The 1982 Mexican Bank Statization and Unintended Consequences for the Emergence of Neoliberalism

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Introduction

Banking and credit relations oriented towards capital accumulation have been key to the emergence, consolidation and transformation of capitalism everywhere. The concrete institutional forms assumed, however, have been determined by domestic social forces acting within states mediated by the wider structure of the world market. While public regulation, state ownership and the domestic control of banking were well within international and American norms in the early twentieth century (see, for example, Helleiner, 2006), this has changed with the deepening of the world market and the emergence of neoliberalism. Neoliberalism, across its material, institutional, spatial, and discursive dynamics, is a class-based project that suggests all social, economic, political, and ecological problems can be resolved through more direct exposure to the capitalist world market.

Relative to credit, whereas state banks once enabled capital formation where little existed and attempted to mitigate the worst social effects of uneven capitalist development, with the post-1980s emergence of neoliberalism competition, efficiency and, above all, profit maximization now characterize the operations of all public and private banks. But how and why has this emerged? The increased exposure to the world market of all aspects of life has not resulted from agentless structures alone but has arisen out of individual and collective decisions (which involve class struggle) that have occurred within pre-existing contexts and competitive pressures to constantly accumulate and valorize capital. We must therefore examine specific cases. In Mexico, the 1982 bank statization played an important role.

The 1982 commercial bank statization by outgoing President López Portillo is a well-documented but undertheorized dynamic of Mexico's

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transition to neoliberalism.[1] Taken amid crisis, bank statization reset state-capital power bloc relations in what was meant to be a system-saving act and structural shift to retrench state-led capitalist development.[2] I argue, counterintuitively perhaps, that the 1982 bank statization had the unintended consequence of enabling a more rapid transition to market-led capitalist development than otherwise may have been possible. I do not suggest that this was the only determinant, but as Mexico's most significant statization/privatization couplet that it was integral to Mexico's historical-structural transition to neoliberalism.[3]

I frame my argument as follows. I first explore the relevant literature and then detail the immediate context around statization. I follow this by an analysis of Mexico's transition to neoliberalism. Third, I look at the structure of state banks and the internalization of neoliberal logic during the 1980s. Fourth, I consider how state banking enabled market-based financialization. I then briefly explore the aftermath of bank privatization and the current context. I conclude by reflecting on the unintended consequences of bank statization as well as possible alternatives.

I. Mexico's 1982 Bank Statization

Before detailing the history, a brief pause to ask why revisit bank statization is in order. As an event that is more than twenty years old, surely all has been said that can be said. Oddly, this is not the case. Most analyses, in fact, were concluded before the effects of neoliberalism were apparent. One of the most influential structuralist studies was written by Carlos Tello (1984), undersecretary of the Treasury with President Echevarría, then minister of planning and central bank head with outgoing President López Portillo in 1982. For Tello, statization was meant to restart state-led capitalism. From an ultra-liberal position, Luis Pazos (1982) takes the opposite position, fearing that a state banking monopoly will lead to market atrophy. Silvia Maxfield's (1992) influential comparative analysis points to many of the financial consequences, but she is more concerned with how statization did not live up to policymakers' expectations rather than how it enabled neoliberalism. Given their timing, none of these, nor any other study of this period, could have linked statization to the post-1990s emergence of neoliberalism.

More recently, there has been a resurgence of historical accounts of Mexican banking influenced by new institutional economics (NIE) (for example, Haber, 2005). Building on NIE, but not entirely, an important 2005 edited volume revisits the 1982 decision (del Ángel-Mobarak et al., 2005). Even here, however, written in the wake of twenty-plus years of neoliberalism, little is made of the connection between statization and the particularities or pace of neoliberalism. The relation remains intu-

Abstract. The 1982 Mexican presidential decision to statize all domestic commercial banks was meant to reset state bank capital relations and salvage some form of state-led capitalism. However, bank statization had the counterintuitive and ultimately unintended consequence of enabling a more rapid transition to neoliberalism, financialization and market-led capitalism than otherwise may have been possible. The implications of this are profound as alternatives to neoliberalism that seek a return to state-led development are ultimately flawed without more collective, local, and substantively democratic calls for the control of credit and, hence, human development.

Résumé. La décision présidentielle mexicaine de 1982 d'étatiser toutes les banques commerciales domestiques avait pour but la reconfiguration des relations capitalistes État-banque afin de récupérer une certaine forme de capitalisme étatique. Or, ce processus eu pour conséquences inattendues l'accélération de la transition au néolibéralisme, à la financiarisation et au capitalisme de marché. Les implications sont profondes pour les alternatives au néolibéralisme qui, cherchant un retour au capitalisme d'État, s'avèrent inefficaces sans un contrôle collectif, local et démocratique du crédit et, par ricochet, du développement humain.

itive at best. Minushkin (2005) alone draws a connection to financialization and discusses the role taken by state-owned banks. However, structural change (assumedly neoliberal) is understood as inevitable; statization merely helped it along (Minushkin, 2005: 242–43). Her conclusion is ultimately unsatisfactory as it condenses into an overly structuralist and ultimately agentless position. What this and the other studies miss is how bank statization was an unanticipated event that was subsequently massaged to pursue one of the most rapid and extensive privatization and neoliberalization projects in the global south.

The idea to statize the banks was initiated amidst the emerging 1982 debt crisis. The intention was to reassert state control, overcome systemic crisis and salvage state-led capitalism. The immediate macroeconomic circumstances included the decline in the world market price of oil in 1981, the growth in public debt to compensate for lost revenues and a sharp contraction in foreign exchange (Rogozinski, 1998: 130–31). Successive peso devaluations, currency speculation and capital flight aggravated public finance and balance of payments problems. External debt payments were temporarily halted in August 1982 while inflation increased to 100 per cent (Rogozinski, 1998: 131). Unemployment rose and real wages fell drastically.

In March 1982 President López Portillo had asked key advisors to present all possible options to stem the acute problem of the peso and its value relative to the US dollar (Tello, 1984: 9–10). As during the 1976 crisis, four orthodox policy options were first presented: (1) to pursue a new and stronger peso devaluation, (2) to allow the value of the peso to freely float, (3) to impose exchange controls, and (4) to allow the February 1982 devaluation more time to "work."

According to Tello, bank statization emerged as the so-called "fifth option," an idea debated since the mid-1970s among structuralist economists. This time, however, a small workgroup of state managers were asked to seriously explore the option and specify (a) the legal aspects and technicalities, (b) the potential advantages and possibilities, (c) the risks inherent in the decision and in putting it into practice, (d) a recommended strategy for implementation, and (e) a timetable (Tello, 1984: 10–11). How statization might stem capital flight and facilitate exchange controls were also thought paramount. In terms of the most pressing power relations within the state, the workgroup was especially concerned with revamping the Bank of Mexico's administrative council, dominated by private bankers who were "judge and jury" of the Mexican financial system (Tello, 1984: 11). Their historical presence as a class agent within the regulatory apparatus was understood as an insuperable barrier.[4]

Wider social resistance was also considered in advance (Tello, 1984: 13). The fear of bank asset withdrawals en masse was real but was believed initially manageable via state controls. Backlash from industrial capital could be mitigated through a series of financial and exchange rate measures, which might at least neutralize organized pressure. Bank labour could be courted by offering unionization. The possible repercussions from foreign governments and capitals, especially American, weighed heavily. While some feared a US boycott, López Portillo reasoned this would remain at an ideological level as American interests would not be directly threatened; the only foreign bank, Citibank, would be left alone (as in bank statization elsewhere, see Maxfield, 1992). Indeed, once formalized, foreign capitals in Mexico were assured by the state's ownership of foreign debt obligations, effectively guaranteeing their repayment.

In the final decision, the pressures of economic crisis won out with worsening material and political conditions. Foreign banks had already suspended credits, making it impossible for the Bank of Mexico to respond to even the most urgent demands for foreign exchange. No matter how increasingly profitable it was to hold domestic savings in pesos, the demand for dollars ballooned. By the August 1982 devaluation it seemed that all ability to manage the finances of the economy had been lost. Domestic banks' capital bases were weakened as they held substantial dollar liabilities and a potential flood of bankruptcies among borrowers appeared (OECD, 1992: 175).

In this volatile context, López Portillo exercised the institutional power of the presidency on September 1, 1982, and brought the banks within the state apparatus by presidential decree (Tello, 1984: 14). Understanding statization would trigger a showdown between the state apparatus and the private sector, headed by the bankers, the president justified the decision as a defense of the Mexican revolution against a powerful and corrupt banking elite (a discourse not entirely dissimilar to how privatization would later be framed). Much to López Portillo's surprise, the Zócalo filled with supporters showing solidarity against what they believed to be a long-held banking oligarchy.

The now ex-bankers (but still powerful domestic capitalists) reacted unsurprisingly with alarm. The long-held social pact between capital and the state had suffered a fracture at the expense of capital (Ramírez, 1994: 21). Many large economic *grupos* had lost the core of their holding companies, as domestic banks had been the financing source of the industrial and commercial arms. In the three-month political vacuum between presidencies, the social forces opposed to statization gained legitimacy as they publicly framed the decree as an abuse of the presidency by a vain and outgoing president. More seriously, the outgoing government's hopes for an unorthodox exit to crisis was not realized as instability and capital outflows did not subside.

II. Transition to Neoliberalism

The incoming de la Madrid presidency had not foreseen bank statization, but far from feeling incapable of pursuing change, the new administration soon became comfortable with the new and powerful financial tool handed to the state apparatus. While de la Madrid affirmed the decision as irreversible, he emphasized that new and innovative institutional restructuring had to be undertaken to avoid bureaucratization (Tello, 1984: 16). Guided by a market-based orientation, the de la Madrid government thus massaged state bank ownership to help push through neoliberal structural reform.

The neoliberal restructuring strategy of the de la Madrid administration focused on achieving macroeconomic stabilization and transforming Mexico's regulated and protected state-led capitalist economy into a market-oriented one. As a first step, free market-advocate Miguel Mancera replaced Carlos Tello as head of the Bank of Mexico. The administration then initiated the Immediate Program of Economic Reorganization (IPER)—a program sponsored by the International Monetary Fund (IMF) that embodied what would in time be called the Washington consensus of stabilization and structural adjustment. The IPER called for (1) public sector austerity and restrictive credit polices, (2) the devaluation of the real exchange rate, (3) subsidized price liberation, (4) trade liberalization and GATT membership, (5) the internalization of foreign capital, (6) export promotion through *maquiladoras*, and (7) the reduction of state-owned enterprise (SOE) numbers by 40 per cent (Ramírez, 1994: 23). The massive public expenditure cutbacks created dramatic effects, with spending falling as much as 50 per cent to 70 per cent in some SOEs. New patterns also emerged as development transfers to rural areas were redirected to more generic "social sectors" to lubricate the harshness of structural adjustment for the most marginal sectors (see OECD, 1992: 130–31).

Advocates lauded the early results: the primary fiscal balance, excluding interest payments, went from a 5 per cent deficit in 1983 to a 5 per cent surplus by 1987, 80 per cent of which, they recognized, derived from reduced state expenditures (Ortiz, 1993: 257). In 1985, Mexico joined GATT, which internalized an export-oriented industrialization approach and the formal end to state-led development. However, high inflation and interest rates, advocates qualify, thwarted austerity efforts as domestic imbalances grew alongside the collapse in oil prices, the lack of foreign credit being extended to Mexico and the transfer of domestic resources abroad through debt service (Ortiz, 1993: 257). The 1987 Mexican stock market crash reversed many of the austerity-induced gains as the fiscal deficit grew to over 16 per cent, inflation hit nearly 160 per cent, and capital flight resumed.

Despite crisis and the state-capital fracture over banking, the emergence of neoliberalism was not inevitable and would not have been possible without domestic power bloc advocacy. For example, in joint ventures with foreign capital, domestic capitalists represented by the likes of Mexico's Business Coordinating Council (CCE) vocally supported neoliberal structural adjustment (Cypher, 1989: 63–64).[5] Given the collapse of internal markets and that any revival of state-led accumulation strategies would involve the redistribution of income away from the wealthy, domestic capitalists understood neoliberal export-oriented industrialization (EOI) as the only viable option for renewed accumulation. Moreover, many correctly reasoned that ample profit-making opportunities would arise with privatization.

At the same time, however, statization removed a source of possible friction within the power bloc. Because of the post-war state-mediated accumulation logic, private commercial banks were both highly profitable and relatively stable, with few bankruptcies and low systemic risk (del Ángel-Mobarak et al., 2005: 52–54). Post-1980s financial liberalization may well have posed a threat to this protected fraction of capital, which may well have resisted liberalization had the banks not been statized. This is impossible to know, however. What is clear, in any event, is that large capital groups recognized the potential accumulation opportunities with market-led reform and, as such, supported restructuring efforts. Thus, state ownership of banks facilitated neoliberalization by displacing a possibly resistant fraction of capital and, at the same time, creating the contingent possibility of future bank privatization open to all domestic capitals.

Wage control was also important to neoliberal restructuring and to enhancing international competitiveness in tradable goods. The Mexican comparative advantage would increasingly rest on cheap labour, which Ramírez argues was crafted by a government-authored freeze in money wages below the rate of peso devaluation (1994). With every 1 per cent increase in the real exchange rate, real wages decreased by 0.49 per cent since they were not indexed to inflation (Ramírez, 1994: 26). Threatening a general strike, labour achieved some modest wage recovery by the late 1980s as formalized in the capital-labour-campesino class compromise, the 1987 Pacto. This state-authored framework was later renamed the PECE (Pact for Stability and Economic Growth) under Salinas, a corporatist arrangement that has historical roots in the 1917 constitution and PRI political organization. Thus, de la Madrid's efforts to discipline labour would continue to pay off. On May 27, 1990, labour, campesino and business sectors agreed to extend the Pacto to January 1991 arguably to continue the fight against inflation and strengthen the social compromise (Lizárraga, 1990: 1). In a telling statement on the weak position of labour leadership, then president of the Congreso de Trabajo, Lorenzo Duarte, stated that structural change was "noble and necessary" despite widespread street protests ("Protestan ante el PECE por el encarecimiento del pan," 1990: 9).

Particularized labour struggles for wage recovery could only achieve marginal success. Generalized competition in the world market facilitated the ratcheting down of wages that created a contraction in Mexico as internal markets were unable to grow (Guillén Romo, 2005: 57). Privatized Mexican SOEs simultaneously underwent restructuring, including lay-offs (Rogozinski, 1998: 136). Capital account liberalization globally enabled productive capital relocation to cheaper labour markets, which has been widely used to silence trade unions (Aydın, 2005: 10). Since the 1980s, most governments have used structural unemployment to control labour militancy while public deficits justified the end to state-led development (Duménil and Lévy, 2005: 35). Low productive capital profit rates translated into weak reinvestment and exacerbated anemic growth rates, which further contributed to the weak reintegration of unemployed labour (Duménil and Lévy, 2005: 29). The 1980s Volcker shock and swift rise in interest rates encouraged firms to channel profits towards financial lenders (Duménil and Lévy, 2005: 29). In Mexico, this meant a reconfigured power bloc increasingly dominated by a new correlation of forces under financialization wherein labour was substantially weakened (Guillén Romo, 2005: 268).

International debt management helped bridge the transition to neoliberalism through the 1985 Baker Plan and the 1989 Brady Plan (Cypher, 1989: 65–66). The 1985 Baker Plan was a high-level state-capital restructuring plan meant to encourage domestic economies to open to the outside as a response to import substitution industrialization ISI. In 1987, $7.7 billion US in loans were distributed to help lubricate the dismantling of the state's presence in the economy via its SOE structure. The March 1989 Brady Plan likewise injected new life into the emerging international strategy for managing external debt (Rosenthal, 1990: 70). The renegotiation of debt, signed in 1990, facilitated the reduction of debt and debt service, the comprehensiveness of which was intended to return confidence to international investors (Ortiz, 1993: 258). Mexico's risk *premia* was reduced, foreign direct investment (FDI) and portfolio capital flowed back in and the repatriation of flight capital ensued. Initial macro-economic growth markers were positive, averaging around 3.5 to 4 per cent post-1989 and pre-1994 crisis. Most significantly, the Mexican state had internalized debt discipline.

Privatization, however, was the vanguard policy embedded within all the above market-oriented agreements in Mexico as in other post-1980s debt crisis Latin American countries (see, for example, Marois, 2005; Taylor, 2006). And where privatization was made a formal condition, as in debt renegotiation, access to international financial institution (IFI) funds, and NAFTA, the agreements themselves were then used as justification by all subsequent Mexican governments and state managers to push through and accelerate neoliberal reform via the sell-off of state-owned enterprises (including state banks).

State-owned enterprise privatization

In contrast to analyses that have associated neoliberalism and privatization with the withering away of the state (for example, Strange, 1996), many Marxian analyses point instead to how they are processes that restructure the state (Panitch, 1994; Marois, 2005; also see Poulantzas, 1978).[6] In this restructured state-capital-labour relation, privatization in fact strengthens the state's institutional apparatus by enhancing its regulatory capacities and by shedding responsibilities that directly implicate it in distributional struggles—which also reduces labour's capacity to resist market-led change (Taylor, 2006: 44). While the Mexican state apparatus has certainly lost productive capacity in its Keynesian developmental form, it has undoubtedly gained power in its Hayekian constitutional and market-disciplined form.

More concretely, the de la Madrid administration legitimized privatization as a defense of the 1917 constitution (not unlike the 1982 defense of bank statization). To do so, the new administration reinterpreted article 28 so that strategic development areas and priority activities that the state must promote could be open to private sector involvement (Rogozinski, 1998: 89). "Non-strategic" SOEs, however, must be sold off. In discourse, the liberated public resources would permit the government to "focus on activities of true strategic importance to national development" while boosting economic efficiency (Rogozinski, 1998: 50).

To institutionalize privatization, the National Development Plan (1983–1988) was conceived of and approached in two phases (Rogozinski, 1998: 86–89). The first phase under de la Madrid sought to launch privatization and win public acceptance and confidence. The smallest SOEs were privatized first so as to learn institutionally and increase awareness; it was believed better to make mistakes and gain knowledge with smaller SOEs than with more significant ones, such as state banks or telecommunications. Importantly, state banks themselves would play a vital role as the Ministry of Finance (SHCP) made them responsible for individual SOE privatizations (see agent banks, below).

The second phase began in 1986 and was pursued aggressively by the Salinas administration. The influential Secretariat of Planning and Budget (SPP), a centre of neoliberal technocrats since 1976, drafted the 1986 Law of Federal and Parastate Entities. The 1986 law crystallized state-capital commitments and enabled the acceleration of privatization by allowing larger divestments and new regulations to be crafted over the organization, governing and control of SOEs. The law also authorized the SPP to propose the establishment or divestiture of SOEs. In addition, the 1986 law increased surveillance and control over the SOEs by institutionalizing SPP and SHCP representatives on SOE governing bodies while linking SOE performance to wider public sector efficiency goals (MacLeod, 2005: 46). In matters of expenditure and debt, these two state agencies assumed a great deal of power over SOEs and other state agencies (Rogozinski, 1998: 62)—a historical condition that arose with neoliberalization.

The 1986 parastate law did not, however, initially remove SOE operational control from the ministers responsible (MacLeod, 2005: 47). Many ministers did not necessarily want to see their material basis of institutional power privatized. Operational control, executive committee positions and board of directorships continued to allow specific ministers to carefully monitor pro-neoliberal reformers in their own part of the state apparatus, even though substantial financial control had been augmented in other areas. Non-conforming ministers could, and would, withhold or present contradictory, even incorrect, information on SOEs making it difficult to evaluate and prepare SOEs for sale.

This glitch was soon done away with and institutional power recalibrated within the state. SHCP officials, in particular the Inter-Secretariat Commission on Spending and Finance (CIGF), began pressuring individual ministers to not merely identify firms that could be privatized but to defend what SOEs to keep (MacLeod, 2005: 48). The CIGF, which had been established as the highest decision-making body, was composed of the ministers of finance, labour, commerce, and social development. Moreover, new SHCP Minister Gustavo Petricioli relocated privatization processes within a small sub-group of the SHCP, the Council of Advisors. While the SHCP had always been the most tightly linked ministry to capital, with the Council of Advisors these relationships were reinforced (MacLeod, 2005: 48). According to MacLeod, the council worked closely with large financial and industrial groups while insulating itself from other sectors within the state, especially SOE executives, managers and workers (2005: 48). Following the 1987 crisis, the Salinas administration targeted the survival of firms without state subsidies while trying to recover resources by selling shares to the private sector "as the program gained credibility" (Rogozinski, 1998: 86).

The effects of government-authored privatization were dramatic. The state's productive capacity and associated commitments to SOE labour were, in a sense, amputated. The number of SOEs fell from 1155 in 1982 to 737 in 1986 to 280 in 1990 and to 223 by May 1992 (OECD, 1992: 89). Consistent with government strategy, first phase revenues were relatively small, reflecting the size and importance each SOE sale. From 1984 to 1989 inclusive, privatization generated about \$2 billion. Nonetheless, by 1988 the government had removed the state from 15 of 28 productive areas, including bottled water, textiles, cement, automobiles and pharmaceuticals (Sánchez et al., 1993: 103).

By contrast, the Salinas administration's efforts generated \$22.75 billion in revenue, peaking in 1991 at \$10.72 billion (SHCP, 1994). From 1990–1993, privatization revenues represented about 7.8 per cent of cumulative GDP (Rogozinski, 1998: 123). More than half of this derived from the sale of the 18 state banks for \$12.27 billion between 1991 and 1992, which alone represents 51 per cent of total privatization revenues from 1989 to 1994 (Rogozinski, 1998: 130). Contextually, of a combined \$96 billion in third-world privatization revenues from 1988 to 1993, Mexico totaled about one quarter or \$25 billion alone (MacLeod, 2005: 37). The Mexican state-owned banks alone, as such, equaled almost 13 per cent of all third-world privatizations from 1988–1993.

In sum, the scale and rapidity with which privatization occurred, and the extent to which this required considerable institutional restructuring, does not suggest an emasculated state per se but a change in its capitalist form from interventionist to regulatory. The processes demanded state power reconfiguration, which was led by an ideologically committed group of state managers and a supportive capitalist class interested in and capable of acquiring the state-owned enterprises. In this, Mexico differed from the slower pace of privatization seen in Turkey, where no buyers could be found for the state banks until recently, or in Costa Rica, where social resistance slowed electricity service and bank privatization efforts in the late 1990s, or the recent water and gas privatization "wars" seen in Bolivia (BAT, 2005; Marois, 2005; Spronk and Webber, 2007). One aspect determining Mexico's uniqueness was the role of state banks as privatization agents.

State banks as agents of privatization

In addition to mitigating possible resistance from a fraction of domestic banking capital, bank statization unintentionally provided an opportunity to augment privatization self-management through the state-owned banks. Most comprehensive studies of Mexico's neoliberalization experiences, however, fail to recognize this contingent role (for example, Cockcroft, 1998; Dussel Peters, 2000; Guillén Romo, 2005). State agencies, almost alone, have signaled their significance (for example, the SHCP in 1994). As Jacques Rogozinski ex-head of Mexico's Office of Privatization (1989–1993) states, the institutional learning and growing expertise of the state-owned agent banks made it possible to privatize more SOEs more rapidly (1998: 91).

Once a SOE was designated for sale, it was reassigned to the SHCP that then assigned a state bank as the sales agent for the federal government (Rogozinski, 1998: 88; SHCP, 1994: 16). The choice of agent bank depended on expertise in the SOE sector, workload, its past privatization record and whether the bank had interests in the SOE being sold off, for example, as a prior creditor or as financier (Rogozinski, 1998: 92). The agent banks jointly developed privatization strategies with the Office for Privatization of the SHCP, helped analyze bids and made recommendations to the SHCP regarding the best offers for SOEs (SHCP, 1994: 16–18). Agent bank managers learned to address specific legal, corporate, labour, financial and accounting details of which they had little previous experience (MacLeod, 2005: 48–49). The state banks also profited from the commissions paid for handling SOE preparation. As Rogozinski underscores, "because privatization is a dynamic process, experience was gained constantly, with the result that each sale in a given sector was carried out more rapidly than the last, but always in compliance with the original guidelines and strictly in accordance with each step of the process" (1998: 92).

In acting as agents of privatization, state banks bolstered state capacity to manage and control privatization. This tool would have been unavailable without the statization of banks in 1982; however, neither would it have had the same meaning without the de la Madrid's administration's efforts to mould state banking for neoliberalization efforts. Thus, in acting as agents of privatization, the market-led logic of neoliberalism became embedded in the organization of these public institutions and their public workers, who became bearers of market discipline. This qualitative metamorphosis of a state-owned enterprise, whose deeper transformation is examined below, questions constitutional liberal a priori assumptions of private versus public ownership, which see ownership as a fixed characteristic that determines a firm's behaviour (see, for example, Hayek, 1984; La Porta et al., 2002).

III. The Structure of State Banking, 1982–1989

While removing possible resistance from bank capital and enabling more rapid SOE privatizations are two particular unintended consequences, the emergent structure of state-owned banks themselves was also contrary to initial intentions but nevertheless important to rapid neoliberal restructuring. What we see post-1982, then, resembles less López Portillo's statist legacy and the market atrophy fears of Pazos (1982) and much more what Panitch and Gindin have referred to as the internationalization of the state, or how individual governments have taken responsibility for reforming the state apparatus in such a way that they contribute to the management and supervision of a neoliberal world market (2003: 17). The Mexican state banks are interesting because they internalized what might also be called second-generation IMF reforms—but well in advance of their being advocated by IFIs in the late-1990s.

At the time of statization, the banks held nearly 80 per cent of all capital in the financial system, with private commercial banks holding about 53 per cent, development banks about 28 per cent, stock market intermediaries around 2 per cent and institutional investors less than 12 per cent (Guillén Romo, 2005: 231). While state-owned, state-guided interest rate and credit policies allowed the banks to earn up to 40 per cent returns on equity in the mid-1980s, dividend payments were kept low to bank shareholders (OECD, 1992: 175). From 1982 to 1987, the Bank of Mexico reserve requirements fell from 50 per cent to 10 per cent of savings (Guillén Romo, 2005: 233–34). This did not free up banking funds as obligatory investment ratios rose from 25 per cent to 65 per cent of savings. Up to 45 per cent of this investment could be directed towards the federal government and state-owned enterprises. Liability and asset interest rates were determined in large part by the monetary authorities. Policy followed a fixed exchange rate that did not always assure a positive, real yield on their savings during the period. Sectoral targets and interest rate subsidies tended to favour large SOEs and multinational corporations or those most likely to obtain credits elsewhere (that is, security financing).

While all commercial banks were essentially state owned in formal terms, state ownership did not necessarily define the banks' characteristics. The government maintained intact the internal operations erected by the private sector. As well, almost no managerial restructuring was undertaken as only bank presidents were removed, arguably to avoid bureaucratization (OECD, 1992: 175; MacLeod, 2005: 44). Neither were state banks shielded from competition, especially amidst financialization processes, as state managers demanded market rationalization.

The state bank ownership structure must be read as an attempt to normalize state-capital relations post-López Portillo. For one, the de la

Madrid administration re-established the possibility of private capital entry into statized banks (Tello, 1984: 16). Private non-voting shares could be and were obtained up to 34 per cent ownership. To do so, the government changed the legal structure of the state banks from corporations (SA) to national credit institutions (SNC) in 1984. In 1985, the bank law was amended and bank shares were then converted into *certificados de aportación patrimonial* (CAPs). The CAPs were split into "A" and "B" series. The A series represented 66 per cent of bank capital and could be owned only by the state. The B series represented 34 per cent of bank capital, were non-voting shares and could be owned by the state, SOEs, bank users or employees. In February 1987, the B series was put up for private sale as part of a recapitalization scheme (Unal and Navarro, 1999: 63; OECD, 1992: 175). By the time of privatization in 1991–1992, only three of the 18 state banks remained 100 per cent state-owned; most had non-voting B series participation between 25 to the maximum 34 per cent (for example, Banamex was 70.71 per cent, Serfín was 66.98 per cent, and Banorte 66 per cent).

The indemnification process for the ex-owners begun within a year of statization, an attempt to mend fractured relations, had implications for neoliberalization. Negotiable bonds with a life span of nine years were issued at an interest rate equal to 90-day deposits (Burke, 1983: 27). When the formula and amount to be paid was made known, and that the proceeds would be tax free, the ex-bankers took it as an opportunity to exert more pressure on the government and demand a return to financial intermediation (Tello, 1984: 17). The bonds could be used to own up to 1 per cent of a state bank, the maximum any one individual or institution could own. Total private participation in any one state bank could not exceed 34 per cent of capital. Contrary to public discourse, only the wealthiest Mexicans, including many ex-bankers, were able to participate in practice. The measure, however, neither satisfied the ex-bankers nor pleased those who supported bank statization in the first place (Tello, 1984: 16).

Another measure of appeasement, however, allowed ex-bankers to exchange indemnification bonds for shares in non-bank SOEs put up for privatization. Banking capital shifted to other sectors thereby altering their power bloc location. In particular, ex-bankers bought up state airlines, mining, non-bank financial intermediaries and other productive and service enterprises (Marichal, 1997). This enabled a more rapid privatization of SOEs, as fresh capital was made available within the domestic market, a barrier that has slowed privatization elsewhere. It was nevertheless an uneven barter-like situation as ex-bankers received favourable terms in both the indemnification of statized banks and in the favourable pricing of newly purchased SOEs.

Several other measures were taken to strengthen the market capacities of the state-banking sector. Institutionally, the government created

Fonapre (Fund for Preventative Aid for Multiple Bank Institutions) in November 1986 under the Bank of Mexico and the SHCP. The fund helped banks entering into difficulties avoid decapitalization (Solís, 1997: 161). Another measure was a series of state-authored bank mergers.

Following statization, state managers led a process of commercial bank consolidation, excluding the two remaining non-state commercial banks, the union-owned Banco Obrero and US-owned Citibank Mexico (Unal and Navarro, 1999: 63). Without statization, it is unimaginable that state agencies could have achieved such a rapid consolidation of the banking sector (considered necessary to support renewed capital accumulation). Again, this capacity was unintended but nonetheless important to the transition to neoliberalism. Bank consolidation enhanced domestic capacity to pool and distribute ever-larger sums of capital and flows of credit, thereby deepening the world market, itself a prerequisite for financialization.

Prior to the first 1983 merger, nine banks were liquidated or simply closed leaving 49 banks. Of these 49 banks, 20 regional banks were merged with mid-size banks leaving 29 state commercial institutions in 1983. The second 1985 merger reduced these 29 banks into 19, which was reduced to 18 institutions in 1986 with the merger of Serfín and Credito Mexicano. These 18 core banks remained until privatization.

The mergers were part of the SHCP-led strategy to create a more uniform and rationalized banking sector to encourage capitalist develop-

TABLE 1
State-Led Mergers, Selected Cases, 1982–1991

Banks Prior to Merger	At End of First Merger Phase (1983)	At End of Second Merger Phase (1985)	Classification
Banamex	Banamex	Banamex	National
Serfin	Serfin	Serfin	National
Banco de Comercio			
Banco Longoria			
Banco Popular			
Probanca Norte			
Banco Azteca			
Banco de Tuxpan			
Financiera Credito de Monterrey			
Banco Continental	Continental Ganadero		
Banco Ganadero			
Crédito Mexicano	Crédito Mexicano		
Mercantil del Norte	Mercantil del Norte	Mercantil del Norte	Regional
Regional del Norte	Regional del Norte		

(Unal and Navarro, 1999: 64–65)

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ment: five banks would be local/regional, seven would be multiregional and six would be large national banking institutions—all co-existing in one state-owned and -run banking system. The SHCP project had a spatial logic. The national banks were meant to finance large public and private investment projects as well as support and develop external commercial operations. Multi-regional banks were to focus attention on those regions of concentrated economic activity and centres of consumption and to specialize credit activities around these areas. The regional or local banks were to support economic decentralization and channel resources to local market and client needs (ABM, 2006).

The state banks also underwent a series of austerity measures, including real reductions in labour wages with limited growth in the number of branches and staff. While the number of potential banks users grew by 33.9 per cent from 1982 to 1988, the number of branches grew only by .05 per cent and actual number of users by 10.7 per cent ("Requiere la Banca Suficiente Capitalizacion: Banamex," 1990: 3). Austerity reduced expenses by 21 per cent, creating an increase of 12.6 per cent in the financial margin. However, labour had absorbed the brunt of austerity. In consequence, by the time privatization was announced bank unions welcomed it and demanded a 100 per cent wage increase.

According to the OECD, state banks managed to enhance systemic profitability by reducing non-performing loans from 1982 to 1987 and generally improving pre-1982 portfolio quality (1992: 175). The improved quality of banking was achieved as competition with market-based finance increased. Brokerage firms enjoyed greater freedom, while the banks, according to the Bankers' Association, were restricted by excessive regulation and fiscal obligations ("Desciende la Captacion Bancaria por la Carga Fiscal," 1990: 3). With the crisis of 1986, the banking system became the main financing source for public expenses under the official reserve requirements. By 1987, this was leading to intensified disintermediation and the emergence of parallel markets. At the same time, the state's attempts to use the banks to channel funds into socially oriented developmental priorities faltered, as the banks' resources financed public sector debt and invested in oil to help pay off foreign debt (MacLeod, 2005: 46). State ownership amid neoliberalization was unable to avoid economic crisis and unable to encourage more even development.

Banking system liberalization processes emerged in this context, and began earnestly in 1988 and followed through to bank privatization in 1991–1992. Among the reforms initiated in 1988, the government began to remove quantitative credit granting restrictions, reserve requirements and interest rate regulations. State-owned bank managers were given greater autonomy while being exposed to greater market competition, especially post-1989 capital account liberalization (OECD, 1992: 175). These institutional and government-authored changes formed the immediate context around later bank privatization, which followed parallel financialization processes.

IV. Parallel Financialization and State Banking

My understanding of financialization, as in liberal approaches, recognizes the increasing role of financial motives, markets, actors and institutions in domestic and world markets in such a way that the dominance of market determination over state-mediated financial flows has been extended and intensified. Unlike liberals, I do not understand this as the positive extension of voluntary individual exchange relations but as a structurally mediated social and conflict-ridden class-based strategy designed to augment profitability.[7] As such, financialization is tied to neoliberalism, itself an expression of the reasserted power of finance capital in domestic power blocs and over labour in general (see, for example, Duménil and Lévy, 2005: 17). Like privatization, this is a domestically driven, state-authored process mediated by the wider context of a capitalist world market. This contrasts with understandings that locate social power institutionally above global south states in an international context that is "beyond the control of the developing countries themselves" (Stallings, 2006: 23).

As noted earlier, the 1982 bank statization brought with it an array of bank-affiliated non-bank holdings whose actual number, diversity and size were quite unexpected and, most likely, unmanageable. The drawing in of these holdings, in particular, the non-bank financial holdings into the state apparatus had unintended consequences for enabling financialization. While the immediate privatization of the newly statized banks was politically and economically impossible (and strategically undesirable), a parallel financial system could be encouraged.

Domestic capitals (including but not limited to the ex-bankers) were at the forefront in pressuring the de la Madrid government to support a parallel financial system to compete with the banks (Guillén Romo, 2005: 235). The pressure crystallized into financial legislation in 1984, which authorized the sell-off of the state banks' non-banking holdings, including financial intermediaries such as insurance, bond and guarantee, leasing and brokerage firms (Tello, 1984: 17).

The initiative put the state banks into direct competition with market-based finance, with competition being understood as fundamental to neoliberal restructuring. The idea was to encourage credit growth and enable capitalist development within a parallel system of public and private finance. In this respect, statization was a decisive factor shaping the de la Madrid administration's unique approach to market-led financial restructuring, the goal of which was to craft a monetary system that did not rely on targeted credits or interest rate controls, but on the "transmission of market signals" (OECD, 1992: 173). The government and state managers legitimated financialization as fundamental for economic modernization, reduction of poverty, overall economic efficiency and competitiveness (Ortiz, 1993: 258).

Non-bank financial intermediary privatization was important for two additional reasons. For one, the resources managed were often larger than those of the commercial banks (Tello, 1984: 17). Second, once privatized, brokerage firms began to develop a system of trust accounts and chequing facilities to mimic commercial bank functions, that is, to capture public resources and channel them to different activities (Tello, 1984: 17; OECD, 1992: 172). These two developments fed one another and deepened financial markets in Mexico, and by extension, globally.

A period of accelerated disintermediation from 1982 to 1987 resulted. Financial disintermediation, or the rise of non-bank finance, was further encouraged by high and growing inflation alongside deposit rate controls. More and more, large firms sought financing from the stock market, brokerage houses and insurance companies (MacLeod, 2005: 45–46; Guillén Romo, 2005: 236). Brokerage house capitalization increased from 6 to 30 billion pesos from 1982 to 1989 while the banks' fell from 94 to 70 billion (OECD, 1992: 172). The stock market grew from 2.83 per cent of GDP in 1982 to 10.66 per cent in 1987 while the banking sector remained stable at around 29 per cent of GDP (Guillén Romo, 2005: 235). While bank credit to the private sector was about 19.5 per cent of GDP in 1972, by 1988 it was only 7.2 per cent (Unal and Navarro, 1999: 63).

A number of other domestic developments encouraged financialization. One, as the financial market grew, the state developed greater regulatory capacity through, for example, the National Shares Commission (Bustamante, 2000: 262). Second, state banks were directed to begin creating and feeding secondary financial markets for sovereign debt, which became active in 1984, to sustain state debt obligations (Guillén Romo, 2005: 159). Third, the open market for public sector debt instruments like treasury certificates (*cetes*), development bonds (*bondes*), as well as certificates against inflation and exchange risk, like the *tesobonos* and *ajustabonos*, began to serve as reference points facilitating market-based exchange and pricing. Fourth, it remained very profitable to invest in these public debt obligations (with real interest running at over 50 per cent at the time) as the de la Madrid administration privileged external debt servicing and the rollover internal loans to give the state more time to pay (Marichal, 1997). Finally, the transfer of public funds into private financier's hands helped these same emerging financial capitalists accumulate the capital resources necessary to later purchase the privatized state banks. Bank statization thus encouraged a financialized political economy, one that was more directly linked to, and hence disciplined by, the flows of credit and capital domestically and in the world market.

V. The Aftermath of Bank Statization and Privatization

Despite the rise of market-based finance, state-led bank restructuring, which altered operations so that they acted as if they were private profit-seeking firms, made privatization increasingly attractive by the late 1980s. Moreover, the totality of state ownership made for more intense privatization advocacy at home and from abroad.[8] In response and in line with neoliberal orthodoxy, President Salinas announced state bank privatization on May 2, 1990, just prior to the formalization of Mexico-USA free trade agreement (FTA) negotiations on June 11, 1990. The bank privatization decision was well within Salinas' wider arguments linked to FTA and later NAFTA processes, namely that Mexico had to deregulate, promote foreign investment, internationalize and privatize as part of its inevitable move towards a multiparty democracy. Moreover, such a substantial move would boost Mexico's legitimacy in American negotiating circles. Once announced, this in turn affected FTA processes as US state managers immediately sought the opening up of the banking sector to foreign capital. At home, and to assuage popular fears over foreign capital entry attached to the FTA, the government argued that state banks had to be privatized or risk falling into foreign hands amid international competition ("Tres bancos, en peligro de descapitalizarse: Banamex," 1990: 17). In turn, domestic capitalists argued that the financial system had to be liberalized to enable the new Mexican bank owners to compete against foreign bank capital (Weiser, 1990: 5). Placed together, there seemed to be no alternative.

Privatization, at the time however, would be reserved for domestic capital despite foreign pressure. In order to sell them, the 18 state banks were put into six packages of two to four institutions each and auctioned off in successive stages to domestic capital for a total of $12.27 billion in gross revenue (SHCP, 1994). The state banks were neither broken up nor merged in the sale process; 18 state banks were converted into 18 private banks. This was not accidental but occurred according to design. A structural change resulted from a state owned and regulated banking system to a domestic privately owned system that is state regulated.

Then SHCP manager Ortiz cites bank privatization as a successful case of privatization cum democratization as perhaps 130 000 individual shareholders participated (Ortiz, 1993: 262). The democratization argument is seriously flawed. To be sure, it first neglects how all Mexicans owned shares under statization, even if the collective control or social orientation of the banks remained questionable. Second, the aggregate shareholder figure obscures the historic merger of Mexican finance capital and bank capital into a highly concentrated class-based ownership structure represented by four ex-bankers and fourteen heads of powerful financial groups, many of whom already had pre-existing links among family groups (Vidal, 2002: 22–25). While on the surface it appears that through shareholding formal ownership can be more widely dispersed, in reality the effective control of firms is magnified in the hands of a few board directors who are able to mobilize just enough capital resources to take effective control of a bank.

It is worth pausing to highlight the privatization of Banca Serfín, Banamex and Banorte, now three of Mexico's largest commercial banks, to help contextualize subsequent developments. Banca Serfín was privatized in 1992, essentially to the same Mexican family group who previously owned it. Post-1995 crisis, the Sada family-led group began selling shares to foreign bank capital, including General Electric, HSBC, and Spanish giant Santander, which took full control in 1999. Banamex was statized from the Legorreta family and privatized in 1991 to Mexican financier Roberto Hernandéz and partners, including Alfredo Harp Helú. Emerging relatively well from the 1995 crisis, it increased its market share by acquiring smaller banks. By 2002, US-based Citigroup acquired Banamex in the then-largest emerging market financial services transaction ever for $12.5 billion. Banorte (following statization, consolidation with another state bank, and then becoming the most profitable Mexican state bank) was privatized in 1992 to a Monterrey-based group headed by Roberto Gonzalez Barrera. Banorte has grown domestically through acquiring failing banks and has come to be one of Mexico's largest banks while remaining domestically owned. Recently, Banorte has begun purchasing small American banks to help capture the lucrative US-Mexico remittance market and to remain competitive domestically.

The 1994 NAFTA agreement crystallized foregoing liberalization efforts, an agreement that was very much about tying the hands of future governments to market-led development (Guillén Romo, 2005: 89). However, an unintended consequence of neoliberal stabilization and bank privatization was a banking crisis, which hit in 1995–1996. As Soederberg argues, recurrent crises in Mexico must be read as a result of the political decisions taken since the emergence of neoliberalism with de la Madrid and how the Mexican ruling classes have had to increasingly tackle high debt levels while shifting more and more to an export orientation (2004: 48). In consequence, capital accumulation has become heavily dependent on foreign direct and portfolio investment and at the same time progressively more exposed to volatile shifts in the world market. In this light, Soederberg interprets the 1994–1995 peso crisis (followed by the 1995–1996 banking crisis) as rooted in post-1980s debt crisis IMF reforms (2004: 29, 34).

Another unintended consequence of privatization (at least, according to government discourse) has been the massive internalization of foreign bank capital post-banking crisis to boost capital adequacy and save the banking sector from itself, so to speak. By 2007, the sector has become dominated by foreign-owned global banks to the tune of over 85 per cent control (for example, Citibank, HSBC, Santander, BBVA, Scotiabank). Efficiency and domestic productive finance have been put in question as small- and medium-sized productive enterprises, not to mention people of little or no real capital savings, have been starved of credit; service fees are significantly higher than in the global north and most bank credit remains directed towards state credits (Avalos and Trillo, 2006). Even mainstream observers have begun to call for alternative banking arrangements that support equity and stability (for example, Bortolotti and Perotti, 2007).

In sum, whereas privatization was meant to democratize capital, it led to increased class concentration. Whereas privatization was meant to keep banks domestically owned, it has led to foreign capital almost entirely capturing the market. Whereas privatization was to separate the political and the economic, debt discipline and the aggregate power of massive global banks have more tightly integrated Mexico's political economy into the discipline of world market flows of capital and a narrow profit-making logic. The lessons of Mexico's bank statization/privatization couplet should not be lost to history.

VI. Conclusion: Statization and Alternatives to Neoliberalism

In the foregoing analysis, I have argued, counterintuitively, that bank statization has had the unintended consequence of enabling a more rapid transition to neoliberalism. It did so by minimizing possible resistance from private bankers, creating agent banks, enabling wider SOE privatizations, encouraging parallel financialization and, more intensely, by internalizing competitive pressures and market discipline within the state-run banks and, by extension, the state itself. In consequence, everyday life in Mexico is increasingly structured by the market imperatives embedded in neoliberalism. To be sure, bank statization enabled neoliberalism not merely in itself, but rather as a result of subsequent individual and collective agents' decisions.

These decisions were not predestined, for neither domestic capital nor state managers knew the limits to state-led capitalism nor the balance between the particular needs of individual capitals and the general needs of capitalism in neoliberalism. At the time, it was unimaginable to see neoliberalism as inevitable. In this, the Mexican experience illustrates the flexibility of capitalist agents and structures to accommodate many different paths while progressively disciplining more and more people according to world market competitive imperatives. It also shows how the benefits of neoliberalism have accrued largely to a minority class of finance-based capitalists rather than the majority of Mexicans.

Banking systems and credit allocation, however, are ultimately social activities with social implications. They must, then, be at the forefront of struggles to regain some meaningful, substantively democratic, involvement in development. Alternatives do exist. And, while it is true that many are following the neoliberal path of Mexico (for example, South Korea, Turkey and China), it is equally true that a bloc of Latin American countries are pursuing alternatives, which have included forms of statization (for example Venezuela, Bolivia and Cuba, with others poised to follow). In the words of Carlos Lage, Cuban vice-president, "Integration is co-operation and solidarity. To think about humans and not markets means subordinating the economy to politics, and not subordinating politics to business, banks, and trans-nationals" (ALBA, 2007). Here, the question of statization remains relevant, as do the possible implications.

Thus, while the point of departure for many institutionalists and others critical of neoliberalism often leads them back to some defense of the state or state-regulation (for example, Guillén Romo, 2005; Ramírez, 1994), the implication that statization in capitalism can led to neoliberalism and a more profound market discipline is damning. State ownership is clearly not an a priori category but remains subject to the competitive pressures of capitalist accumulation. The increasingly deep and formal separation between state-political and market-economic has penetrated the meaning of public accountability and replaced it with market rationality organized by extra-market co-ordination. The mere return to state-managed or -regulated capitalism (assuming it is possible) will bring no real developmental change without the collective control of credit allocation.

In the end, the positions that deny the social and class character of neoliberalism and market-led capitalist development deny issues of power and struggle thereby reinforcing the status quo and perpetuating highly unequal power distributions in the state and the world market. To understand alternatives, research must move beyond institutions and policy, without jettisoning them, to examine how individual and collective agents make decisions in the face of these underlying power relations and structures (Greenfield, 2005). Moreover, research and practice must consider how to collapse the ultimately false divide between political and economic processes in order to address social inequalities head-on.

Possible alternative banking models have long existed in Mexico in the form of *cajas populares*, or community-based banks, not unlike the 2006 Nobel Prize winning Grameen Bank. However, it is more than clear that these are small-time, short-term providers of "band-aid" credit that work well within the confines of profit-maximization and individual self reliance. Much larger commercial credit institutions that work with the already existing idea of collectively controlled credit allocation are required. State agencies may well play a role in establishing and regulating such banking institutions. However, real democratization requires institutionalizing collective decision making in the hands of the affected community—not corporate shareholders, abstract stakeholders, or disaffected state managers. What this means is a commitment to a collective and democratic, even politicized, allocation of credit for local development. While heretical to liberal analyses, who revile the politicization of economic processes, it appears as the only viable approach capable to instituting control over one's community. Otherwise, credit, and by extension development, will remain in the hands of large global banks and market-based financial intermediaries whose sole priority is competition-induced profit making, not human development or poverty alleviation.

Notes

1 Bank "nationalization" is the official term; however, this makes sense only at the level of discourse and has no real material, institutional or spatial basis in terms of belonging to any Mexican "nation" per se.

2 A power bloc is composed of sometimes competing, often interrelated, fractions of capital (including financial, industrial, commercial, and agro-export of both foreign and domestic origin) that have formal and informal representation within the state apparatus (see for example, Poulantzas, 1978).

3 For other aspects of neoliberalization, see Babb (2005), Soederberg (2001) and Cypher (1989).

4 Following the 1917 revolution, domestic capital congealed around private banks, in the absence of a developed bond or stock market, to form powerful family groups (Bennett and Sharpe, 1980: 173).

5 Ercan and Oguz (2006) concur in the case of Turkey, pointing to how domestic capitals must be willing to collaborate with foreign capitals in neoliberalization efforts (that is, a double-contingency).

6 Here the state is understood as a contested sphere of class-based social relations within the wider world market. Privatization is understood as a class-based strategy vital to neoliberal structural adjustment that reconfigures state-society relations by deepening the structural power and logic of capital accumulation. From this perspective, privatization embodies a number of wider strategic goals within neoliberalization: (1) to open-up SOEs and the state to private profit-making opportunities and intensify the space of capitalist accumulation, (2) to extend and intensify labour's subjugation under a market-led logic of capital accumulation, and (3) to engrain within society that there is no alternative to the private, profit-seeking ownership.

7 For a constitutional liberal account of voluntary individual exchange relations, see Vanberg (2005).

8 In mixed-ownership banking systems, privatization pressures have not been as intense since capitalists could own a bank if they wanted (for example, in Turkey).

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