtain certain benefits and advantages provided by government. The case of Slim strongly suggests state capture by the economic elites.

In recent days, there has been new pressure under the recently elected PRI candidate, Enrique Peña Nieto, to stop the monopoly of the telecommunication system. Peña Nieto has introduced a new initiative to reform the telecommunication sectors. Peña Nieto is prompting Telmex to establish fair competition, investment and improvement of consumer's prices, and better quality of services (Milenio 2013). It shall be seen if the reform will in effect go into practice or if Peña Nieto will end up reaching an "agreement" with Slim to shape the telecommunication industry in Mexico according to Slim's own interests. If the new telecommunication reform does indeed prove to be successful, it will signify a long overdue change for the Mexican economy and consumer base.

Broadcasting Industry: Televisa and TV Azteca

Emilio Azcárraga Jean, head of Televisa, and Ricardo Salinas Pliego, head of TV Azteca, own the two main television networks in Mexico. After the privatization of the 1990s both

[14] All sums are in Mexican Pesos (MXN).

groups have been able to create a duopoly of the television industry.[15] For generations Televisa, controlled by the Azcárraga family, monopolized the broadcasting network in Mexico. The beginnings of Televisa, created by Emilio Azcárraga Vidaurreta, date back to the 1930s when a radio station was founded. Television developed at the time an important and influential relationship between the private and public sector, given television's power to influence society. An alliance was created between the Institutional Revolutionary Party (PRI) and business elites in the television industry. Legitimization of government occurred through Televisa and in return the public sector gave the Azcárraga family monopoly over the broadcasting network. As indicated on the Televisa website, in 1973 the Telesistema Mexicano and Television Independiente came together to create Televisa (Television via Satelite). The controversy of the Azcárraga family and the strategic alliance it has enjoyed with the ruling party is not a coincidence as the model developed in the early years of broadcasting network. For generations Televisa gave slanted news coverage that helped the PRI stay in power (The Economist 1993). Televisa has not only backed the Institutional Revolutionary Party it also became a close allied to Vicente Fox (PAN) when he won the elections in 2000. As his ancestors, Azcárraga Jean has made use of such cozy relationship with high executives to continue the perpetuation of monopoly conditions. Further, the modernization of the economy under president Salinas included the privatization of the broadcasting industry.

In the 1990s, the government decided to privatize Imevision (Instituto Mexicano de la Television) a state-owned enterprise in charge of broadcasting various government television stations. As indicated on the TV Azteca's website, in 1993 Ricardo Salinas Pliego, head of

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[15] An duopoly is limited to two sellers; preponderant influence or control by two political powers (Merriam-Webster).

Grupo Radio Televisora, bought Imevision (channels 7 and 13) to establish Television Azteca. Salinas Pliego won the television package with a bid of $641 million dollars that also included El Nacional, a government newspaper, a film studio, and the Chihuahua state television station (Oxford Analytical 1993). The selling of the state-owned television network to Ricardo Salinas Pliego has been controversial given Salinas Pliego relationship to Raul Salinas de Gortari, brother of President Carlos Salinas.

Under a fund for the "development of Mexico's economic liberalization", Raul Salinas transferred a total of roughly $30 million dollars to a Swiss account under the name of Salinas Pliego. This was done around the same time that the bidding for Imevision occurred in 1993. Raul Salinas financed the money Salinas Pliego needed in order to buy Imevision. Business elites such as Roberto González Barrera (Grupo Maseca), Adrián Sada (Serfin), Carlos Hank Rohn (Mercedes Benz), Enrique Salinas de Gortari, and José Madariaga (ex banker) were among the business elites who financed the "fund" (Castillo 2003). Further, Ricardo Salinas Pliego was among the businessmen who were questioned by the Mexican and Swiss Attorney's General Office (Procuraduria General de la Republica PGR) in 1995 (Castillo 2003). After Raul Salinas became target of an investigation for money laundering ("ibid., 2003"). In an interview in 1996 Ricardo Salinas Pliego accepted he had obtained roughly $29 million dollars as a "loan" given by Raul Salinas and acknowledged his relationship to then President Salinas (Castillo 2003). On the other hand, Raul Salinas filed a civil lawsuit in court number 54/82/003, demanding his $29.8 million he had loaned to Ricardo Salinas Pliego (Castillo 2003). The detention and eventual incarceration of Raul Salinas de Gortari demonstrates the level of corruption between business elites and government.[16] Mexican authorities accused Raul Salinas of embezzlement of state funds, all which were acquired during the presidency of his brother. The obvious preferential treatment, which led to economic concentration of the television network by two groups in Mexico, is evidenced by the relationship of both groups with the executive. Initially, the privatization strategy of the television network led many to believe that competition would extinguish the Televisa monopoly. As history has shown, the acquisition of Imevision (later TV Azteca) by Ricardo Salinas Pliego only opened favorable conditions for both networks to establish a duopoly.

Currently, Televisa has four national television stations that include Canal de las Estrellas, ForoTV, Galavision, and Canal 5 and affiliations worldwide with Univision. Univision is the leading Hispanic channel in the United States. Televisa concentrates half of the cable industry through Cablemas and Cablevision with 2.2 million subscribers, out of the 4.4. Million available, and controls the satellite television through ownership of Sky (Toussaint 2012; Villamil 2013). Televisa has some competition in the satellite industry, through DISH Networks, but no real competition in the cable industry. Mexico has a total of 11 million subscribers to paid television with 4.4 million in the cable television sector and 6.5 million in the satellite television (Villamil 2013). On the other hand, TV Azteca has control of channel 40 an open television channel (Toussaint 2012). Thus, Televisa and TV Azteca control ninety-five percent of open television and receive sixty-eight and thirty-one percent, respectively, of market revenues (CNN Expansion 2013). Further, in a report written by Dish Networks in 2012 the

[16] Raul Salinas de Gortari, brother of President Salinas, was target to an investigation for money laundering and drug trafficking after it was discovered he had $110 million in Swiss Bank accounts (Castillo 2003). In 1999 Raul Salinas was found guilty of murdering his brother-in-law and remained in jail until 2005 when he was acquitted of the charges.

company warned about the economic concentration that the merger of Televisa and TV Azteca, through IUSACELL, would create complete dominance in the television network:

1. The dominance will give Televisa another platform of paid television through the creation of Total Play that will be added by the group's ownership of Cablevision, Sky, Cablemas, Cablevision Monterrey, and Bestel creating a deeper concentration of the market.
2. The duopoly created through IUSACELL will let the company be the only one in Mexico to offer the "Cuadriple Play" (Voice, Video, Data, Land, and Movil telecommunications) that will inhibit any fair competition.
3. Televisa and TV Azteca do not allow DISH Mexico to advertise in their open or any other television channels.
4. Televisa utilizes judicial corruption to eliminate DISH as a competitor
5. The duopoly demonstrates its political power to obtain exclusive contracts for its paid television, as the cases of the World Cup, Olympics, and National Futbol have evidenced.
6. Televisa and TV Azteca have eliminated the five channels that DISH Mexico produces from its paid television, leaving the consumers without the channels and suppressing fair competition (Noticias MVS 2012).

The merger occurred in 2007 and, in effect, concentrated the power between these two groups. The revenues they produced for the years 2004 to 2010 evidences both groups' economic concentration. The net sales of TV Azteca and Televisa have increased since 2004 to 2010. Azteca obtained $9 billion (MXN) and $11 thousand 554 million (MXN) for 2010, while Televisa has had an increase from $31 billion in 2004 to $57 thousand 856 million (MXN) by 2010 (Toussaint 2012). As the cases of monopolies, oligopolies, and duopolies in Mexico demonstrate, large economic groups take advantage of the weak legal institutional framework.

The government's initiatives to introduce digital television, for example, have been meet with resistance by both Televisa and TV Azteca. As indicated in the Digital Terrestrial Television website, digital television would give Mexican consumers better image quality, free high definition channels, and additional channels in the open television network. Televisa and TV Azteca have introduced eight legal appeals to stop the government's decision to introduce digital television versus analog television by the year 2015 (Miranda 2012). As the cases of Telmex, Televisa, and TV Azteca evidence, large economic groups continuously abuse the judicial system through the use of *amparos* or systematic capture of the judicial system. Furthermore, legislation is shaped to their advantage as the case of Ley Televisa illustrates.

In 2005-2006 Congress fast tracked new reforms to the federal Radio, Television, and Telecommunications (known as Ley Televisa) before President Vicente Fox left office. The law was controversial because it permitted concentration of the television network by both Televisa and TV Azteca to continue. The bill demonstrates how privileged relations are esteemed between business elites and government and how an opportunity by the new party, PAN, to rectify a law that had been established by economic elites since the 1960s was lost (Esteinou 2009). In addition, both Televisa and TV Azteca conform the large economic groups who enjoy tax breaks given by government. For the fiscal year of 2006 Televisa obtained $488.7 million (MXN) in "differed taxes" (Zuniga 2007). And in 2009, Televisa owed $2 billion (MXN) and TV Azteca owed $3 billion (MXN), respectively in taxes to the SAT (Ferndandez-Vega 2009).

Mining Industry: The Three Powerful

Mexico's mining sector is a world leading industry occupying second place in the production of silver and bismuth. It is also renowned for producing arsenic, lead, and zinc among other minerals (Inegi 2012). The monopoly of the mining industry by business elites started in 1961 with the "Mexicanization Laws".[17] The laws created favorable protectionist conditions for business elites to strategically position themselves and gain monopoly control in

[17] The "mexicanization law" was established to restrict foreign investment and transfer key industries to Mexican nationals (Delgado and Del Pozo 2001).

the mining industry (Delgado and Del Pozo 2001, 114). Two events have further helped to consolidate and reinforce the monopoly of the mining industry:

1. Between 1982 and 1988, a lapse that implemented a series of stimulus and tax exemptions establishing a strong capital concentration in the mining industry and;
2. Between 1988 and 1996, when favorable conditions were put in place for large national economic groups to acquire capital in the mining industry through the transfer of concessions from small to big mining industry, modifying the Mineral Law that was enacted in 1990, and ending with the Mexicanization phase (Delgado and Del Pozo 2001, 114-115).

The privatization in 1988 of 6.6 million hectares gave the national business elites an opportunity to buy a larger portion of the mining industry. President Salinas created favorable conditions for the business elites to acquire more mines with the modification of the Foreign Investment Law of 1996 (Delgado and Del Pozo 2001). The privatization of the mining industry favored three large economic groups: Grupo Minero Mexico de Mexicana Cobre, headed by German Larrea Mota in 1989; Grupo Peñoles, headed by Alberto Bailleres and Compania Refractarios Mexicanos in 1988; and Grupo Frisco, headed by Carlos Slim (Grupo Carso) who bought Minera de Cananea in 1990 (Delgado and Del Poso 2001, 115). The privatization of the sector once again illustrates how the relationship between President Salinas and business elites under conditions of state capture lacked transparency and were favorable for the economic elites close to his cabinet. Mineria Cananea, for example, had a bid from the group PROTEXA for double the price Carlos Slim bought it for, $475 million, but was inexplicably sold to Slim (Delgado and Del Poso 2001, 116). The medium and small size enterprises were also affected with the privatization of the mining industry by not being able to compete with other companies. This put the medium and small size enterprises in a greater disadvantage once the privatization occurred. Further, both Bailleres and Larrea have enjoyed tax breaks by government. For the fiscal year of 2006, Grupo Mexico, owned by Larrea Mota, had $9 billion (MXN) in tax breaks

(Zuniga 2007). In 2009, Industria Peñoles and Grupo Palacio de Hierro, companies owned by Bailleres, owed an average of $6 billion (MXN) in unpaid taxes to the SAT and Grupo Mexico owed an average of $11 billion (MXN) to the SAT (Fernandez-Vega 2009). As mentioned, the SAT has approved a fiscal amnesty where eighty percent in reduction of owed amounts will be forgiven. More so, the richest men in Mexico, as illustrated by Forbes 2013 list, control the mining industry.

It is of no surprise that the three richest men in Mexico Slim, Baillères, and Larrea are all part of the business elite association CMHN. In contrast to Slim, who acquired much of his fortune in the economic crisis of 1982 and the privatization that followed, Baillères is part of Mexico's traditionally dominant families and has always enjoyed a beneficial privileged relationship between the public and private sector. This relationship has been controversial given his close friendship not only with President Salinas but also with Presidents Díaz Ordaz, Echeverria, López Portillo, De La Madrid, Ernesto Zedillo, Vicente Fox (PAN), and Felipe Calderón (PAN). Over the years all presidents have been present in Baillères family reunions and Baillères has contributed to campaign finances (pase de "charola") to the PRI (Petrich 2011, 98). Bailleres was also part of the Amigos de Fox ("ibid., 98").[18] Baillères published a book, *Visión de país*, which establishes an economic pact between the public and private sector. Petrich analyses Baillères book and identifies how business elites are no longer content with the privileged relationship enjoyed between the Executive and its subsidiaries (2011, 98). The need for a new "vision" to establish a deeper coalition to directly influence public politics is strongly encouraged by Bailleres ("ibid., 98"). This, however, is already the norm in Mexico as demonstrated by the power these business elites have on policy formation. That the business

[18] "Amigos de Fox" was a civil business elite organization created to support and finances the election of Vicente Fox for the presidential nomination in 2000. The legitimacy of the organization and the organization relationship to the president has been repeatedly questioned.

elites are more vocal about their vision might be new, but their ability to shape and influence policy directly has existed for years and only exacerbated under President Salinas. Further, Alberto Baillères inherited Cerveceria Moctezuma and Industrias Penoles, among a variety of other important industries, from his father and is the second richest man in Mexico with a fortune of $18.2 billion dollars as listed in Forbes 2013 list.

As shown in Penoles website, his father Raul Baillères acquired the majority of the shares of Industrias Penoles in 1961 when the mining industry was "mexicanized" under Adolfo Lopez Mateos.[19] On the other hand, as shown in Grupo Mexico's website, German Larrea Mota heads Grupo Mexico the largest mining corporation in Mexico. Grupo Mexico is a leading copper producer in the world and owns Ferrocarril Mexicano a leading railroad company. German Larrea has a fortune of $16.7 billion dollars and is listed as the third richest man in Mexico in Forbes 2013 list.

Capture of the State by Business Elites

It is a contradiction that a country that has 15 of the richest billionaires, according to Forbes 2013 annual billionaires list, still has a 51.3 percent of the population living below the poverty line.[20] According to Forbes 2013 billionaires list, there are 15 Mexicans who make altogether a fortune of $148.5 billion for the year 2012, totaling 12.88 percent of Mexico's GDP

[19] The "mexicanization" of the mining industry concluded that the industry should be majority owned by Mexican capital.
[20] National poverty rate is the percentage of the population living below the national poverty line. National estimates are based on population-weighted subgroup estimates from household surveys (World Bank 2012).

for 2011.[21] Such statistics clearly reflect the economic and social inequality in Mexico. More so, Mexico's wealthiest business leaders are controversial because of their affiliation with the Salinas administration during the privatization and liberalization of the economy.

Individuals such as Slim, Forbes number one billionaire with an estimated fortune of $73 billion dollars, Bailleres estimated by Forbes at $18.2 billion dollars, and Azcárraga with an estimated Forbes $2.5 billion dollars; were all close allies of President Salinas's economic reforms and members of the CMHN during the liberalization of the economy. Opening Mexico's economy, however, is not a point of contention in this analysis. Much of the reforms enacted were needed for Mexico's incorporation into the economic globalization process. The reform of the state, the privatization of state-owned enterprises, central banks autonomy, and tax reforms were certainly needed to ensure Mexico's growth in the world economy. The issue is the way the privatization and liberalization process occurred and how the application of those policies negatively affected the majority of society and only benefited a few. Furthermore, the new political economy that has developed through the business-government strategic alliance marginalized the small and medium size businesses.

This led to interdependence between the public and private corporate sector in the political economy of the country of never before seen levels. As a result, the state lost autonomy and became subordinate to the private sector in the design and implementation of the political economy of Mexico (Alba 1996, 54). The political economy under President Salinas did not bring a democratic political economy order to all of the private sector as evidenced by the enacted legislation. The Law for Promoting and Regulating Foreign Investment, for example, was also partially good to the small and medium size enterprises, but gave big business a greater

[21] As reported by the World Bank, The Gross Domestic Product (GDP) in Mexico was worth 1.153 billion US dollars in 2011 (World Bank 2012).

advantage. As mentioned, many of Mexico's richest individuals were able to amass their fortune during Mexico's economic crisis and modernization because of the collusive relationship established with the executive.

Salinas' personal relationship with the business elites, big businesses, and the *nouveau riche* has been greatly controversial. Two noted cases where big business owners contributed directly to Salinas's election campaign in what is termed as "*el charolazo*", or the illicit allocation of campaign funds given by business elites to government, have been identified. In November 1987 the Financial Commission (Comision de Financiamiento) and then presidential candidate Salinas formed "Consolidacion Patrimonial PRI"[22]. The commission allowed various politicians and big business owners to participate to help ensure Salinas's victory (Alba 1996; Fernandez-Vega 2012). Names such as Antonio Ariza Cañadilla (Casa Domecq México), Pablo Brener (buyer of Aéromexico), José Carral Escalante (representative of Bank of America), José González Bailo (president of the Canaco), Eduardo Legorreta Chauvet (Stock Exchange), and Carlos Slim Helú (Telmex), were among the economic elites that attended the meeting (Fernando-Vega 2012). In February 1993 the Salinas administration conducted another dinner or "*charolazo"* where thirty members of Mexico's business elites, many belonging to the CMHN, would each donate $25 million to a trust fund for PRI's future investments (Alba 1996). The money, is believed, was used to ensure the victory of the next PRI candidate. Another illustration of the alliance between business elites and the public sector is the case of Pedro Aspe. Aspe, a fervent believer of the tax reforms and the "social pact"[23] who advocated privatization for "poverty alleviation and income redistribution", became linked to big business interest after he left public office by taking a job with an investment banking division of the Monterrey

[22] An inherited commission established for future campaign funds.
[23] The PRI advocated that the very poor were arguably the targeted recipients of the economic policies being enacted this became known as the "social pact" (Golob 1997, 133).

conglomerate Pulsar (Golob 1997, 134). The case illustrates the paradox of governments seemingly support of a "social agenda" in the modernization of the economy and the high executive's true intentions. The intentions became evident once their public office term ended. Currently, private corporations are able to negotiate with Congress by directly approaching senators and house members in monthly and weekly reunions (Alba 2006, 141). The meetings with legislators foster key policy regulations in the interests of the corporations. Private corporations are able to exert pressure on the legislators through a method of "rewards and punishments" ("ibid., 141"). Private corporations no longer are affiliated with a one-party system but rather exert pressure on the legislative system, judicial system, and executive as whole.

Salinas's initiatives started with lifting states control over all of the private sector then integrated the private sector, big businesses only, into NAFTA negotiations. While simultaneously, creating a consultative mechanism where business elites and individuals close to his administration were consulted over key economic policy decisions. This mechanism created a conducive capture of the state by large economic groups through policy formation in their own interests. Corporations became political actors who through their monopoly practices do not permit Mexico to gain full economic stabilization.

CONCLUDING DISCUSSION

State capture by the business elites occurred during the Salinas administration and has been permitted to expand post-Salinas. This has been facilitated by the growing stabilization and expansion of large economic groups. Mexico has been unable to separate the lines between the political and economic sectors creating an unaccountable government who lacks transparency. The main governing institutions have created a weak legal institutional framework undermining the states judicial system, legislative system, and principal regulator and controlling institutions. The "transitioning" problems Mexico faced during its economic liberalization were due to Mexico's pervasive corruption and authoritarian structures.

Mexico for seventy-one years enjoyed a one-party system rule with a "cozy" relationship to the business elites. The crisis of 1982, the need of pro-market economic reforms, and the resentment by the private sector of their exclusion from economic policy decisions led to liberalization of the economy. Under President Salinas the economy introduced important macroeconomic strategies that included privatization of the state-owned enterprises and negotiations of NAFTA. Privatization was aimed towards the general welfare, however, equal opportunities to all of society did not occur. Government should have established a favorable democratic environment during the privatization process. No checks and balances were set in the process of privatization by government and as a result this allowed an emergence of business elites, which led to capture of the state. Mexico's modernization failed to induce a real transfer of democratic power to the state. The direct and primary beneficiaries of the economic reforms under President Salinas became the big business elites. The case studies illustrate how the economic liberalization, specifically privatization, only aggravated Mexico's social, political, and economic imbalances even further. The costs Mexico pays because of state capture have limited economic, political, and social development in the state.

The study finds that first, reduction in social spending, as part of the macroeconomic stability strategy imposed by the conditionality's established by the IMF and the World Bank, caused social and economic burdens among the population. Market based reforms, such as the implementation of NAFTA, further augmented the economic imbalance that led to a social disparity among the population. The World Bank has concluded that as of 2010 the percent of the population living below the poverty line is 51.3 percent. The rural population, poor urban working society, and small and medium sized enterprises were affected through cuts in social spending, lack of infrastructure, legislation directly benefitting large economic groups, and foreign competition. Mexico's national poverty line, for example, was 53 percent in 1984 and in 1996 the poverty line increased to 69 percent (World Bank 2013). The crisis of 1994 demonstrated how neoliberal reforms failed to establish a sustainable resumption of the economic growth and development "based on increasing and broad based purchasing power" (Ramirez 2000, 69). The macroeconomic strategy focused on attracting foreign capital, high interest rates, and reduced domestic spending became a severe burden to society. There was a rise in unemployment and social decay due to the economic downturn and stagnation suffered by the country (Castañeda 1993). Further, the neoliberal agenda theory that democratization of the state would follow, as a result of liberalization, did not occur. The Gini index, for example, during liberalization of the economy in 1992 was 0.51 and the current Gini index is 0.48. Illustrating, how economic democratization through modernization of the economy has not significantly reduced income inequality.

Second, the privatization process helped empower the large economic groups. The political economy permitted for large economic groups and foreign investors to alter the balance of power in their favor while drastically reducing government's political role. The market structure that developed under Salinas's administration has throughout the years limited economic growth, inhibited creation and entry of new companies into the market, and has limited the spread of new ideas and technology. Cases such as the telecommunication industry controlled by Slim, broadcasting media controlled by the Azcárraga family and Ricardo Salinas Pliego, and the mining industry illustrate how closed allies to the Salinas's administration benefitted and continue to benefit through the monopoly conditions adapted under the privatization process. The cases demonstrate how modernization of the economy permitted for a collusive network to develop between the large economic groups and government thus limiting economic competition. A market economy cannot function if concentration of the economy has been established by monopoly conditions.

Third, state capture damages the general welfare (public welfare), government, and business. Concentration of the economy permits monopoly conditions that hinder economic competition and investment hindrance. The lack of competition results in low infrastructure and poor market penetration. Concentration of Telmex for the years 2005-2009, for example, led to a loss of $129.9 billion (dollars), or 1.8% of the GDP per annum, in the Mexican economy (OECD 2012). Tax breaks given to profitable private corporations take away from social funding and national interests. Public spending by the Mexican Secretariat of Social Development (SEDESOL) for the years 2009-2010, for example, was only $66 billion pesos (INEGI).[24] For

[24] SEDESOL is in charge of social, regional, and infrastructure development efforts in Mexico that include poverty alleviation and human development to elevate the social, economic, and political factors in marginalized rural and urban areas (SEDESOL 2013).

the fiscal year of 2009 the sixty largest economic groups owed revenue services $453 billion pesos. This demonstrates how owing to the tax base damages social funding and a difference of $453 billion could have been used to further social welfare programs. State capture also hurts government revenue and small and medium sized enterprises that do not have political power. Monopoly concentration has reinforced inequality in income distribution of wealth and erosion of competition within the state. In 2005, for example, per person income for the richest ten percent in Mexico was $44,035 dollars and the lowest twenty percent of the population had a per person income of $1,848 dollars (Rhoda and Burton 2010). Statistics have concluded that the richest ten percent of the population in Mexico "are wealthy even by world standards" (Rhoda and Burton 2010, 89). Medium and small size enterprises were severely damaged by the liberalization of the economy. The monopolies conditions formed during the period of privatization still dominate key sectors of the economy and serve to illustrate how concentration of power went to the economic elites.

Policy Recommendations

Government should have targeted the democratization of society as a first step, however, that was not the intention by the Salinas administration. Rather, the benefits were aimed towards the economic elites and oligarchs. As evidence with the crisis of 1994, massive loss of jobs and labor rights were affected in the medium and small size enterprises, social disparity rose, and real capital accumulation was only possible to large economic groups (Ramirez 2000). An autonomous independent body should have been set up to oversee the process and analyze the proper restructuring of the enterprises to be sold.

As a first step, policy implementation has to target the main governing institutions in order to stop the perpetuation of state capture, improve state autonomy, deter economic concentration, and improve the general welfare. Autonomous institutions should be created to separate the lines between the political and economic actors. The need for a judicial and legislative branch independent from economic interest is highly needed. Government should enact legislation that eliminates tax breaks, preferential treatment, and monopoly conditions. The SAT, revenue service agency, should have greater autonomy and power to enforce timely tax payments and impose costly sanctions. Governments that focus on, "social equity put in place tax and social systems that reduce the gap between the richest members of society, the middle, and lower income groups" (Rhoda and Burton 2010, 88).

Political transparent institutions should also be created to oversee the monopoly conditions and their findings should uphold in the judicial system. An independent regulatory agency that has the power and autonomy to enforce fair competition should be enacted. The CFC, for example, should ensure low barriers to entry, regulations and a fair regulatory process, and reform regulations to permit competition in the interest of the public.

Second, civil society should organize campaigns and educate the general welfare on the effects of state capture. Civil organizations, non-profits, should step in and address the market and government failure the liberalization of the economy has produced. As the study has suggested, the market has neglected minorities and government has been unable to provide for the gaps in income inequality. The case of Mexico demonstrates how government has only fulfilled the demands of the business elites. Civil organizations would address the gaps left by the market for which government has been unable to address because of the political, structural, and systematic capture of the state. Third, associations that represent medium and small size enterprises should also be created. Business participation in key policy decisions is contingent, as the Mexican case demonstrates, upon powerful organized associations. Unrepresented firms should engage in policy debates through associations they create to further their interests.

As illustrated, the cost of Mexico not being able to move forward has been detrimental to the state. Mexico is a country with strong economic potential, and in order to reach it there is still a need for a working democracy that provides opportunities for all. The price Mexico is paying as a captured state is evidenced through the economy and the increase in crime it has experienced in recent years. State capture has not only been conducive to large economic group concentration but the erosion of government, as a subordinate class, has permitted the expansion of crime within the state. Mexico has fallen into a state that is ruled by the "legal" sector, large economic groups, and the "illegal" networks or drug trafficking cartels. In order to move forward Mexico will need to re-establish a new and strong institutional legal framework that is willing to operate for the people and not for the interests of the few. More research is needed to understand the effects of state capture and how this has facilitated crime networks in Mexico.

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