Business-Government Relations in Mexico: The Echeverria Challenge to the Existing Development Model

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BUSINESS-GOVERNMENT RELATIONS IN MEXICO: THE ECHEVERRIA CHALLENGE TO THE EXISTING DEVELOPMENT MODEL

by Edward C. Epstein*

I. INTRODUCTION

The business community in Mexico, both domestic and foreign, shared a negative view of the government of President Luis Echeverria (1970-1976).¹ The purpose of this essay is to offer an explanation of this departure from the normally excellent relations between business and a Mexican Chief of State. In great part, the answer provided here relates to Echeverria's desire to modify the earlier pattern of economic growth (commonly referred to in Mexico as "desarrollo estabilizador" or "stabilized development") which had lasted at least 15 years and had been accompanied by sustained high rates of Gross Domestic Product (G.D.P.), industrial expansion, low inflation and overt political quiescence.² The new government's analysts saw this prevailing model of growth as likely to exhaust itself unless certain changes were made to prevent particular economic weaknesses from getting out of control. In addition, these advisors were increasingly sensitive to the then existing social costs of Mexico's unevenly distributed prosperity. While the government's policy innovations in themselves might have antagonized business, the policy makers' heavy use of populist rhetoric and attempts to assume a more nationalist foreign policy virtually assured that the alliance of Mexican domestic and foreign business groups would view Echeverría with alarm. Their perception of the government deteriorated further during the growing economic crisis which culminated in the forced major devaluation of the peso in August and October of 1976.³

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The business community had been accustomed to economic prosperity. Prior to 1970, its members had been among the principal beneficiaries of an extended period of economic expansion based on import substitution industrialization. While in the ensuing division of responsibility between private and public sectors, business provided imported technology, large amounts of investment capital and competent management for the increasingly sophisticated industrial complex, the State offered even more. Business’ successful operation rested in great part on subsidized power and raw materials from government-run public utilities and basic industries including a national transportation grid, high tariff protection and an overvalued peso promoting cheap imports of parts, large amounts of foreign credit raised by the government-controlled Nacional Financiera, extremely favorable taxes including significant incentives for specified types of investment, and a docile government-dominated labor movement whose members usually were willing to work for very low wages. This business-State relationship resulted in the creation of an ever more industrialized society where in the 30-year period beginning in 1940, the economy increased at an average rate of 6.5 percent per year, industrial production at an average rate of 8 percent per year, and where between 1954 and 1970 inflation (as measured by wholesale prices) averaged only 4.4 percent per year. High unemployment and inequitable income distribution, both of which were on the increase in the 1960’s, did not bother business; on the contrary, its members clearly benefitted from both phenomena in the form of cheap labor and increasing disposable personal income.

The mutual acceptance by the Mexican State and the business community of the pattern of economic growth just described had served as the basis for an informal coalition between the two. Although the business sector included groups like banking, commercialized agriculture, principal wholesalers, and retailers, manufacturing had long been the focal point in the maintenance of economic growth and, hence, the most politically important. Within both manufacturing and commerce, the growing amount of strategically placed foreign investment, controlled mostly by U.S.-based multinational corporations, had also been of real political weight. Other sectors like the peasantry, organized labor, and

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* For G.N.P. and industrial growth figures, see Villarreal, Import—Substituting Industrialization, in Authoritarianism in México 75 (J. Reyna & R. Weinert eds. 1977); for inflation figures, see Clement & Green, supra note 3, at 50.


the middle classes were subordinated to this dominant business-State coalition. Yet despite their formal representation in the ruling political party, the Partido Revolucionario Institucional (P.R.I.), these three lower status groups had little impact on national decision-making.

As long as the development model stayed intact and the distribution of economic and political resources remained unchallenged, the existing coalition could continue as before. Attempts at the beginning of the Echeverria presidency to introduce changes were at the heart of the ensuing intra-elite cleavage. Until then, the occasional dispute arising within the coalition was easily contained through the use of traditional methods of mutual negotiation by the affected parties. The presumption of most observers was that in the case of disagreement, the State, represented by the incumbent President, always would prevail over its less cohesive rivals. The Echeverria-business conflict of the 1970’s may cause this assumption to be reevaluated, for the President was unable to silence his critics whose protests grew progressively louder as his term continued.

Moreover, the fundamental nature of the quarrel over the course of economic development in Mexico produced a degree of unity in the business community that made the usual playing off of one opponent against another very difficult.

The analysis which follows in the body of this essay on the breakdown of the elite consensus in the course of Mexican development consists of three parts and a postscript. In the first, the reader will find

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7 Reyna, Redefining the Authoritarian Regime, in AUTHORITARIANISM IN MEXICO, supra note 4, at 161.

8 Arriola, Los Grupos Empresariales Frente al Estado, 1973-1975, in 16 FORO INTERNACIONAL 449 (1976). Mr. Arriola sees business' response to Presidents Cárdenas and López Mateos as similar to that greeting Echeverría. Relations with non-elite groups lacking business' strategic place in the economy were of a different order. For one study, see E. Stevens, PROTEST AND RESPONSE IN MEXICO (1974).

9 S. Purcell, The Mexican Profit Sharing Decision 17-31 (1975); Purcell & Purcell, Mexican Business and Public Policy, in AUTHORITARIANISM AND CORPORATISM IN LATIN AMERICA 201 (J. Malloy ed. 1977); for exceptions to the prevailing view, see Stevens, Mexico's PRI: The Institutionalization of Corporatism?, in AUTHORITARIANISM AND CORPORATISM IN LATIN AMERICA 234-39 (J. Malloy ed. 1977); Green, Endudamiento Externo y Debilidad Estatal: El Caso de México, in 20 FORO INTERNACIONAL 73 (1979).

10 See Arriola, supra note 8, at 449-86.

11 See the formation of the Consejo Coordinador Empresarial on May 7, 1975, as a coordinating vehicle for such key business groups as CONAMIN (The Industrialists Confederation), CONCANACO (The Confederation of Chambers of Commerce), COPARMEX (The Employers Confederation), ABM (The Bankers Association), and AMIS (The Insurance Association). Comments about the difficulty of disaggregating redistributional issues seem particularly relevant here, see Purcell & Purcell, supra note 9, at 212-14.
description of the serious economic problems observable since the mid-1960's. Of particular importance here was a deterioration in Mexico's international Current Account (the value of all exported goods and services minus that of all imports) balance and, as compensation, a sharp increase in foreign indebtedness. The economic problems coincided with the increased visibility of social tension and the corrosion of the regime's political legitimacy observable in the 1968 student strike and the "Tlatelolco massacre."12 As Minister of Government (Gobernación) in the Díaz Ordaz presidency at the time of Tlatelolco, Echeverría caught much of the criticism for the repression used by that government.

Part two deals with the attempts of Echeverría as President to rebuild the regime's legitimacy while trying to reorder the economy in a way likely to redress the perceived structural causes of the trade deficit and related problems. The success of both efforts is debatable.

The third section details business' response. Reacting as if Echeverría had intended his economic and political reforms to be a major restructuring of the policies in vogue for decades, business cut its domestic investment and, as a result of the increases in inflation after the world-wide energy crisis at the end of 1973, began shifting funds into dollars in what became a massive flight of capital out of the country.13 The ultimate result was the 1976 devaluation, a severe crisis of confidence in the Mexican government and hope that Echeverría's successor as President in December, 1976, José López Portillo, would reverse the policies found so offensive and revert to the former orthodoxy.

A short postcript takes the analysis up through 1979. The policies of the post-Echeverría years were, indeed, to prove much more to the liking of the business community. If the old development model of stabilized growth had been discredited by Echeverría, his successor's choice to replace it contained many of the more conservative biases of the earlier model.

II. The Weaknesses of the Development Model

Upon assuming office at the end of 1970, the Echeverría administration saw two major sets of reasons, one economic and one political, to depart from the earlier orthodox pattern of development. Economically, the years of rapid growth had left behind a legacy of accelerating external trade deficits and foreign debt. The new industries, while requiring heavy amounts of costly imported parts and machinery, exported relatively lit-

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12 See E. STEVENS, supra note 8, at 185-240.
13 See Arriola, supra note 8, at 485. He suggests that some of the hesitancy to invest would have occurred given prevailing world economic conditions even if Echeverría had not made any changes.
tle to pay for themselves. A related economic concern was the pressure on international payments caused by profit transfers from the multinational corporate investors and the royalties paid by all using foreign technology. Politically, the extremely uneven distribution of benefits from Mexico's rapid economic growth and the low level of public social services might generate potentially explosive discontent which could seriously erode the legitimacy of a regime still claiming to be "revolutionary." The regime's nationalist credentials were also challenged by the growing influence of foreign multinationals in key high-profit sectors of industry. To the Echeverría government, these problem areas required policy action if they were not to overwhelm the regime at some point in the near future.

The international payments problem clearly existed, and was getting worse. The overall imbalance in the Current Account had increased from 705 million dollars during the 1953-1958 period to 1,526 million between 1959-1964 and to 3,996 million from 1965 to 1970, better than doubling in each of the six-year periods roughly corresponding to the presidencies of Adolfo Ruiz Cortines, Adolfo López Mateos, and Gustavo Díaz Ordaz, respectively. Within the total Current Account, the steadily increasing imbalance in merchandise trade faced a shrinking counterweight in total services which in the Díaz Ordaz years actually became negative. The deterioration in services was almost entirely due to the rapid increase in payments to foreign capital which rose steadily from 734 million to 1,401 million and 3,091 million dollars in the three six-year intervals under discussion. Table I provides a detailed breakdown of the Current Account for the 1953-1970 period.
### TABLE I

**Partial Balances of Payments, 1953-1970**  
(in Millions of Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Merchandise Balance (I)</th>
<th>Service Balance A (II)</th>
<th>Service Balance B (III)</th>
<th>Commercial Balance (IV)</th>
<th>Balance in Current Account (V)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>-208</td>
<td>+180</td>
<td>+86</td>
<td>-28</td>
<td>-122</td>
</tr>
<tr>
<td>1954</td>
<td>-132</td>
<td>+195</td>
<td>+109</td>
<td>+63</td>
<td>-23</td>
</tr>
<tr>
<td>1955</td>
<td>-23</td>
<td>+269</td>
<td>+176</td>
<td>+246</td>
<td>+153</td>
</tr>
<tr>
<td>1956</td>
<td>-228</td>
<td>+256</td>
<td>+113</td>
<td>+28</td>
<td>-115</td>
</tr>
<tr>
<td>1957</td>
<td>-420</td>
<td>+257</td>
<td>+123</td>
<td>-163</td>
<td>-297</td>
</tr>
<tr>
<td>1958</td>
<td>-407</td>
<td>+270</td>
<td>+96</td>
<td>-137</td>
<td>-311</td>
</tr>
<tr>
<td>1959</td>
<td>-262</td>
<td>+279</td>
<td>+110</td>
<td>-17</td>
<td>-152</td>
</tr>
<tr>
<td>1960</td>
<td>-428</td>
<td>+286</td>
<td>+95</td>
<td>-142</td>
<td>-333</td>
</tr>
<tr>
<td>1961</td>
<td>-317</td>
<td>+293</td>
<td>+89</td>
<td>-24</td>
<td>-228</td>
</tr>
<tr>
<td>1962</td>
<td>-242</td>
<td>+295</td>
<td>+58</td>
<td>+53</td>
<td>-184</td>
</tr>
<tr>
<td>1963</td>
<td>-279</td>
<td>+328</td>
<td>+62</td>
<td>+49</td>
<td>-217</td>
</tr>
<tr>
<td>1964</td>
<td>-445</td>
<td>+357</td>
<td>+33</td>
<td>-88</td>
<td>-412</td>
</tr>
<tr>
<td>1965</td>
<td>-431</td>
<td>+372</td>
<td>-33</td>
<td>-59</td>
<td>-398</td>
</tr>
<tr>
<td>1966</td>
<td>-420</td>
<td>+423</td>
<td>+29</td>
<td>+3</td>
<td>-391</td>
</tr>
<tr>
<td>1967</td>
<td>-615</td>
<td>+456</td>
<td>+17</td>
<td>-159</td>
<td>-598</td>
</tr>
<tr>
<td>1968</td>
<td>-710</td>
<td>+510</td>
<td>-41</td>
<td>-200</td>
<td>-751</td>
</tr>
<tr>
<td>1969</td>
<td>-654</td>
<td>+611</td>
<td>-91</td>
<td>-143</td>
<td>-743</td>
</tr>
<tr>
<td>1970</td>
<td>-955</td>
<td>+540</td>
<td>-160</td>
<td>-410</td>
<td>-1115</td>
</tr>
</tbody>
</table>

(I): Export of Goods − Import of Goods  
(II): Export of Services − Import of Services, Without Payments for Rent to Foreign Capital  
(III): (II) + Payments for Rent to Foreign Capital  
(IV): (I) + (II)  
(V): (I) + (III)

*Source: VILLARREAL, supra note 4, at 87.*

Examining just net foreign investment (foreign investment minus rental payments), by 1967-1968, there was a total outflow from Mexico of 334 million dollars. That is, instead of aiding the international payments as had been true in the 1950’s, by the late 1960’s foreign investment was a net drain.

One short-term solution to the increasing payments deficit was to borrow abroad. The total public foreign debt which in 1961 had stood at 2,114 million dollars was almost to double to 3,775 million by 1970. The debt figures here differ

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14 Villarreal, supra note 4, at 86.  
servicing of this expanding debt was to require an average of 23.1 percent of all foreign earnings in the years 1965-1970. Clearly, then, increasing the extent of foreign borrowing was limited in the long term by Mexico's ability to service any increase on top of large existing obligations.

Preoccupation with the economic costs of continuing the existing development model were supplemented by the political concern already mentioned. In the 1958-1970 period which corresponded to some of the years of the most rapid economic growth, the distribution of income in supposedly "revolutionary" Mexico became more and more unequal. During that same period, according to Mexican government surveys, the income share of the poorest 40 percent of the population declined from 14.57 to 11.79 percent while that of the wealthiest 10 percent increased from 35.70 to 39.21 percent. Stated in terms of the Gini index of inequality where zero equals total equality and 1.0 total inequality, Mexico's figure rose from .450 in 1958 to .496 twelve years later. A more detailed breakdown of income transfer is available in Table II.

TABLE II

Distribution of Income in Mexico in Deciles, 1958-1970 (%)

<table>
<thead>
<tr>
<th>Deciles*</th>
<th>1958</th>
<th>1970</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>2.32</td>
<td>1.42</td>
</tr>
<tr>
<td>II</td>
<td>3.21</td>
<td>2.34</td>
</tr>
<tr>
<td>III</td>
<td>4.06</td>
<td>3.49</td>
</tr>
<tr>
<td>IV</td>
<td>4.98</td>
<td>4.54</td>
</tr>
<tr>
<td>V</td>
<td>6.02</td>
<td>5.46</td>
</tr>
<tr>
<td>VI</td>
<td>7.49</td>
<td>8.24</td>
</tr>
<tr>
<td>VII</td>
<td>8.29</td>
<td>8.24</td>
</tr>
<tr>
<td>VIII</td>
<td>10.73</td>
<td>10.44</td>
</tr>
<tr>
<td>IX</td>
<td>17.20</td>
<td>16.61</td>
</tr>
<tr>
<td>X</td>
<td>35.70</td>
<td>39.21</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

* = Number of Families in Each Decile:
1958: 640,538
1970: 889,175

Source: HERNANDEZ LAOS & CORDOVA CHAVEZ, supra note 17, at 507.

from those found in other sources such as C. TELLO, supra note 3, at 141; Weinert, The State and Foreign Capital, in AUTHORITARIANISM IN MEXICO, supra note 4, at 123.

16 See Green, supra note 15, at 1284.


18 Id. at 508.
The poverty of many Mexicans was closely linked to widespread unemployment which René Villarreal saw as being the equivalent of 26.8 percent of the economically active population in 1970 alone.\(^{19}\)

Social expenditures in Mexico were quite low, concentrated in the major urban areas like the Federal District which includes Mexico City. As of 1970, social security accounted for only 2.5 percent of G.D.P., while that for public health and education added on only 0.5 and 2.2 percent, respectively.\(^{20}\) Total government spending in Mexico (including all three items) as a percent of G.D.P. in 1970 was 13.1, well below the 22.0 for Chile, 21.4 for Venezuela, 20.0 for Brazil, and only slightly better than the 12.2 of Somoza-run Nicaragua.\(^{21}\) Low social expenditures, in turn, reflected a stagnant tax base and government funds going to subsidize services to private industry.\(^{22}\)

As with the various international payments and foreign debt problems, those associated with inequitable income distribution, unemployment and inadequate social services presented a medium for long-range political threat to any Mexican government. Few informed observers were expecting mass risings of the urban poor or the even more underprivileged peasantry in the immediate future. What did seem at stake was the further undermining of the regime's revolutionary legitimacy. As Susan Purcell stated, "Most Mexicans . . . now one or two generations removed from the event . . . seem to be less affected by the symbols of the Revolution and more cynical regarding the intention of their leaders to implement the social-justice goals of the Revolution."\(^{23}\)

The heavy-handed repression used to deal with the peaceful student demonstrations of 1968, which culminated in the events of Tlatelolco in September, only reinforced those who argued that the revolution had ended effectively with the conclusion of the Lázaro Cárdenas presidency in 1940.\(^{24}\) The more doubtful the regime's legitimacy, the more likely that it would have to return to the use of violence to silence those lower status groups of protestors like the alienated university students and intellectuals who were publicly questioning the values behind the regime's allocation of governmental resources.\(^{25}\)

Foreign investment raised a less visible but equally important threat

\(^{19}\) Villarreal, supra note 4, at 75-76.

\(^{20}\) C. Tello, supra note 3, at 37, citing figures from the Secretaría de Hacienda y Crédito Público, Cuenta Pública de 1970.

\(^{21}\) C. Tello, supra note 3, at 36.

\(^{22}\) Id. at 36-38.

\(^{23}\) Purcell, The Future of the Mexican System, in Authoritarianism in Mexico, supra note 4, at 178.

\(^{24}\) For descriptions of the events of Tlatelolco in addition to those of E. Stevens, supra note 8, see E. Pontirowska, La noche de Tlatelolco (1971); R. Ramírez, El Movimiento Estudiantil de México, Julio-Diciembre de 1968 (1969).
to the regime's political control. The multinational corporations investing heavily in Mexico since the mid-1950's were becoming more important in particular branches of industry. Although direct foreign investment as of 1970 controlled only 27.6 percent of the value of manufacturing as a whole, the figure was as high as 79.3 percent for electrical machinery and 84.2 percent for rubber. Table III shows the figures for particular selected types of industry, comparing the percentages of 1962 with those of 1970 so that increases can be noted.

### TABLE III

<table>
<thead>
<tr>
<th>Branches of Industry</th>
<th>1962</th>
<th>1970</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical Products</td>
<td>58.4</td>
<td>67.2</td>
</tr>
<tr>
<td>Construction Machinery</td>
<td>44.9</td>
<td>62.0</td>
</tr>
<tr>
<td>Electric Machinery</td>
<td>58.3</td>
<td>79.3</td>
</tr>
<tr>
<td>Transport Equipment</td>
<td>42.6</td>
<td>49.1</td>
</tr>
<tr>
<td>Rubber</td>
<td>76.7</td>
<td>84.2</td>
</tr>
<tr>
<td>Non-Metalic Mineral</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products</td>
<td>24.4</td>
<td>26.6</td>
</tr>
<tr>
<td>Basic Metals</td>
<td>17.7</td>
<td>25.2</td>
</tr>
<tr>
<td>Metal Products</td>
<td>20.6</td>
<td>37.0</td>
</tr>
<tr>
<td>All Industry Average</td>
<td>19.6</td>
<td>27.6</td>
</tr>
</tbody>
</table>

*Source: SEPULVEDA & CHUMACERO, supra note 6, at 56.*

As can be seen, the influence of foreign investment rose from 19.6 to 27.6 percent in the nine-year period, with most of the growth coming at the expense of Mexican companies which were taken over. Whereas in the earlier 1948-1957 interval, 61 percent of the subsidiaries of U.S. owned corporations in Mexico were newly established compared to 39 percent acquired from already existing Mexican firms, during the 1958-1967 period these figures for new versus acquired subsidiaries were exactly reversed. Rather than providing risk-taking initiatives in opening new areas of industry, U.S. (and other) multinationals increasingly were ousting national competition, thus leading to greater market concentration.

In his analysis of the role of foreign capital in Mexico, Richard Weinert saw the foreign-linked market concentration and domination of Mexican industry as likely to weaken the political control of the government as new areas of the economy were subject to directives coming from

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26 B. SEPULVEDA & A. CHUMACERO, supra note 6, at 56.
28 For an examination of the effect of multinationals on market concentration, see F. FAJNYLBER & N. MARTINEZ TARRAGO, supra note 6, at 171-99.
abroad and, presumably, made in the interest of foreign concerns rather than those of the Mexican government.\(^2\) The self-interest of the governing elite would suggest that appropriate measures be taken to define more closely the conditions under which new foreign investment would be welcome in the future. Given the importance with which foreign investment and technology were viewed by the business community, some equally salient justification had to be created for measures meant to limit the potential political influence of the foreign corporation. Such a justification was to be found within the tradition of Mexican nationalism.

Thus, at the end of 1970, the incoming Echeverria administration was convinced of the need to make some significant readjustments in the existing pattern of economic and political development. The worsening international payments and foreign debt situation would require new restrictions on imports and a concerted effort to promote exports. Some of these restrictions on imports also would be aimed at meeting particular nationalist concerns. At the same time, the new administration sought to deal with social discontent by expanding the distribution of benefits derived from previous economic growth. Such efforts were intended to win support from previously alienated students and intellectuals as well as the poor in whose name the former groups often spoke. The question raised here is whether the new President could find a viable strategy to meet these goals without destroying a political coalition in which organized business had long been paramount. The next section discusses the attempts made to assemble a program including the mentioned goals; the following section analyzes the response of business.

### III. THE ECHEVERRIA REFORMS

In his inaugural address to the nation, President Echeverria announced that his government would “strengthen the social and economic content of its democratic institutions” and, if necessary, “modify the development strategy” to achieve this goal.\(^3\) The discussion here is an attempt to describe the contents of such a reform program, focusing on those areas which the new government itself saw as potentially serious problems. As mentioned earlier, the problems relating to that development strategy included the imbalance in international payments and the resulting escalation of foreign debt, the denationalization of key areas of the economy caused by the expansion of multinational corporations, the inequitable distribution of national income and underfunding of social services, and the government’s proclivity to suppress all dissent from lower status groups through the measured use of force and intimidation.

\(^2\) Weinert, supra note 15, at 111.

\(^3\) Arriola, supra note 8, at 450.
Proposed solutions to these problems constituted the administration's program. Although associated in terms of general timing, the government's use of a nationalist-populist rhetoric should be seen as, at most, logically derivative rather than an integral part of the reforms themselves.

The government's response to both the balance of payments and de-nationalization problems was the passage of two controversial pieces of legislation—the Law on the Registry of Technological Transfer and the Use and Exploitation of Patents and Trademarks of 1972 (hereinafter referred to as the "Technology Law") and the Law to Promote Mexican Investment and to Regulate Foreign Investment of 1973 (hereinafter referred to as the "Foreign Investment Law"). Many critics alleged that not only were firms operating in Mexico frequently paying excessively for their largely imported technology (thus hurting Mexico's international payments), but that the agreements signed for the use of this foreign technology often contained offensive restrictions on its implementation, such as the prohibition of subsequent export of goods made with it.

Article 7 of the new Technology Law listed 14 conditions under which technology would not normally be registerable with the newly established National Registry for the Transference of Technology and, hence where the contracts for the use of the imported technology would not be legally binding. Parts of the same Article which are particularly relevant here included bans under the following conditions:

1. When the object is the transference of technology freely available in the country . . . ;
2. When the price has no relation to [the value of] the technology acquired or constitutes an unjustifiable and excessive burden on the national economy;
3. When the obligation is established to cede for little or nothing to

33 M. Wionczek, Inversion y Tecnología Extranjera en América Latina 163 (1971), citing a 1969 study of U.S. subsidiaries operating in Mexico by the National Chamber Foundation of Washington, D.C., in which almost half of those subsidiaries responding admitted that export prohibitions had been imposed upon them by their home offices.
the purveyor of the technology the patents, trademarks, innovations, or improvements that are obtained by the acquirer;

(7) When the export of the goods or services produced by the acquirer are prohibited in a manner contrary to the interest of the country. . . .

During the Registry's first 15 months, it rejected some 35 percent of technology agreements submitted to it.\(^{36}\)

The Foreign Investment Law, in turn, codified a number of already existing restrictions on both the extent of and areas for such investment to be permitted. Except for those areas like petroleum, basic petrochemicals, electric energy, railroads, and telegraph where the State was to maintain a total monopoly,\(^{37}\) or those such as radio and television, interurban transportation, gas distribution and forestry exploitation where only Mexican citizens could participate,\(^{38}\) foreign investment was limited to no more than 49 percent of the capital of any concern.\(^{39}\) Other exceptions included banking and insurance where the limit was 25 percent, mineral reserves with 34 percent, and the secondary use of petrochemicals and the production of automobile parts, both with 40 percent.\(^{40}\) New to the Foreign Investment Law was the provision in Article 8 which gave legal preference to Mexican investors in the purchase of any firm for sale and which required special authorization from the National Commission for Foreign Investment whenever foreigners acquired more than 25 percent of the capital or 49 percent of the fixed assets, and that in Article 13 which specified a list of 17 guidelines including the effect of foreign investment on the balance of payments and on Mexico's ability to export for granting an exception to the general 49 percent maximum rule.\(^{41}\) Alan Riding stated that in the 1973-1974 period, the 49 percent rule was waived in 74 of 103 requests.\(^{42}\)

The encouragement of exports and the limits on unnecessary or excessively costly imports of technology were intended to improve the deficit in international payments. The hope was that if the deficit could be reduced, Mexico would have less cause to increase its large official foreign debt. The 49 percent rule was meant to maintain Mexican control of the

\(^{35}\) Epstein, supra note 32, at 6-7. Exceptions to some of these 14 conditions including number 2 can be made where the technology to be acquired is "of particular interest to the country." Id. at 6.

\(^{36}\) Weinert, supra note 15, at 122.

\(^{37}\) Foreign Investment Law, art. 4, [1973] D.O., Mar. 9, 1973 (Mex.).

\(^{38}\) Id. arts. 4, 5.

\(^{39}\) Epstein, supra note 32, at 7.

\(^{40}\) Id.

\(^{41}\) Id. at 8.

national economy or at least to force foreign investment into those areas where it would be the most helpful rather than those most likely to be the most profitable.

Attempts to maintain the effective standard of living for the poorest Mexicans took several forms: increases in the minimum wage, more money for social services, price controls on certain items of popular consumption, more subsidized public housing, and more credit for small agriculture including the village-owned ejidos.

With respect to the urban minimum wage, the government made a concerted effort to make periodic upward adjustments in order to control inflation. The data presented in Table IV suggests that the real minimum wage (the nominal wage deflated by the amount of inflation) never dropped below 83.5 percent of its January, 1972 value, with a figure in the lower 90th percentile more typical as the bottom prior to an increase.

TABLE IV

Urban Real Minimum Wage (Constant 1972 Pesos)
Index, 1972-1976

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan.</td>
<td>100.0</td>
<td>83.5</td>
<td>97.5</td>
<td>92.5</td>
<td>103.5</td>
</tr>
<tr>
<td>Sept.</td>
<td></td>
<td></td>
<td>93.9</td>
<td>112.4</td>
<td>97.5</td>
</tr>
<tr>
<td>Oct.</td>
<td></td>
<td></td>
<td></td>
<td>105.9</td>
<td>99.3</td>
</tr>
<tr>
<td>Dec.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>104.4</td>
</tr>
</tbody>
</table>

Source: TELLO, supra note 3, 72, 144, 158.

Similar attempts were made by the government to encourage salary increases for those receiving more than the minimum wage.43

Throughout the Echeverria administration, a strong emphasis was made to increase public spending in the social sector, that is, for education, public health and social security. According to the official data for real spending (nominal amounts deflated by the amount of inflation)—in Table V—and that for relative spending as a percent of the Mexican Federal Budget—in Table VI—the funding for education increased some 117.8 percent in constant pesos, a relative increase of 1.0 percent of the Budget in the 1971-1976 period, while that of public health and social security combined grew some 67.7 percent in constant pesos, a relative

43 Arriola, supra note 8, at 465.
decrease of 1.8 percent of the Budget in the same six-year span.

TABLE V

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>100.0</td>
<td>117.8</td>
<td>135.6</td>
<td>150.0</td>
<td>191.1</td>
<td>217.8</td>
<td>+117.8%</td>
</tr>
<tr>
<td>Health &amp;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>100.0</td>
<td>111.8</td>
<td>118.6</td>
<td>144.1</td>
<td>135.4</td>
<td>167.7</td>
<td>+67.7%</td>
</tr>
</tbody>
</table>

Source: TELLO, supra note 3, 55, 131.

TABLE VI

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>7.8</td>
<td>7.9</td>
<td>7.4</td>
<td>7.5</td>
<td>7.8</td>
<td>8.8</td>
<td>+1.0</td>
</tr>
<tr>
<td>Health &amp;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Security</td>
<td>13.9</td>
<td>13.3</td>
<td>11.6</td>
<td>12.9</td>
<td>9.9</td>
<td>12.1</td>
<td>−1.8</td>
</tr>
</tbody>
</table>

Source: TELLO, supra note 3, 54, 131.

The attempts to give poorer Mexicans more consumption power were varied. FONACOT (the National Fund for the Development and Guarantee of Consumption) was established to subsidize the purchase of consumer durables; at the same time, more funds were given to the already established CONASUPO (the National Company for Popular Subsistence) for providing cheap staples to the public. Another agency, INFONAVIT (the Institute of the National Fund for Workers Housing) was created to construct more subsidized public housing.44 Other government money was channeled to the rural sector in the form of specialized credit and infrastructural spending.45

The government sought to pay for its greatly expanded social program through tax reform and higher charges on public utilities and State-provided basic industrial commodities. The new taxes introduced were mostly indirect ones on items like bottled water and tobacco or business taxes also paid eventually by the consumer. All attempts to reform the low income tax in a more progressive direction were abandoned in the face of widespread business hostility and threats to invest abroad.46 Although charges ultimately were raised on government-provided electric-

44 C. Tello, supra note 3, at 52, 64-65, 110; Arriola, supra note 8, at 458; Pereyra, Estado y Sociedad, in México, Hoy supra note 3, at 299.

45 Purcell, supra note 23, at 177; C. Tello, supra note 3, at 75.

46 C. Tello, supra note 3, at 52, 61, 116.
ity, water, fuels, telephones, railroad service, steel, and fertilizers, the increases usually were well below the general inflation rate; such goods and services continued to be subsidized for all users, rich and poor. As with income tax increases, business strongly opposed any decrease in what amounted to subsidies from the government. Due to this resistance to higher charges, most State-run enterprises ran at a significant loss.47

The final area of the reform program dealt with greater democratization. Despite the formal trappings of a democracy, a number of observers agreed with Susan Purcell's characterization of Mexican politics as "authoritarian."

As President, Echeverría experimented with what he called a "democratic opening" ("apertura democrática"). Early in his administration, those still jailed from the student demonstrations of 1968 were released.49 In May, 1971, Echeverría supported protesting university students at the University of Nuevo León in Monterrey, resulting in the dismissal of the conservative Rector and the state Governor who had appointed him.50 Efforts were also made to decontrol trade union elections. When various union groups responded to their membership with agitation for higher wages, such strikes were officially tolerated rather than simply declared illegal and suppressed as had been common prior to 1970.51 Such tolerance was not without its limits, however; certain actions like the ouster of the director of the independent newspaper Excelsior in July, 1976, demonstrated the sensitivity of the government to criticism at a time when many of its policies were under attack.52 In the same way, the intensifying economic crisis of 1975-1976 caused the administration to reassert its control over labor and to abandon its plans to get rid of the long entrenched, unrepresentative leaders of the national Mexican Workers Confederation (C.T.M.).53

As suggested earlier, the various Echeverría reforms discussed were all intended, directly or indirectly, to be possible solutions to the problems diagnosed as byproducts of the economic development model. One aspect of the government's activities, the often strident use of nationalist-populist rhetoric and gestures, is not so easily explained. From

47 Id. 73, 158.
49 C. Tello, supra note 3, at 44.
50 Epstein, supra note 32, at 11.
51 C. Tello, supra note 3, at 102-04.
52 Fernández Christlieb, El Derecho a la Información y los Medios de Difusión Masiva, in México, Hoy, supra note 3, at 343; Pereyra, supra note 44, at 298.
53 Pereyra, supra note 44, at 301-02.
the policy viewpoint, how does one explain actions like the warm official welcome given to visiting Marxist President Salvador Allende of Chile in late 1972 and the public mourning in September, 1973, with the coup that ended Chilean democracy; the loudly announced formation of a government-worker Popular Alliance from which all businessmen were excluded; and Mexico's "solidarity" with a variety of Third World causes seemingly far removed from the realities of Mexican domestic concerns? A tentative answer links these actions not to the reform program itself but to the particular strategy chosen to implement those reforms. The rhetoric and gestures can be interpreted as part of a strategy intended to win support for the government from previously alienated groups of radical students and intellectuals. In the face of the hostile reaction of the conservative business community and as an attempt to preserve the prestige of the administration while under attack, government leaders took the offensive, trying to mobilize support from the workers and publicly questioning the nationalist credentials of business organizations. The point is that while such a response by the government encouraged further business hostility, the nationalist-populist posturing was at most only derivative of the Echeverria reforms rather than an integral part of them.

Taken as a whole, the reforms were intended to restore spent social and economic capital not renewed in some cases since the Cárdenas presidency of the 1930's. By 1970, the legitimacy of the revolutionary regime seemed greatly tarnished; in the same sense, many important State enterprises were badly underfunded while the chronic imbalance of payments demanded action. That Echeverría did not solve all of Mexico's problems is not surprising, especially in view of the unforeseen world-wide energy crisis that greatly complicated economic management after 1973. Much of the criticism launched at the President had its roots less in the growing economic problems than in the challenge his reforms presented to those who represented the economic and social status quo and benefitted from the system as it was. A discussion of their response to the Echeverría challenge is found next.

IV. CONFRONTATION POLITICS

The assumption that those controlling the Mexican State would always win in a confrontation with any pressure group was called into question by the events of the Echeverría presidency. In the conflict between a largely unified business community and the State, the results were, at best, a standoff. Obviously, business was not an ordinary pressure group, but one which—with the State itself—constituted the major force in recent Mexican politics. The particular nature of the conflict focusing on

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54 C. Tello, supra note 3, at 59-60, 70; Arriola, supra note 8, at 461-64.
the future of the existing development model unified most business groups. The new government, on the other hand, was not totally united. In addition, the unexpected post-1973 economic events were to make the government especially vulnerable to a major challenge from the business sector.

Business has had a number of potential weapons for use in any conflict with the State, ranging from domestic rumor-mongering and international criticism to a refusal to invest in the economy, short-term suspensions of productive activities through owners strikes and, ultimately, a policy of capital flight leading to monetary devaluation. In the 1971-1976 period, all of these tactics saw some use by a business community antagonized by the Echeverría reforms and frightened by the administration’s rhetoric.

The Echeverría-dominated State was extremely hesitant to use all the means at its disposal against a group as critical to continued economic growth as the business community. This hesitancy was probably due to a fear of the consequences of alienating all of business against the government and an unwillingness to risk a conflict of such magnitude as to threaten the collapse of the growth model. Again, the Echeverría administration has been seen here as reformist, not revolutionary. Radical-sounding rhetoric was far removed from a conscious strategy intended to promote total confrontation, open violence, or civil war with the possibility of a pro-business military coup. Ironically, the confrontation which did result went much further than the government could have anticipated.

Virtually any effort made by Echeverría to intervene in the economy aroused opposition from business. Where those actions were in any sense likely to redistribute income more equitably, business criticism intensified. Faced with the tax reform law introduced in December, 1970, the head of the Employers Confederation of the Mexican Republic (COPARMEX) complained of a lack of prior consultation, as had been the custom in previous administrations. All future tax measures were similarly opposed. The legislation intended to restrict the imports of technology and the scope of foreign investment was equally offensive, provoking the intervention of the U.S. Ambassador in an October, 1973 speech to the U.S.-Mexican Businessmen’s Committee where he stated his “preoccupation” with such laws. The March, 1973 attempts to extend price controls and to promote the distribution of subsidized goods were criticized by the heads of the Confederation of Chambers of Com-

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55 C. Tello, supra note 3, at 44-46.
56 Id. at 57-59. The Ambassador’s comments are reprinted in McBride, Are the Rules of the Game Being Changed?, 18 COMMERCE EXTERIOR 5, 5-7 (1972) (English language version).
merce (CONCONACO) as themselves being inflationary. Business' standard answer to inflation was less government spending on the new social programs.

The effort by the government at increased democratization met open hostility from organized business. The administration was accused of contributing to the wave of physical attacks, kidnappings and murders by its policies of toleration of domestic leftist groups and its friendliness to the Marxist Allende regime in Chile. The murder of Monterrey industrialist Eugenio Garza Sada less than a week after Echeverría had declared three days of national mourning for the overthrow of Allende led to a series of particularly bitter condemnations of the Mexican government by business. In the same sense, the independent trade union groups, many of which were coordinated by the Authentic Labor Front (F.A.T.), were accused by the Employers Confederation of Marxist-Leninist and Anarchosindicalist leanings. The Vice-President of the Industrialists Confederation (CONCAMIN) called for the imprisonment of those “leaders and agitators . . . who only cause hate, agitation and demagoguery.”

A series of business-inspired rumor campaigns spread by the mass media were intended to cast doubt on the government's control of events. Here the public was informed of a series of supposed rapes and killings of young women in Mexico City (end 1972), a shortage of food supplies (1972), a shortage of gasoline (1973), vaccines supposedly sterilizing women (end 1974), free government textbooks promoting Marxist, atheist, and anti-Mexican values (1975), an urban planning law which might somehow eliminate private property (1975), and a coup d'état expected to overthrow Echeverría or, in another version, to install him as dictator (1976).

At the same time as the various efforts to discredit the government, business investment in the economy was spotty. As shown in Table VII, private investment fell in 1972 and again in 1975, while barely increasing at all in 1976.

57 C. Tello, supra note 3, at 67; Arriola, supra note 8, at 458-59.
58 C. Tello, supra note 3, at 67; Arriola, supra note 8, at 460.
59 Arriola, supra note 8, at 461-63; Monsiváis, La Ofensiva Ideológica de la Derecha, in México, Hoy, supra note 3, at 313.
60 Arriola, supra note 8, at 467.
61 Monsiváis, supra note 59, at 315-21; Pereyra, supra note 44, at 300; C. Tello, supra note 3, at 134, 164-66.
TABLE VII
Increase in Private Investment, 1971-1976 (%)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>% Increase</td>
<td>6.4</td>
<td>-1.0</td>
<td>4.7</td>
<td>13.8</td>
<td>-1.9</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Source: TELLO, supra note 3, 74, 136.

The slowdowns in private investment at the end of Echeverría's term coincided with a number of regional owners strikes or lockouts intended to show business displeasure with the government.52

The most serious sign of business' growing lack of confidence in the government's handling of the national economy was a hesitance of investors to put their money into peso bank accounts and a corresponding shift to dollar ones which became massive in scope as the plan to devalue the peso on August 31, 1976 became increasingly obvious despite government denials. Table VIII provides statistics on the flight from the peso to the dollar.

TABLE VIII
The Shift to Dollars

<table>
<thead>
<tr>
<th></th>
<th>Peso Accounts (Billions of Pesos)</th>
<th>Dollar Accounts (Millions of Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>145.5</td>
<td>508.6</td>
</tr>
<tr>
<td>August</td>
<td>173.4</td>
<td>641.9</td>
</tr>
<tr>
<td>September</td>
<td>174.7</td>
<td>656.2</td>
</tr>
<tr>
<td>October</td>
<td>179.5</td>
<td>675.2</td>
</tr>
<tr>
<td>November</td>
<td>181.7</td>
<td>700.3</td>
</tr>
<tr>
<td>1976:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>186.5</td>
<td>828.2</td>
</tr>
<tr>
<td>August</td>
<td>193.5</td>
<td>1681.4</td>
</tr>
<tr>
<td>September</td>
<td>182.9</td>
<td>1574.4</td>
</tr>
<tr>
<td>October</td>
<td>175.3</td>
<td>1798.7</td>
</tr>
<tr>
<td>November</td>
<td>160.2</td>
<td>1911.3</td>
</tr>
</tbody>
</table>

Source: TELLO, supra note 3, 160-161.

With the devaluations of August and October, 1976, capital flight out of Mexico which was noticeable a year earlier became massive. Taking shifts in short-term capital and those listed in the balance of payments as "errors and omissions" as evidence of this outpouring of money to the United States, capital flight in 1976 may have been in the area of 2.7

52 C. TELLO, supra note 3, at 124-25; ARRIOLA, supra note 8, at 466.
billion dollars. Figures for capital flight out of Mexico are found in Table IX.

**TABLE IX**

*Capital Flight from Mexico*

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Short-Term Capital Shift</td>
<td>-24</td>
<td>+92</td>
<td>-308</td>
<td>+242</td>
<td>+763</td>
<td>-426</td>
</tr>
<tr>
<td>&quot;Errors &amp; Omissions&quot;</td>
<td>+234</td>
<td>+196</td>
<td>+46</td>
<td>-381</td>
<td>-1172</td>
<td>-2341</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>+210</strong></td>
<td><strong>+256</strong></td>
<td><strong>-262</strong></td>
<td><strong>-139</strong></td>
<td><strong>-409</strong></td>
<td><strong>-2767</strong></td>
</tr>
</tbody>
</table>

* A positive sign before figure indicates an increase of capital; a negative sign indicates capital flight.

*Source: INTERNATIONAL MONETARY FUND, 30 Int'l Financial Statistics 250 (1978).*

During Echeverría's last few months in office, many Mexicans viewed his administration as largely a failure.

**V. POSTSCRIPT: THE LOPEZ PORTILLO ADMINISTRATION**

In retrospect, our appraisal of the Echeverría regime may turn out to be more positive than it was initially. While his efforts to control both the deficit in current accounts and the growing foreign debt were clearly inadequate, much of this failure was due to the unforeseen world energy crisis. The same can be said for the inflation in Mexico. That country certainly was not alone among the lesser developed nations in having economic problems after 1973. On the more positive side, the investments made in petroleum exploration were to be highly successful, but only after Echeverría's term was over. In a similar sense, the efforts made in the 1970-1976 interval to repair the regime's worn legitimacy with the Mexican poor may have made the López Portillo conservative policies politically possible.

In the crisis atmosphere which pervaded Mexico in December 1976, the new President introduced a set of essentially conservative economic policies. One can speculate that President López Portillo supported these initiatives not only for their intrinsic merits as policy, but also because they were likely to guarantee the incoming administration the imprimatur of both the domestic investors alienated by Echeverría and of the International Monetary Fund to which that besieged President had been forced to turn for needed foreign exchange. With the massive capital
flight provoked by the devaluations of the peso, Mexico badly needed additional financing. Although the extent of the country's newly discovered oil wealth was just beginning to be known by the end of 1976, its full exploitation would take a number of years and large amounts of borrowed cash. Given the perceived need for continued financing from both domestic and foreign non-governmental sources, any President inheriting power as López Portillo had, faced the question not of whether to adopt a conservative economic plan but, rather, what sort of conservative plan.\textsuperscript{63}

The López Portillo economic recovery program was labeled the "Alliance for Production."\textsuperscript{64} After promising total respect for private initiative and the continuation of free monetary convertibility, the government outlined a series of eight investment priorities of which agriculture and energy were paramount.\textsuperscript{65} In addition to the hoped-for renewal of private investment, the administration sought to increase its own access to domestic funds through both mild tax reform and the creation of a Workers Investment Bank.\textsuperscript{66} The new President sought to deal with the continued imbalance in merchandise trade largely as had been done in the recent past, that is, by further progress in import substitution and a revived emphasis on non-traditional exports.\textsuperscript{67} Perhaps the most widely heralded aspect of the new plan was its creation of a rationalized administrative structure for the bureaucracy combined with strict control against budgetary overrun by government agencies.\textsuperscript{68}

Compared to the threatening reforms of the Echeverría years, the López Portillo program must have appeared quite safe to business. Calls for efficiency, limits on government spending, and more private investment seem the hallmark of any conservative administration. As is obvious from the following quotation, here was a President who (although he assumed general responsibility for the economy as a whole) sought to reassure those with funds to invest that they once again were wanted as the government's partner:

\begin{quote}
We have offered the conditions so that private initiative... has the means to decide where to invest to join in the collective job of national
\end{quote}

\textsuperscript{63} For a general description of the early years of the López Portillo economic program, see Del Villar, \textit{El Manejo y la Recuperación de la Economía Mexicana en Crisis 1976-1978}, in 19 FORO INTERNACIONAL 540, 552-70 (1979). The description of that program as "conservative," is mine, not his.

\textsuperscript{64} López Portillo, \textit{Primer Informe Presidencial}, in 27 COMERCIO EXTERIOR 1098, 1116 (1977).

\textsuperscript{65} López Portillo, \textit{Aspectos Económicos del Discurso de Toma de Posesión del Presidente de México}, in 26 COMERCIO EXTERIOR 1459, 1461 (1976).

\textsuperscript{66} Id. at 1462.

\textsuperscript{67} Id; Bennett & Sharpe, \textit{La Industria Automotriz y la Política de Promoción de Exportaciones}, in 46 EL TRIMESTRE ECONÓMICO 730 (1979).

\textsuperscript{68} López Portillo, supra note 65, at 1463-64.
reconstruction and the renewal of progress. Those of higher income ought to contribute without fear or inhibitions; this is how in reality they will guarantee their profits. We are not opposed to their gain as long as the country always benefits at the same time. . . .

The López Portillo policies seem to have had more in common with those of the pro-business Díaz Ordaz government (1964-1970) than those of Echeverría. A serious attempt was made to limit non-priority spending. In contrast to the rapid expansion of spending under Echeverría, that for government services in 1977 grew in real terms at a rate 45 percent below that of the G.D.P. The rate of new official foreign borrowing which had reached epidemic proportions in the 1973-1976 period, was confined to the three billion dollar annual ceiling agreed to with the I.M.F. in both 1977 and 1978, despite the vastly larger borrowing capacity brought about by Mexico's new oil wealth. As a means of ensuring business profits, the administration forced workers to accept wages below the rate of inflation. In 1977, for example, of the 5,031 strike petitions brought before the Mexican Federal Conciliation and Arbitration Board by the unions, 3,596 were either declared by the government to lack legal standing or were withdrawn without any formal hearing. The figure for invalidated or withdrawn petitions in 1976 under Echeverría had been only 355. According to one source, real wages in Mexico, in the face of continuing inflation, fell 14.80 and 2.85 percent for 1977 and 1978, respectively. The calls for tax revision—originally for greater progressivity—led to the same conservative results due to business' strong opposition; the tax structure emerging was to rely even more than before on indirect taxes including a new Value Added Tax. Finally, in the name of greater productivity, major changes seem in store for agriculture, an area of chronically declining yields in recent years. A new law, in effect, does away with the old limits on large land concentration if such estates are used part time for cattle raising. In the future, village-owned ejido lands may be rented openly to large landowners in what is to be called "association contracts," a practice forbidden in the past in order to protect the integrity of independent peasant agriculture. Such large producers will be guaranteed priority access to credits, fertilizers, and other inputs on the presumption that they, not the ejidos, are most likely to add to the commercialized sector of agri-

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69 López Portillo, supra note 65, at 1116.
70 Del Villar, supra note 64, at 565.
72 Del Villar, supra note 64, at 567.
73 Ortiz Mena, Acción Sindical, Salarios e Inflación in 47 EL TRIMESTRE ECONÓMICO 474 (1980).
74 Del Villar, supra note 64, at 567-68.
culture. Government officials have spoken of bringing the land redistribution stage of Mexico’s agrarian reform to final resolution by 1980, regardless of peasant land needs.*

After some initial hesitation, the business community appears to have responded to the López Portillo incentives. As G.D.P. expanded strongly in 1978 and 1979, putting an end to the 1976-1977 recession,** private investment increased to new record figures. Table X compares U.S. private investment—seen as a surrogate for all domestic and foreign private investment—for 1975 and 1976, the last two Echeverría years, with that for 1977 and 1978, the first two of López Portillo.

TABLE X

<table>
<thead>
<tr>
<th>U.S. Direct Investment in Mexico</th>
<th>Echeverría</th>
<th>López Portillo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>1975</td>
<td>1976</td>
</tr>
<tr>
<td>Sum</td>
<td>3,177</td>
<td>2,984</td>
</tr>
</tbody>
</table>

Source: U.S. DEPT. OF COMMERCE, 56-59 SURVEY OF CURRENT BUSINESS (1976-1979) at 49, 45, 28, 27, respectively.

Figures for 1979 surpassed those of 1977-1978, while investment in 1980 is predicted to be yet another record.* Clearly, the response of organized business to the López Portillo presidency has been highly favorable.*

In summary, the López Portillo government seems to have achieved its goal of reconciliation with the business community in Mexico, and, therewith, the restoration of rapid economic growth. The discovery of and the publicity given to Mexico’s new oil wealth have facilitated this process greatly. Thus a conservative economic policy has resurrected the historic alliance of government and business. While such a policy seems a major return to the situation as it was before the Echeverría years, such an about-face, ironically, has been facilitated politically by the efforts of Echeverría to restore some of the regime’s faded legitimacy with the less well-off.


** See Banco de México, Informe sobre la Evolución de la Economía Mexicana Durante 1979, in 30 COMERCIO EXTERIOR 281, 283 (1980).

* See El País Crecen Cifras, Pero También en Injusticias, PROCESO, Mar. 10, 1980 at 14; Informe de Bancomer, PROCESO, id. at 15.
