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Learning the Limits of Power: Privatization and State-Labor Interactions in Mexico

Mark Eric Williams

ABSTRACT
Despite repeated conflict with organized labor, the government of Carlos Salinas de Gortari (1988–94) pushed an aggressive divestment agenda that transformed Mexico into Latin America’s leading privatizer. Explanations of Salinas’s achievements typically emphasize centralized presidential power (including control over the ruling party) and autonomy; technocratic and political savvy; and weak labor opposition. This article questions such a pure “capacity-outcome” approach. Of equal importance are the learning effects of repeated interaction between the state and labor, which changed the course of divestment struggles and thereby influenced their outcomes. Lessons learned in successive confrontations led to patterns of interaction conducive to widespread privatization. The article develops this argument through comparative analysis of major divestment episodes in the aviation, mining, steel, and telecommunications sectors.

Struggles over economic policy have colored much of Mexico’s recent history, as the sustained pursuit of structural adjustment and liberalization has pitted government reformers against status quo defenders. Perhaps none of these contests have been greater than the battles over privatization, which saw conflict erupt repeatedly between the government and important segments of one of its traditional pillars of support, organized labor. Largely anticipating labor opposition, few analysts expected extensive divestment drives to succeed in developing countries such as Mexico; indeed, as late as 1990, Gayle and Goodrich concluded that with few exceptions, large-scale privatization was “essentially an advanced industrial country phenomenon” (1990, 12). The government of Carlos Salinas de Gortari (1988–94), however, privatized hundreds of public enterprises, including large, politically important, and highly unionized firms in the mining, steel, and telecommunications sectors.

Most scholarship attributes the scope, pace, and success of Salinas’s divestment program to three influences: centralized presidential power (including the president’s control over the ruling party) and autonomy; the administration’s technocratic and political savvy; and weak opposition (Centeno 1994; Middlebrook 1995; Teichman 1995,
1996; Vanderbush 1996; Waterbury 1993). The impact of these factors on privatization outcomes cannot be ignored. Especially under Salinas, Mexico’s presidency was extraordinarily powerful, and studies confirm a strong correlation between presidential power and successful privatizations (Teichman 1995, especially chapter 5). The divestment of major firms like the national steelworks, moreover, required a high degree of economic, administrative, and analytical competence, a task for which the Salinas administration was particularly well suited. Finally, while not all unions opposed privatization, those that did—particularly union locals—proved ill equipped to halt the march of divestiture.

Based on its accomplishments, the Salinas administration earned a reputation as a political juggernaut, advancing divestment through superior power, political adroitness, uncommon foresight, and a near-error-free control of events. This image gained currency in academe, financial circles, and print media. It was advanced by admirers and detractors alike; and it has remained a durable vision of the Salinas era despite Mexico’s 1994 peso crisis and Salinas’s subsequent fall from grace.

This essay reevaluates the collective “Salinas image” and the weight accorded to presumed causal factors behind the administration’s divestment achievements. To be sure, the vision of a powerful administration vested with uncommon political acumen and technical expertise carries weight. But this image, and the explanation of successful privatization it implies, paint only a partial picture, one that oversimplifies reality, favors deterministic accounts of Mexico’s accomplishments, and ignores a major dimension of the administration’s success.

To focus solely on presidential power, foresight, technocratic and political skill, and weak opposition is misleading both theoretically and factually. It imputes to policymakers a type of prescience they did not possess, and it implies that the Mexican president’s preferences in implementing divestment invariably were realized. It also paints too broad a picture of union weakness. What’s more, it obscures the lessons both the administration and the labor movement learned in the course of the privatization campaign. These lessons, brought home through repeated conflictual but ultimately instructive interaction, proved highly conducive to widescale divestiture.

Such learning affected three variables: the patterns of behavior between reform advocates and opponents, the goals labor pursued, and the government’s stock of political capital; that is, the aggregate support and credibility governments enjoy at any given moment. Through repeated interaction with organized labor, the state moved from highly coercive tactics (implementing divestment via bankruptcy and union busting) to more moderate ones (hard bargaining plus compensation to labor). Labor opponents, meanwhile, moved from an inflexible posture (typified by total opposition and the strike) to a more accommodating
one. In the process, preserving the collective contract remained a basic goal; but compromise replaced strikes as the tool of choice to protect union interests, and syndicates grew more receptive to noncontractual forms of compensation (job training, generous severance packages, community infrastructure projects) to help offset contract givebacks. As engagement patterns changed, compromise gradually displaced unyielding conflict, allowing both camps to preserve core interests and permitting later divestment rounds to proceed more smoothly than before.

As a result of its new strategies, moreover, the administration also learned to advance divestiture without completely depleting its political capital, no small matter. Because reforms like privatization penalize status quo beneficiaries, governments that push reform agendas expend political capital in the process. Governments that fail to preserve or replenish their capital can encounter serious governance problems that degrade their ability to sustain reform campaigns over time (case in point: Venezuela’s reforms under President Carlos Andrés Pérez; see Naím 1993). For the Salinas government, learning to manage its political capital rather than squander it took time, but ultimately it proved critical to the aggregate outcome of Mexico’s divestment project. In short, more than simply the triumph of power, technical skill, and expertise, Mexico’s divestment record also reflects important learning dynamics that have yet to attract sustained theoretical analysis.

This argument draws on Robert Axelrod’s 1984 theory of cooperation, in which self-interested actors develop patterns of cooperation through repetitious engagement. It also borrows from learning concepts derived from the study of comparative politics, organizations, and international relations, which view “learning” as a process whereby new information gained through prior experience or observation affects subsequent behavior. Such learning can be simple or complex. The former leads actors to alter the means employed to pursue their goals; that is, engagement tactics. The latter helps alter the ends or goals themselves (Tetlock 1991, 27–31). In Mexico, both forms occurred as actors applied the lessons drawn from past divestment struggles to new ones or acted on new information gained during a single divestment episode itself.

Because feedback dynamics that facilitate information processing are integral to learning, the dyadic state-labor squareoffs examined here offer unique windows into the learning process. With each encounter, the government and labor could quickly assess outcomes and reappraise engagement tactics according to whether their goals were achieved, and at what cost.

To develop this argument, this article reviews several major divestments the Mexican government engineered between 1988 and 1991 in heavily unionized sectors: aviation, mining, steel, and telecommunications. (The major post-1992 divestments entailed Mexico’s commercial
banks.) This temporal approach permits an examination of how the learning process unfolded over time and how early lessons influenced subsequent behavior. Although it draws examples from various sectors, this study pays considerable attention to the divestment of the Cananea Copper Mine, the first major enterprise Salinas tried to privatize in 1989. This little-studied case set the stage for the remainder of Salinas's divestment drive, and the lessons learned at this juncture proved crucial to the success of later initiatives.

Because learning itself begins with individuals and affects the behavior of larger entities (governments, unions) as new information alters the perceptions of actors responsible for group decisions (Levitt and March 1988, 320), the lessons learned by those charged with executing Mexico's divestment program (the finance minister, the president) and protecting labor interests (union leaders) carry weight.

**Mexican Privatization and the Salinas Image**

Although scholars have applied learning concepts to the study of international relations, comparative politics, public and economic policy, and labor (Jervis 1976; Hall 1993; Heclo 1974; Howell 1998), most studies of Mexico's privatization experience rarely stress learning dynamics; instead, they typically rest on centralized power and autonomy, technocratic-political expertise, and weak opposition.

These elements compose what might be termed the enduring "Salinas image"—examples of which abound in popular commentary. Writing in The National Interest, Douglas Payne (1993, 43) observes that Salinas "wielded the enormous power of the Mexican presidency to impose a remarkable overhaul and radical opening of the economy." The Economist opines that under Salinas Mexico boasted "the most economically literate government in the world," and that "absolute presidential power" helped Salinas achieve his accomplishments (1993, S3). Financial publisher Steve Forbes lauds the blend of political and technical skill Mexico's leadership displayed: "Salinas combines penetrating economic insights with sharp political instincts. He tries to shape events rather than react to them" (1992, 25). Such comments echo the basic arguments for successful reform advanced in more scholarly discourse.

Most studies of market transitions in Mexico and other developing countries suggest that concentrated authority and autonomous state actors are essential for undertaking extensive policy reforms (Haggard and Kaufman 1995, 9; Nelson 1990, 25). The arguments for these factors are straightforward: political systems that disperse power play to the strength of reform opponents. They facilitate effective antireform lobbying, create procedural and bureaucratic veto points, and inhibit the rapid, stealthy initiatives some deem crucial in introducing market
reforms (Rodrik 1996, 31–33). Conversely, political systems that concentrate power help “insulate” decisionmakers from societal pressures, enabling reformers to avoid these traps.

Mexico, with formal institutions that concentrated power vertically at the federal level and horizontally inside the executive branch, fit this profile nicely (Weldon 1997). Historically, the executive dominated the legislative, decision, and policymaking process and, as leader of the ruling party, employed its corporatist structures (which included organized labor) to maintain social control (Morris 1995). By relegating Congress to a ratifying, not decisionmaking role, executive dominance shut down crucial access points where interest groups might otherwise influence policy decisions. The power and systemic autonomy this provided for authorities to impose divestment over labor opposition constitute one of the principal explanations of Mexico’s market reforms, including divestiture (Centeno 1994, 36). Thus, the World Bank (1995, 221) maintains that divestment was “politically feasible in Mexico because reformers controlled the relevant policymaking entities and had the means to overcome resistance,” while Teichman (1995, 19) argues that “Mexico’s unique political arrangements enabled the state to readily overcome [all] resistance” to privatization.

A second factor analysts cite as crucial to successful divestment is the formation of a technically skilled and politically competent policy team that enjoys strong presidential support. Because privatizing public enterprises is an administratively intense process involving asset evaluation, buyer selection, and bid appraisal (Guislain 1997, 167–68), it puts a premium on developing such “change teams.” Their importance to reform projects has been well documented: in the vast majority of cases, governments that advanced market policies most extensively (including divestment) were those in which such groups, aided by strong executive support, led the charge (Williamson and Haggard 1994, 579; Bates and Krueger 1993, 463–64).

Again, Mexico supports this proposition. Salinas strongly backed his economic team. During his tenure, Mexico’s chief policymakers, from the president down, bore the credentials of the technocrat: advanced degrees in economics from foreign (mainly U.S. Ivy League) institutions (Grindle 1996; Teichman 1997).

Whereas some arguments stress these advantages for state reformers, others explain extensive divestment as a function of surprisingly weak public sector unions, the chief defenders of public enterprises. For much of the 1980s, many scholars believed that divestment would not easily advance in the face of labor opposition. Most parastatals were highly unionized; and privatization, which often requires job cuts and contract revisions to entice potential buyers, struck directly at union interests. Because such “costs” of divestment are concentrated, analysts
expected unions to mobilize quickly and, through collective action, delay, if not derail, aggressive reform efforts (Van de Walle 1989). In the end, however, labor proved unable to deter Mexico’s privatizers.

The accounts of labor weakness in Mexico vary. Some stress important structural constraints. In a recent study on Mexico’s principal corporatist labor organization, for example, Katrina Burgess (1999) explains its feeble response to market reforms like privatization on the basis of Albert Hirschman’s (1970) exit, voice, and loyalty schema. Facing a hegemonic party able to sanction labor leaders’ defection (exit) and labor legislation that insulated these same leaders against worker reprisals, the Confederation of Mexican Workers (CTM) exercised degrees of loyalty and voice, but not exit; ultimately, it acquiesced to state reformers’ policy preferences. Though Burgess offers a nuanced account of Mexico’s largest labor organization’s reaction to reform, it does not help us understand how individual unions or union locals responded, or why. And it is at this level that the fiercest opposition emerged.

Other authors explain union weakness by stressing how labor’s initial incorporation into the governing coalition worked against developing the “muscle” required to prevent later reforms. To further economic development, meet worker demands, and ensure labor’s political support, the government protected unions and created administrative units (for example, arbitration boards) to regulate labor-capital relations. In time, though, unions were subjected to legal restrictions on their formation, internal activities, and capacity to strike; they also grew increasingly dependent on “state-provided legal, financial, and political subsidies” to survive (Middlebrook 1995, 30, 56–71). As labor autonomy atrophied, debility ensued. Reflecting on divestment in Mexico, India, Egypt, and Turkey, therefore, John Waterbury (1993, 237) argues that public sector unionized labor was not “well equipped to resist reform and divestiture because its privileges were not won in confrontation with private or public capital but, rather, were granted by the state.” Consequently, when privatization threatened labor benefits, unions lacked the organizational mettle to block it.

Though some scholars dispute that Mexican labor was ever as subordinate as commonly believed (Brachet-Márquez 1994), the historical evidence on this point cannot easily be dismissed. Since the government first granted labor onto the ruling party in the 1930s (representing union interests via the CTM), state-labor relations had hinged on an implicit quid pro quo. Unions gained official recognition, state financing, periodic special treatment, and access to policymakers; in exchange, their leaders accepted limits on members’ behavior and demands (Middlebrook 1995, 153–55). The result, notes Hansen (1971, 113), was a pattern of “upward-flowing obligations and loyalties” on the part of national union leaders rather than downward-oriented responsi-
bilities to union locals. Such divided loyalties weakened labor's capacity to sustain united opposition to reform. Studies suggest that this configuration, combined with the state's concentrated power, autonomy, and political-technical expertise, largely accounts for Salinas's impressive privatization record (Waterbury 1993; Teichman 1995, 1996).

This article parts company with these interpretations. It takes particular issue with the Weberian, "capacity-outcome" conception of power that informs the "Salinas image." For Weber, power was "the capacity of an individual to realize his will, even against the opposition of others" (1968, 127). This logic notwithstanding, it is clear that not all actors with substantial power resources are predestined to triumph over weaker opponents (recall the Vietnam War). To be sure, the powers available to Mexico's president did make success more probable. But the argument here suggests that struggles between the state and labor over divestment were just that—real struggles—and in these conflicts, power itself was more relative than absolute.

Throughout Salinas's term, the outcome of key privatization initiatives depended as much on the protagonists' moves and countermoves as on any initial endowment of power or resources they enjoyed. The aggregate outcome of Mexico's divestment program, therefore, should more properly be viewed as the product of numerous individual struggles.

**POLITICAL LEARNING AND LEARNING TO COOPERATE**

The concept of political learning entails a process in which new information is factored into decisionmaking such that it alters subsequent behavior. The type of information that stimulates learning varies. It can include an appreciation of changing reward structures (Good and Brophy 1990), information gained from past policies or actions (Sacks 1980), and failure to achieve desired objectives (Sitkin 1992).

As Axelrod (1984, 126) demonstrates, repetitious engagement helps generate new information conducive to learning and cooperative behavior. At the core of his theory is the idea that actors gain greater payoffs through mutual cooperation than noncooperation and that through repeated interaction, adversaries can learn the value of new payoff structures (that is, learn to cooperate), provided that they judge the outcome of future encounters to be sufficiently important. When such conditions hold, even profoundly antagonistic actors can learn patterns of cooperation pursuant to self-interest, even without a central authority to enforce such behavioral change.

Axelrod's findings are best illustrated by the deadly trench warfare of World War I, when repeated engagements helped to modify the tactics and goals of opposing forces. Bold, bloody charges for territorial acquisition against the enemy evolved over time into "holding patterns"
in the security of the trenches; troop companies deferred attacking enemy resupply lines, provided that the other side reciprocated; and, to the dismay of their superiors, a "live and let live" form of behavior ensued among the troops. While neither side actively sought to contribute to the other's victory, at least for those at the front, the core goal of destroying the enemy gave way to one of ensuring mutual survival. In Mexico, evidence suggests that a similar dynamic unfolded during Salinas's divestment campaign as repeated interaction moved actors to redefine their tactics toward one another and, to some extent for the unions, their goals. As more cooperative interaction developed the privatization program advanced.

To apply these learning concepts to Mexico, two further points warrant comment. As in Axelrod's research, the notion of cooperation employed here does not imply that labor opponents shared the state's basic goal of privatizing public enterprises. Instead, it implies that through repeated engagement, both parties acquired greater appreciation of the differential payoffs possible and developed a pattern of interaction conducive to their mutual benefit. In the end, the government obtained its divestment goals while labor preserved elements of its original contract or acquired noncontractual compensation.

Traditionally, the Mexican government took an active, interventionist role in economic development. Under the Institutional Revolutionary Party (PRI), the state established development banks, nationalized oil production, and took over a host of public enterprises (PEs). By 1982, the state owned 1,155 enterprises in sectors ranging from steel, aviation, and mining to commercial banking and telecommunications (Secretaría de Hacienda y Crédito Público, 1992). Many of these operations grew highly inefficient and overstaffed, ran yearly deficits, and stayed afloat through subsidies and external borrowing. Nevertheless, particularly in the industrial, extractive, and service firms, organized labor grew accustomed to generous public sector contracts, and union interests depended on maintaining PE operations. The 1982 debt crisis and subsequent cutoff of foreign credit undercut Mexico's capacity to sustain this development approach. In response, the government of Miguel de la Madrid (1982–88) sought relief, in part, via divestiture.

Mexico's privatization program developed cautiously in 1983, when the government began to sell, liquidate, or transfer small public enterprises to state governments. By mid- to late decade, the De la Madrid administration had graduated to larger ones, and in 1988 it privatized the national airline, Aeroméxico Airlines. Building on these achievements, Salinas moved aggressively to privatize the majority of state assets, and within three years had purged the government's portfolio of many large, politically important enterprises. In the process, Mexico became Latin America's leading privatizer by the mid-1990s (see table 1).
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*Number of transactions completed.

bDivestment revenues as a percentage of GDP.

Source: IDB 1996.
The chief architects of Mexico's divestment project were members of the Spending and Finance Commission (CGF), an interministerial body established in 1985 to manage macroeconomic policy (Fondo de Cultura Económica 1988, 65–66). Composed of the ministers and sub-ministers of Mexico's principal technocratic bureaucracies (finance, budget and planning) and the director of the central bank, in 1986 the commission was empowered to review all divestment proposals and pass the most promising candidates to the president for his approval. Thrust into the thick of the privatization process, the CGF became, in all but a few cases, a leading force behind public sector downsizing.

Like most “change teams,” the CGF worked with relative autonomy and full presidential backing (neither the ruling party nor Congress played appreciable roles in the decisionmaking process). Its members, moreover, were highly trained technocrats whose focus on fiscal austerity predisposed them to consider the macroeconomic effects of public sector operations and view privatization in terms of its stabilizing benefits. As budget minister between 1982 and 1987, Carlos Salinas sat on the CGF and was intimately involved in De la Madrid's divestment project. To appreciate how the learning process affected his own program (and therefore why conventional arguments only partly explain his success), a review of the last major divestiture preceding the Salinas administration, Aeroméxico Airlines, is in order.

**Privatizing Aeroméxico**

Originally launched in 1934, Aeroméxico struggled economically for 25 years as a private carrier, and by 1959 was headed toward bankruptcy. To save it, the Mexican government nationalized Aeroméxico and transformed it into a public enterprise (Davies 1984). Public ownership, however, failed to improve Aeroméxico's economic performance. Between 1959 and 1988, it was a consistent money loser with liabilities exceeding revenues every year but three (1979–81). Despite repeated corrective attempts, productivity lagged, the labor force ballooned, and expenses outpaced income such that by the 1980s annual subsidies to Aeroméxico averaged 15 percent of the company's total revenues (Tandon 1992, 2).

By 1987 Aeroméxico had caught the eye of budget watchers in the De la Madrid administration. Chronically in debt, still subsidy-dependent (projected subsidies for 1988 approached US$100 million), and overstuffed, the carrier looked like a privatization poster child. De la Madrid shared this view. As minister of budget and planning, he had personally participated in three earlier (and futile) operations to salvage the carrier before he donned the presidential sash. By 1987 De la Madrid had concluded that as a public enterprise, Aeroméxico “could not be saved” (De la Madrid 1993).
Reformers also believed, however, that a quick sale was unlikely without significant contract modifications. Excess workers, rigid job categories, and many benefits would all have to go to entice potential buyers. The unions, of course, saw things differently. The Association of Aviator Pilots (ASPA), the Association of Aviation Flight Attendants (ASSA), and the groundworkers union, the National Union of Technicians and Workers of Aeronaves de México (SNTTAM), were decidedly cool toward such revisions. Not surprisingly, contract negotiations fared poorly.

To break this impasse, the administration hoped to splinter labor solidarity by minimizing the costs of divestment for Aeroméxico’s pilots, whose particular skills made them indispensable, and imposing the costs of change on the remaining syndicates (Aeroméxico 1993). In early January 1988, government officials, led by CGF president and then-budget minister Pedro Aspe, summoned the pilots’ union leaders to a private meeting, at which they explained that Aeroméxico would be thoroughly restructured and then sold (Camposeco 1989). In exchange for supporting these measures, they offered APSA 35 percent of the newly privatized carrier.

The ASPA leaders accepted, and thereby switched from opponent to stakeholder in the divestment process. The administration then worked to precipitate a labor strike that would force Aeroméxico’s bankruptcy. In terms of divestment, this tactic offered two advantages: it would break the remaining unions, annul their contracts, and eliminate redundancy in one fell swoop; and thereafter, a new company could be formed, less generous contracts signed, and a more attractive Aeroméxico sent to the auction block.

The plan was quickly put into action. On January 20, the administration announced a new austerity plan that promised large-scale changes in Aeroméxico’s operations, routes, and itineraries (Corro 1988, 26). A week later, Aeroméxico’s management unveiled the plan’s specifics, which entailed fleet reductions, route eliminations, and canceled aircraft orders, measures that threatened at least two thousand positions in the groundworkers’ union alone. Throughout contract talks that winter, both the flight attendants’ and groundworkers’ unions strongly opposed these changes. The pilots’ union, however, remained unusually passive.

To raise the pressure on the syndicates, the Labor Ministry refused to support union efforts to avert the restructuring; the comptroller general, meanwhile, released a communiqué on March 2 that expressed the need for still more cuts. Noting an 11 percent jump in Aeroméxico’s work force since 1981, the communiqué identified labor costs as one area where more job cutting should be done and announced the government’s intention to withhold the carrier's $100 million subsidy. These developments quickly alarmed the groundworkers, who saw the steady march toward reform as a direct assault on job security (Presidencia de

The first phase of restructuring (the retirement of 13 aircraft) was slated to begin on April 13. To block this move the SNTTAM voted to strike Aeroméxico on April 12 (Mexico's Federal Labor Law prohibits asset liquidations during a legally recognized strike). Inadvertently, the syndicate stepped into the reformers' trap. An hour after the walkout began, company officials petitioned the Federal Conciliation and Arbitration Board to declare the strike inexistente (legally unrecognized). For lack of a quorum during the strike vote, the board agreed. With the airline's revenues cut off and fixed expense payments due, the government quickly declared Aeroméxico bankrupt (en quiebra), terminated its labor contracts, fired its workers en masse, and crushed the ground-workers' union.4 To add insult to injury, the government jailed the presidents of both ASSA and the SNTTAM for tax fraud and corruption.

In the wake of Aeroméxico's belly flop, the administration portrayed the bankruptcy as being in the public interest. According to President De la Madrid, Mexico could no longer afford "the luxury of . . . inefficient and deficitory companies that represent a burden for society" (Expansión 1988). In light of Aeroméxico's poor reputation, many Mexicans agreed with him; the government's decisive actions received broad public acclaim.5

Nevertheless, the quiebra stunned the SNTTAM and ASSA. The SNTTAM, in particular, believed the government had baited it to strike just to precipitate the insolventcy, and there is more than paranoia behind this suspicion. Normally, a strike at either national airlines would trigger a requisa, a temporary state takeover of corporate facilities that would force strikers back to work and preserve existing labor contracts. Only five months earlier, the De la Madrid administration had used this very device to end a pilots' strike at Mexico's other major carrier, Mexicana Airlines (Larrañaga and Mercado 1988). But with Aeroméxico, the goal was to eliminate union contracts, not preserve them; bankruptcy provided a foolproof, if highly coercive, way to achieve this.

With Aeroméxico in receivership, restructuring proceeded rapidly. Assets were liquidated, fired employees indemnified. A limited number of workers signed short-term individual (as opposed to collective) contracts to ensure provisional air service. Five months after the walkout, the National Bank of Public Works (BANOBRAES), serving as the carrier's trustee, unveiled the "new" Aeroméxico (Aerovias de México, S.A. de C.V.), owned jointly by the trustee and ASPA at 65 and 35 percent, respectively. This company signed new, less generous (and more flexible) collective contracts with ASPA, ASSA, and the Independencia union that replaced the defunct SNTTAM. When Aeroméxico finally went private in September 1988, Dictum S.A. de C.V., a joint venture between
the Commerce Bank and private investors, acquired 75 percent of the equity, while the pilots retained 25 percent.

In privatizing Aeroméxico, the Mexican government cut its financial liabilities substantially, realized a "savings" in future subsidies and fleet upgrades, and expanded the tax base. Reformers intended the quebra to send a strong, unambiguous message to other public sector unions: the government intended to divest unproductive parastatals and was prepared to impose enormous costs on those who stood in the way. How labor responded to a proposed privatization, via accommodation or resistance, would condition the pattern that policy implementation would take. In private, government officials labeled Aeroméxico's bankruptcy an "impeccable strategy" to effect the carrier's divestment and subsequent privatizations (Journal of Commerce 1988).

Other public sector unions quickly got the message. Indeed, "The fate of the Aeroméxico workers," notes Clifton (2000, 130), "hung like a spectre over other unions in a similar position." Except for the pilots, labor's defeat was total. ASSA and the SNTTAM absorbed all the costs of restructuring (wage and benefit cuts, layoffs, reduction of job categories, expanded responsibilities), plus the additional costs incurred when the state decapitated the unions' leadership by jailing their ex-presidents and dissolved the groundworkers' union.

Unions employed at public enterprises not yet privatized weighed the Aeroméxico outcome carefully, gaining a clearer understanding of the new political climate surrounding public sector operations (Clifton 2000). The state's determination to divest its "priority" assets held two implications. First, the sudden devaluation of tactics typically employed to protect labor interests (principally tough bargaining and especially the strike) required new, more efficacious strategies. The assault on traditional contract arrangements, moreover, suggested a need to expand union goals from simply protecting existing contracts to securing extra-contractual compensation for any lost contract benefits.

One of the principal lessons reformers learned from Aeroméxico was the utility of bankruptcy and union busting to impose the costs of reform on recalcitrants. As Pedro Aspe later explained: "sometimes one bankruptcy is worth many sales [because] bankruptcies constitute a clear signal to society that the government . . . is committed to doing whatever is necessary to permanently correct the economic disequilibria" (1993, 203). Not all lessons are equally helpful, however, particularly when applied inappropriately (that is, to succeeding cases dissimilar from past ones). Such "dysfunctional learning" can prove quite detrimental. Thus, when the Salinas government sought to replicate the Aeroméxico strategy to divest the giant Cananea copper mine in 1989, similar tactics failed to yield similar results. The political fiasco that followed ultimately taught reformers the limits of the bankruptcy ploy.
PRIVATIZING CANANEAN

In early 1989, the Salinas administration laid plans to divest the Compañía Minera de Cananea, or CMC, Mexico's second most productive copper mine. Located in the city of Cananea in the northern state of Sonora, the mine served as the municipality's largest employer and ranked among the top ten copper producers in the world (Contreras and Ramírez 1988, 293). Under Miguel de la Madrid, the government twice had tried (and failed) to divest Cananea. With the corporation already "in play," the Salinas administration inherited a troubled situation.

Cananea's commercial mining operations began in 1899, when the U.S. entrepreneur William C. Greene founded the Cananea Consolidated Copper Company, or 4C's (Sonnichsen 1974). In June 1906, Mexican workers struck Cananea over a wage dispute. When Mexican rural police and a contingent of Arizona Rangers put down the uprising (leaving 30 Mexican workers and 6 U.S. citizens dead), Cananea became a national symbol as the birthplace of the Mexican labor movement.

Mining operations in Cananea evolved under conditions of extreme geographical, social, and political isolation. Nestled in the Sonoran sierra and bordered by a foreign country to the north, the region is virtually cut off from the Mexican interior. Without alternative employment opportunities or effective links to the country's commercial centers, the mine became the community's lifeline in almost every sense, and a symbiotic, functionalist relationship evolved between the company and local population. The city provided the workers and reproduced the labor force; the mine depended on local labor; and the city depended on the miners' salaries for economic sustenance. These circumstances encouraged the company to assume responsibilities more typical of political authorities, including social welfare, education, and public works. In addition to paying generous wages and benefits, it helped to finance the community's local hospital, public library, primary and secondary schools, and basic infrastructure. Corporate provision of social services eventually formed part of labor's contract benefits, an arrangement that continued into the 1980s (Sánchez et al. 1993, 116–17).

In 1917 the U.S. firm Anaconda Copper acquired William Greene's 4C's. In 1971 Anaconda sold off 51 percent of Cananea to a group of Mexican investors headed by Nacional Financiera (NAFINSA), Mexico's chief development bank (Sariego et al. 1988, 254). In 1977 Anaconda itself was acquired by Atlantic Richfield, which sold its remaining Cananea shares in 1981. By 1988 the Mexican government owned 99.8 percent of Cananea stock, three quarters of which were controlled by Nacional Financiera and a special NAFINSA trust fund.

In 1982 Cananea launched an ambitious, billion-dollar program to modernize operations and increase output (Mumme 1984). Initiated at
the dawn of Mexico's debt crisis amid sharp cuts in public spending, this project was the largest, most expensive public investment program ever undertaken during the De la Madrid administration. With federal assistance out of the question, the company unilaterally secured a series of external loans, which NAFINSA agreed to underwrite and administer.

The expansion program, however, coincided with a steady drop in copper prices on the world market: between 1980 and 1982, world copper prices fell from about $1 per pound to $0.75, and bottomed out at about $0.65 per pound in 1986. Coupled with currency devaluations and CMC's conversion of long-term liabilities to short-term debt, the bear copper market took its toll. The result was a cash flow problem that crippled the timely repayment of loans NAFINSA had underwritten. Throughout the 1980s, corporate debt accumulated (reaching $652 million in 1989), with Nacional Financiera legally responsible for it all (Financial Times 1989).

For NAFINSA, the most expedient solution was to divest Cananea and recoup its loans from the purchase price—a move that fit nicely into De la Madrid's divestment program. The bank's Governing Board first considered selling Cananea in 1986, but delayed a formal call for bids until January 1988. By this time the expansion program was complete; CMC's output had quadrupled over 1982 levels, from 3,000 to 14,000 tons per month. Market conditions were more favorable: copper prices had rebounded to $1.20 per pound. Cananea itself was a more attractive buy. Yet despite the favorable conditions, repeated efforts to divest the firm fell flat (El Financiero 1988; El Universal 1988). The last attempt faltered three weeks before Carlos Salinas assumed the presidency; consequently, privatization plans were shelved until after the transfer of power.

Divesting Cananea was a priority from the outset of the Salinas administration. Past failures raised questions about the government's overall commitment to economic reforms and its ability to implement them. Since the government first sent Cananea to the auction block in January 1988, moreover, the company had postponed investments in replacement parts and upkeep. The value of CMC assets consequently had declined along with its sales appeal. A successful divestment was no sure thing. To compensate for the declining value of the physical assets, NAFINSA hoped to entice buyers by boosting productivity through dramatic cuts in labor costs.

The bank was uncertain, however, of management's ability to put the squeeze on labor. The company's largesse in wages, benefits, and social welfare appeared excessive to reformers. In February 1988, therefore, NAFINSA ousted Cananea's CEO, and by March had taken complete control of the board of directors (Sánchez et al. 1993, 122). Cananea's new management quickly turned its attention to labor, and not surprisingly, labor-management relations deteriorated sharply. Man-
agement pressured the union to increase efficiency; workers countered by decreasing output. The two-month work slowdown that ensued in April and May cost the company, management claimed, $15 million (Acosta 1989, 6).

This skirmish set the tone for highly combative contract talks in June with local 65 of the Mining and Metallurgical Workers of the Mexican Republic (STMMRM). Headquartered in Mexico City, the STMMRM was a “government” union and a member of the PRI’s CTM. Because its national leaders owed their position to Mexico’s political elite, they were strong proponents of the old corporatist-style control, patronage, and perks that typified the dynamics of divided loyalties. During the belt-tightening 1980s and 1990s, in particular, the STMMRM proved little more than a fairweather friend of union locals engaged in labor-management disputes. When a local’s demands conflicted with government desires to control wages or benefits, the leadership often sided with the latter.

For its part, the Salinas administration approached the labor showdown in textbook neoliberal form. From its perspective, Cananea’s labor contract (like Aeroméxico’s) was generous to a fault and “economically irrational.” By the late 1980s, average wages at CMC were 3.5 times greater than other unionized workers in Mexico, and the contract’s rigid division of labor (four hundred distinct job categories) impeded flexibility, encouraged overstaffing, and undermined efficiency. It also set work standards according to “custom,” which in Cananea meant no work on Sundays, holidays, or saints’ days (Contreras and Ramírez 1988, 38). Because the union had negotiated many of these provisions precisely to maximize benefits and job security, the provisions became the principal point of contention during contract talks.

Unlike Aeroméxico’s agreements, however, local 65’s contract benefits had never hinged on CMC’s state ownership or routine subsidization. Aeroméxico’s unions had squeezed concessions from a highly subsidized, long-term PE whose soft budget constraints gave management powerful incentives to accommodate labor demands. Local 65, in contrast, had achieved its goals via “hand-to-hand conflict” with Anaconda Copper (Contreras and Ramírez Sánchez 1992, 15, n. 2). Indeed, the syndicate had won its most generous contract provisions—“customary” no-work days, health and educational facilities, and community services—as early as the 1940s, well before Cananea’s nationalization.

The scope, content, and broader political significance of labor’s contract stemmed directly from Cananea’s extreme insularity and the mutual dependence it produced between corporation, community, and syndicate. Since the nineteenth century, Cananea’s insularity, deeply rooted mining culture, and continually renewing labor force had fused miners’ personal interests with those of the broader community. They passed this community-linked (and often militant) mining culture down from cohort
to cohort, so that local 65 evolved into more than a simple union. Over time, it was “converted into the mouthpiece and conduit of the local population’s political, economic and social demands,” with labor victories at the bargaining table (health care, education, and so on) often serving as a type of community social safety net (Ibarra M. et al. 1990, 137).

The practice of delivering concrete benefits to city residents provided the union a natural set of constituents and political allies who would rally to defend the miners’ interests and, by extension, their own. As the reputed birthplace of Mexico’s labor movement, moreover, Cananea was a lodestone that tugged at nationalist heartstrings across the republic. It offered an enormous reservoir of political symbolism, which might be leveraged to protect miners’ interests.

Reformers' failure to appreciate all these factors led them greatly to overestimate their capacity to deal with local 65 as expeditiously as they had with Aeroméxico’s unions. When they entered contract talks in June 1988, the two sides deadlocked almost immediately over management’s proposals to eliminate redundancy, increase work force flexibility, and raise productivity (Contreras and Ramírez 1988, 9; Ibarra M. et al. 1990; Sánchez et al. 1993). Rejecting the proposals out of hand, labor called for hikes in wages, benefits, and the number of justified absences.

To protect their interests, labor leaders resorted to traditional tactics and began circulating strike petitions, while reformers feared that even a partial concession might jeopardize divestment plans. By late summer, the administration determined to break the stalemate with the coercive tactics it had used with Aeroméxico, implementing divestment by imposing the costs of reform on local 65 through bankruptcy. As with Aeroméxico, this tactic would allow the state to effect mass firings and rewrite the collective contract expeditiously; with the old contract void, moreover, the state could evade the severance payments the agreement required and indemnify discharged workers with the bare minimum stipulated by the federal labor code, a difference of 83 billion pesos (Ibarra M. et al. 1990, 142, n. 16).

The administration planned to execute its strategy in three steps: take the miners’ baseline contract demands at face value, which NAFINSA calculated as a 330 percent hike in total wages and benefits; use CMC’s inability to meet these demands as evidence of corporate insolvency; and use the bankruptcy to break the syndicate and preempt the strike, set for August 28, with a stunning display of military force. Confident of orchestrating “another Aeroméxico,” the reformers sprang the bankruptcy trap.

On Sunday morning, August 20, 1988, four thousand troops descended on Cananea, seized CMC facilities, and evicted workers from the company compound (Ortega Pizarro 1989). The government declared that Cananea was bankrupt, the labor contract void, and that
workers would be liquidated according to the provisions of the Federal Labor Law. Local residents christened August 20 el domingo verde (green Sunday), in reference to the 1906 confrontation with William Greene. Insisting it took these actions for reasons "strictly financial," the administration blamed the bankruptcy squarely on labor. Five days after the army seized CMC, President Salinas declared the firm's insolvency "irreversible" and announced that the National Sugar Finance Company, Financiera Nacional Azucarera (FINASA), would serve as trustee.

Salinas expected that Cananea's bankruptcy, like Aeroméxico's, would meet broad public acclaim, quickly resolve the labor problem, and facilitate the company's divestment. Instead, it precipitated a firestorm of condemnation nationwide, revealed local 65 to be a surprisingly potent opponent, and cast divestment plans in doubt.

Overnight, city residents made common cause with the syndicate. In solidarity with the miners, the Cananean Feminine Solidarity Front supplied picketing miners with foodstuffs and functioned as the union's direct-action political wing. More sheltered from repression because of its members' gender, the front blocked city streets, occupied the Ministry of Finance building, and kept officials from dispensing severance payments to fired miners.

Beyond Cananea, the union quickly forged important alliances with Sonorans of various stripes. The University of Sonora at Hermosillo provided miners office space, legal counsel, and accounting services to fight the bankruptcy in federal court. Regional unions backed local 65. The Archbishop of Sonora, Carlos Quintero, cloaked the workers' struggle with the church's own moral authority. Quintero led a protest march through downtown Cananea, absolved the miners of any responsibility in the company's demise, and demanded the immediate withdrawal of military forces.

With the strike option now moot, the syndicate forged an astute resistance strategy to counter the state's offensive and protect its interests. It touted Cananea's nationalist and revolutionary lore; rejected the legality of the bankruptcy, contract termination, and worker liquidations; worked within the framework of the law; and maintained ties with the union's national (albeit ineffective) leadership in Mexico City. This approach, both pragmatic and strategic, reflected a political savvy on labor's part that conventional notions of labor weakness often ignore. Its pragmatic aspect was the frank assessment of what was possible under a state of military siege; workers had little to gain in confronting armed troops and much to lose if they pressed their case outside legal, moral, and nationalist parameters. Its strategic aspect was the recognition that only the collective contract and affiliation with the national mining and metalworkers' union stood between local 65 and legal extinction, a point the Aeroméxico precedent drove home forcefully.
While miners pressed forward along these lines, at the national level, Cananea’s historical symbolism and the government’s seeming overkill elicited a groundswell of support for them. Across Mexico, public opinion sided with labor; efforts to confine the bankruptcy to economic issues proved futile, and critics pointed out legal inconsistencies surrounding the quiebra with devastating effectiveness. To cite just one example, the company’s own balance sheet refuted the insolvency claim. In 1988, CMC’s net profit was almost $75 million, productivity had risen dramatically over 1987 levels, and the corporation was current on all debt payments when the bankruptcy occurred (*El Financiero* 1989). The administration’s critics used such discrepancies to excoriate Salinas, declaring that his actions could “not withstand even minor analysis” (Acosta 1989, 12).

The bankruptcy’s political aspects quickly overshadowed the administration’s “strictly economic” arguments. While the Salinas government endured the criticism, labor leaders petitioned the court to declare the bankruptcy illegal on procedural grounds. When this failed, they still refused to capitulate; the union agreed to discuss job liquidations, but only in terms of the now-defunct collective contract, not the letter of the Federal Labor Law.

As the conflict dragged on, the administration gradually recognized the enormity of its miscalculations. It had completely misread public opinion, underestimated labor’s resilience, and stumbled over its own sophistries. Reformers now understood that to reopen CMC (and eventually sell it) required the active cooperation of Cananeans, and that to secure this cooperation the government had to moderate its hardline, reach an accommodation with labor, and offer miners some unplanned compensation for the costs of policy change (Ramirez 1994, 33).

Shaken by the bankruptcy’s fallout, President Salinas extended the first olive branch to labor on September 11, during a public address in Puebla. Conceding that the affair had been poorly managed, he insisted that the government had no wish to “punish” labor (*Business International Corp.* 1990, 65). He pledged to reopen the mine as soon as possible and to provide employment for laid-off workers, and he offered local 65 a 25 percent equity stake in the newly privatized firm.

These concessions cracked the government’s initial position but failed to compensate for the one cost labor deemed completely unacceptable, the abrogation of its contract. FINASA still determined to liquidate workers according to the labor code (not the contract) and to reopen Cananea with a completely new labor agreement. The union, however, refused to discuss liquidations in any context other than the contract, and the community displayed complete solidarity with the miners’ demands. This left the state only two options to advance the divestment process: stay the course and try to break community soli-
arity and labor via attrition, or concede to the syndicate and provide severance pay according to the labor contract.

In short order, however, the bankruptcy had generated such severe economic dislocations that the first option became moot. With the mine's shutdown, Cananea's local economy plunged. In the first week alone, citywide sales dropped 75 percent; and by the middle of the second week, the state chamber of commerce reported a 90 percent falloff (*El Sonorense* 1989a, b). These multiplier effects generated strong incentives to reopen the mine quickly and expedite its privatization. Convinced that a successful divestment hinged on a reconciliation with workers and city residents, President Salinas finally countermanded FINASA's directive and ordered that the workers be compensated according to their contract.

With this last concession secured, local 65 avoided the fate of Aeroméxico's groundworkers, and discharged workers received the severance compensation specified in the old contract. Labor and FINASA then hammered out the details of contract revisions, reaching final agreement on October 11. The settlement modified 18 clauses in the original contract and was approved by union rank and file on October 19 (Secretaría del Trabajo y Previsión Social, 1989). Cananea resumed operations on November 7, 1988; bidding reopened the following June; and on August 27, 1989, the government finally sold CMC to Grupo Minera México for $475 million.

As this analysis illustrates, the Cananea case provides a useful corrective to the conventional "Salinas image." It illustrates, first, the limits of pure presidential power arguments; even an extraordinary display of power (a literal military siege of the mine's facilities) failed to implement divestment along the lines Salinas originally preferred. Second, it demonstrates the government's profound lack of foresight. The administration badly misjudged the politics of divestment, public reaction to its behavior, and its capacity to control subsequent political events. Third, it suggests that "union weakness" explains less in terms of outcomes than might be expected. Labor not only stood firm in the face of state power but demonstrated surprising political skill and resilience in what seemed a highly asymmetrical test of wills. Divestment ultimately occurred, but only after a chastened government bent at least somewhat toward labor.

Cananea marked the second time in less than two years that a major PE had gone bust before privatization; and the struggle between reformers and labor taught both camps important lessons that helped redefine their approach to divestiture. The bankruptcy's political fallout taught reformers the limits of the bankruptcy device. The government had expended a sizable chunk of political capital pursuing a hardline stance, only to see divestment delayed and be forced to compensate mineworkers to effect privatization (Corro 1989, 8). While the Salinas
administration would privatize other large PEs with entrenched unions (steel, telecommunications, fertilizers), no firm subsequently was bankrupted to effect its divestment.

Labor, meanwhile, learned that when it came to privatization, even the threat of a strike placed workers on thin ice. After Cananea, public sector unions reluctantly, but increasingly elected to negotiate (not oppose) work force reductions and contract revisions; and the government often met them halfway. When Mexico's privatizers turned to the public steelworks, therefore, they pushed hard for labor concessions, but ultimately chose to compensate steelworkers for the costs of restructuring, rather than to simply impose them with a heavy hand.

**Privatizing Sicartsa**

In November 1991 the Mexican government sold its national steelworks, the Siderúrgica Lázaro Cárdenas-Las Truchas (SICARTSA), based in the Pacific coast city of Lázaro Cárdenas, Michoacán. As with earlier divestments, unionized labor bore unwanted costs under the reform: various contract benefits, more than 1,100 jobs in the 1989 restructuring that preceded the sale, and 1,700 more jobs in the divestment itself. Beyond this superficial similarity, however, SICARTSA marked a major departure from the earlier large-scale privatizations, most prominently in the pattern of policy implementation: divestment was conducted without bankruptcy or union busting. This outcome is all the more striking because SICARTSA seemed the perfect bankruptcy candidate. It was enormously inefficient, it was chronically in debt, and its union displayed strong antipathy toward the downsizing and contract revisions that reformers favored to effect privatization.

For reasons beyond this study's scope, SICARTSA's steelworkers' union lacked many of the power resources that Cananea's miners had employed so effectively. But the outcome of the divestment struggle here did not hinge solely on labor's relative weakness; lessons drawn from past state-labor interaction were important, too. Although steelworkers contested the costs of policy change, they feared that strict intransigence would risk a coercive state response and heavy costs to the union. Though tempted to employ pure hardball tactics, state reformers ultimately deferred this approach as the costs of coercion became clearer. Thus, after a season of fruitless negotiations brought SICARTSA to the brink of bankruptcy, in the end both camps pulled back.

In the 1980s, SICARTSA ranked as Mexico's second-largest integrated steelworks. Along with other steel operations (Fundidora de Monterrey, which was closed in 1986, and Altos Hornos de México), SICARTSA formed Mexico's public steel conglomerate, SIDERMEX. In contrast to Aeroméxico and Cananea, the state owned SICARTSA from
the beginning. The government first incorporated the firm in 1969 and borrowed extensively to finance its construction.

As a cornerstone of Mexico's statist model, the government pumped billions of dollars into its public steel firms to promote industrialization, regional development, and job creation. Throughout the 1980s, however, SICARTSA faced continual financial crises. Between 1981 and 1985, its total factor productivity (that is, output, labor, and capital) declined 25.4 percent per year (Guzmán Chávez 1990). Despite significant restructuring at mid-decade, its ledgers consistently ran red: annual subsidies averaged over 25 percent of total revenues; operating deficits ballooned; and by 1986, debt totaled $1.143 billion (Salinas de Gortari 1993; Villarreal 1990, 265). By 1989, SICARTSA's situation had worsened: a $14.8 million operating deficit remained after interest payments, the firm required hundreds of millions of dollars to complete plant modernizations, and the federal government was poised to assume $1.4 billion of corporate debt the following year. To reformers in the new Salinas government, divesting SICARTSA became a high priority, and the government announced the proposed sale in March 1990.

To expedite the initiative, in September 1990 the administration transferred legal control of the firm from the Ministry of Mines, Energy, and Parastatals to the Ministry of Finance (Notedades 1990). This made then–finance minister Pedro Aspe SICARTSA's new CEO and placed the entire sales process under his supervision. To simplify divestiture and to provide potential buyers smaller, more affordable sales packages, Aspe split SICARTSA into two distinct corporations (SICARTSA and SIBALSA, Siderúrgica de Balsas). But even these inducements, the administration reasoned, might fail to attract buyers without significant contract modifications to reduce labor costs. As one official intimately involved in the process explained, "No one would have bought [the steel firms] in the state they were in" (Financial Times 1991).

Contract negotiations between the state and local 271 of STMMMMRM, the same union that represented Cananea's mineworkers, began in May 1991. To the steelworkers, management's proposals seemed severe. The costs in terms of jobs and job security (subcontracting and a substantial reduction in job categories) were enormous; yet, considering Aeroméxico's and Cananea's fate, a strike seemed untenable. Stopping just short of that, in September workers voted overwhelmingly to reject management's offer, and a season of brinkmanship followed.

Shrugging off appeals to accept management's offer, local 271 sent a delegation to Mexico City to negotiate directly with Aspe. Instead of receiving the delegates and seeking accommodation, however, Aspe held out for concessions, hinted at bankruptcy, and insisted that dramatic cuts were essential to keep SICARTSA solvent. Returning empty-handed to Michoacán, the delegates tried to call the government's bluff. "We
have made our decision," they proclaimed; now "the government will decide if the company closes or not" (Voz de Michoacán 1991c). All signs now pointed toward bankruptcy, an outcome neither camp preferred.

For the state, bankruptcy posed critical problems. Plant operations would cease, perhaps for months, until SICARTSA could be reopened with a new contract. In the meantime, routine maintenance would stop and equipment depreciate at the very time officials needed a high appraisal value to attract investors. Reformers, furthermore, were sensitive to sparking "another Cananea," in which the bankruptcy squandered enormous political capital, crippled the local economy, and forced the government into an abrupt about-face (Corro 1989, 8). Already agitated over a bankruptcy's multiplier effect, Michoacán's private sector implored policymakers to consider regional issues on a parallel with their privatization goals (Voz de Michoacán 1991b).

This cost structure weighed heavily on policymakers directly involved in SICARTSA's privatization. As one key participant explained, the stakes were such that the entire episode required "great care"; his hope was to "maximize social welfare" via privatization, "not destroy productive and social capital" (Ministry of Finance 2001). In light of these goals and past experience, therefore—but contrary to the views of some officials who preferred a "Cananea solution" (that is, bankruptcy)—this official devised a compensation package to broker a compromise with labor and help offset the impact of any layoffs (Ministry of Finance 2001).

The new plan would cut the number of job categories in labor's contract, permit third-party subcontracting, and eliminate 1,700 jobs. But the remaining workers would receive a 12 percent pay raise, and the state would compensate those discharged with a generous severance package. To sweeten the pot further, the federal government promised to furnish the city of Lázaro Cárdenas $26 million to provide more jobs, job training, and additional public services (Cantú 1992).

This final offer put labor on the spot. Brinkmanship had not altered the government's position on layoffs or contract revisions, and if SICARTSA went bust, local 271—like Aeroméxico's groundworkers—would be crushed. In light of this cost profile, the syndicate revised its tactics. Jobs and the collective contract remained its primary interests, but further resistance or a strike held little promise of securing them. Accordingly, explained executive committee member Rone Mercado, the time had come to "seek the best possible arrangement for labor" rather than continue to resist (quoted in Carlsen 1991, 17). Other local 271 leaders agreed: to change engagement tactics, concluded Secretary-General Ricardo Medina González, was essential if steelworkers were "to avoid greater conflicts" even more damaging to labor interests (Voz de Michoacán 1991a).
In late September 1991, therefore, the rank and file accepted the government’s compensation package, and with labor issues resolved, the divestment proceeded rapidly. The Finance Ministry opened the bidding process on October 14. On November 22 it awarded SICARTSA to a Mexican conglomerate, Grupo Villacero, for $170 million; SIBALSA went to the Indian firm Caribbean ISPAT for $220 million. For steelworkers the outcome was better than it could have been but less than they hoped. Nevertheless, when weighed against the payoff structures of continued resistance (the high costs of union deregistration or legal prosecutions), it represented the best settlement possible under the circumstances.

SICARTSA’s divestment demonstrates that while state-labor conflicts remained central to large, industrial privatizations in Mexico, the protagonists’ political strategies changed markedly between 1989 and 1991. Although the Salinas administration flirted with bankruptcy (and by extension, union busting), in the end it pursued divestment by first compensating steelworkers before employing more drastic measures, the exact opposite of Cananea. Meanwhile, rather than strike, labor elected to negotiate, compromise, and somewhat alter its goals, evidence of both the simple and complex strands of learning previously described.

For both camps, learning to cooperate was a difficult, nonlinear process that required mutual concessions to avoid unwanted costs. But pursuant to self-interest, both camps modified their engagement tactics in ways that proved mutually (though not equally) beneficial and ultimately conducive to settlement. Several less-prominent divestments that followed exhibited similar patterns. In 1992, for example, the government divested the road construction firm Concarril and auctioned off the 12 fertilizer plants that made up the FERTIMEX corporation. As with SICARTSA, in these cases the administration achieved its goals through hard bargaining, contract revisions, and compensation, not bankruptcy. The privatization of Mexico’s government telephone company, however, provides one of the clearest examples of how lessons learned from past state-labor interaction influenced subsequent divestment outcomes.

**Another Example: Telefonos de Mexico**

In September 1989, one month after the Cananea debacle, the Salinas administration announced its intent to divest the government phone monopoly, Teléfonos de México (TELMEX). Throughout the 1980s, the company’s service had deteriorated badly while its work force had ballooned (*La Jornada* 1989). By 1988 TELMEX lagged far behind international technological standards, had an installed capacity of only 5 phonesets per 100 people, faced a backlog of 1.5 million orders, and had seen its work force grow by 20,000 since 1981. Meanwhile, the labor contract then in force gave workers an 18 percent pay hike and
contained more than 580 distinct job categories (Botelho and Addis 1997). After a season of tough bargaining with the Union of Telephone Workers of the Mexican Republic (STRM), the government divested TELMEX in December 1990.

Yet instead of opposing divestment, the STRM supported the government's move and negotiated new labor-management relations to facilitate it. In 1989, for example, the syndicate negotiated contract revisions to promote the firm's technological modernization, reduce the number of job categories (from 585 to 41), and introduce greater flexibility into work force patterns. The agreement, however, also preserved a number of contract clauses and prohibited worker layoffs (De la Garza Toledo 1989). The STRM, moreover, actively participated in the TELMEX privatization negotiations. The final agreement banned divestment-related layoffs; it also allowed the union to purchase several million dollars' worth of equity in the newly privatized firm, financed largely by a government-guaranteed, low-interest, $352 million loan.

For labor, this unusual mix of costs and benefits distinguishes the TELMEX outcome from those already discussed. Among its most striking features, notes De la Garza Toledo (1989, 56), was that divestiture proceeded "without grave conflicts, without a 'defeat' of the syndicate or its replacement by another (as in Aeroméxico), without a savage mutilation of the collective contract (as in Aeroméxico where the very foundations of the contract were changed) [and] without bankrupting the company as in other cases."

One reason for this unusual outcome was Salinas's desire to create a "new unionism" more amenable to his economic project (Samstad and Collier 1995). During the 1988 presidential campaign, candidate Salinas and STRM president Francisco Hernández Juárez talked privately about the prospects of modernizing TELMEX. In early 1989, President Salinas began to court Hernández Juárez aggressively. This courtship produced an alliance of convenience. Salinas promised presidential protection to the phoneworkers' union in exchange for supporting the modernization of TELMEX. Hernández Juárez, meanwhile, sought more national prominence in labor politics (Solís 1992, 61), and with Salinas's backing, he founded the Federation of Goods and Services Unions (FESEBES) to challenge Mexico's reigning labor heavyweight, the CTM. Hernández Juárez lobbied STRM rank and file to support the TELMEX privatization; Salinas hailed the phone workers' union as the vanguard of a new state-labor relationship and encouraged other unions to follow the STRM's and FESEBES's proreform lead (Clifton 2000).

TELMEX, then, was "different," and its divestment exhibited cooperative state-labor engagement, partly because cooperation served the political interests of the two principal actors. At the same time, the lessons drawn from prior divestment struggles still played a crucial role. For
example, only a week after Aeroméxico’s stunning bankruptcy and well before Salinas’s overtures, Hernández Juárez drew a very logical implication for his union, noting that “the same thing that happened to Aeroméxico’s workers could at any moment happen to us” (El Norte 1988). This, of course, was exactly the signal reformers intended to send. That Hernández Juárez interpreted that signal correctly a full year before committing to Salinas’s “new unionism” indicates that important learning dynamics, not simply political opportunism, informed his subsequent engagement tactics with the state. Hernández Juárez himself stated as much: negotiating the TELMEX sale directly with the state, he explained, at least gave labor a voice in its own future and preserved a measure of union interests, a situation far preferable to waking one morning and learning that “the company has already been closed, declared bankrupt, or already sold, and we are liquidated” (quoted in Corro 1989, 9).

Hernández Juárez, indirectly, also taught the government a few lessons. The administration initially believed that an “Aeroméxico” strategy would be viable with TELMEX. Indeed, while he hoped to elicit labor’s cooperation in privatizing the firm, Salinas entertained the idea of divesting TELMEX via bankruptcy and union busting as late as March 1989, largely to provide a clean slate on which to write a less generous, more flexible labor contract, enticing to buyers (AP 1989). Hernández Juárez’s decision to negotiate reforms rather than oppose them, however, altered the value perceived in this strategy and thus, government behavior. As the possibilities of effecting divestment noncoercively were realized, the administration pursued this course (no doubt, the fallout from employing hardline tactics at Cananea that summer further diminished the allure of this approach). Thus, past experience and new information influenced state-labor engagement in subtle but important ways that ultimately induced more cooperative interaction.

**Conclusions**

This article has argued that learning dynamics played an important role in the aggregate outcome of Mexico’s privatization project. Through repeated interaction, both the state and labor gained greater appreciation of the payoffs attached to specific engagement tactics and developed patterns of interaction conducive to their mutual benefit. The state managed to realize its divestment goals, while labor preserved elements of its contract or gained additional compensation. In explaining Mexico’s privatization success, this argument helps fill some of the theoretical and empirical gaps in the “Salinas image.” Even so, it is worth pondering some alternative hypotheses for these outcomes.

Beginning with labor, one line of thought might suggest that distinct patterns of union behavior were more products of different unions’
sectoral positions than of any learning experience. In general, sectoral analysis holds that market niche, production capacity, revenue opportunities, organizational features, and other factors common to specific economic sectors shape the interests of actors engaged in them. This approach has been used to explain the behavior and policy preferences of actors in trade, development, international finance, and labor (Milner 1988; Shafer 1994; Frieden 1991; Howell 1998). By extrapolation, we might posit that unions in sectors that stood to "win" from divestiture would have greater incentives to support it, and vice versa.

In a recent study, however, Murillo (2000) found no appreciable link between unions' sectoral position in Mexico, Argentina, and Venezuela and their response to market reforms like privatization. The evidence presented here, moreover, cautions against such reasoning. Save for TELMEX, divestment imposed unwanted costs on all unions regardless of sector; there were no "winners" in these cases. In light of the documented impact Aeroméxico's bankruptcy had on the STRM's strategies, furthermore, even TELMEX provides only limited support.

Moving from labor to the state, a second possibility is that labor's capacity to extract compensation from the government (that is, change state behavior) is explained better by the varying power resources these syndicates enjoyed than by whatever "lessons" the government learned. This proposition's appeal lies precisely in the greater resource base to which some unions had access. Consistent with Mexico-specific and more general power-resource arguments about state policy (Brache- Márquez 1994, 8; Esping-Andersen 1990; Huber et al. 1993), this notion suggests that stronger unions would be better positioned to secure concessions than weak ones. In the cases examined here, however, the evidence suggests otherwise: both CMC's "strong" union and SICARTSA's "weaker" one obtained noncontractual compensation. Reformers' actions were influenced both by the lessons of Cananea and the new information they acquired as the SICARTSA divestment struggle unfolded.

A third line of reasoning might explain changes in government engagement tactics with reference to the relative economic prosperity the state enjoyed. From this perspective, the stronger the state's economic position (measured in macroeconomic terms), the more likely it could be to absorb the costs of compensating labor opponents; the weaker the state's economic position, the more likely it might be to employ coercion to effect policy change. Macroeconomic data, however, undercut this notion, too. Whereas Mexico's dismal 1988 GDP growth of 1.3 percent might explain the state's strongarm divestment tactics at Aeroméxico, it does not explain why Salinas lowered the boom on Cananea despite a sharp economic rebound in 1989 (GDP 3.3 percent). More important, during the time the state was providing unions with compensation, the GDP was on the decline. Between 1990 and 1991 it dropped nearly a full
percentage point (4.5 to 3.6 percent) and thereafter spiraled downward (2.8 percent in 1992, 0.6 percent in 1993) (Lustig 1998, 41). In short, the government's engagement tactics were inconsistent with those anticipated by economic prosperity arguments.

Evidence from these privatization case studies suggests that the "Salinas image" provides only a partial account of the divestment outcomes. To be sure, concentrated authority, autonomy, and a technocratic "change team" helped policymakers control the agenda, ensure congressional compliance, and maintain an exploitable tension between labor's national leadership and local affiliate (thereby weakening the latter).

Nevertheless, the distinct dynamics, opportunities, and constraints of each divestment initiative limited the fungibility of government resources. Indeed, coercive power proved to be a two-edged sword. In Aeroméxico's case, it permitted the government to advance reform expeditiously and reap public acclaim; in Cananea's case it squandered the government's political capital and unleashed a popular backlash that only delayed reform. Moreover, despite labor's apparent weakness, the ultimate outcome of divestment struggles (whether more favorable to unions or less) did not rest solely on the endowment of tangible "power resources"; intangibles like political skill made a big difference, even for syndicates in a relatively strong position like Cananea's local 65.

More than prior research would suggest, the lessons gained through successive divestment cases proved consequential. For their part, state officials gradually learned how to manage the government's stock of political capital. As Ardito-Barletta observes, this stock "can be maintained, spent, or increased during the life of that government"; and in the course of reform, "the government constantly needs to reevaluate how its policies and actions affect the stock of political capital, which it needs to govern effectively" (1994, 460). Through trial and error, the Salinas government ultimately did just that. The Cananea fiasco taught the administration the "limits of power" and the folly of depleting its political capital simply by imposing the costs of reform; thereafter, compensating opponents increasingly displaced blunt coercion. Similarly, labor learned to moderate its actions and adjust its core goals.

As actors altered their behavior in light of past experience, the intensity of these contests declined, and more cooperative interaction ensued, conducive to significant and ultimately less disruptive public sector downsizing. In the process, Salinas's public approval ratings, like those of divestiture itself, grew, and so, by extension, did the government's political capital (see table 2).

This analysis also holds implications for other governments seeking to navigate the transition from statist to more market-oriented development models. Most reformers believe that their agenda will distribute widespread benefits throughout society in the long term. In the short term,
Table 2. Public Support of the Mexican President and Privatization Policies

<table>
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<th>1988</th>
<th>1991</th>
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<tbody>
<tr>
<td>Percentage approving of Carlos Salinas de Gortari</td>
<td>59</td>
<td>83.0</td>
</tr>
<tr>
<td>Percentage approving of privatization</td>
<td>44</td>
<td>60.6</td>
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Source: Domínguez and McCann 1996, 63, 133.

however, they recognize that it imposes penalties on concentrated groups of “losers.” A prominent problem reformers face in advancing their programs, then, is opposition from current policy beneficiaries. Compensating losers for some of the costs of policy change can help mitigate opposition and thus facilitate reform. But this approach is not without critics.

Some analysts look askance at compensation schemes, deeming them economically inefficient buyouts of reform opponents that undercut the basic goals of reform. Compensation measures of various stripes (that is, direct side payments, generous severance packages, ancillary retraining, or job creation programs) can create artificial winners in the reform process, limit a government’s capacity to balance the national ledger, expand the bureaucracy contrary to downsizing objectives, or distort efficient market operations (Haggard and Webb 1994, 23–25). In strict economic terms, of course, such critiques are valid. Nevertheless, as the Mexican case illustrates, divestment and market reforms in general are inherently political processes pursued in highly political climates, not the idealized, apolitical world of textbook economics.

If politics remains the art of the possible and largely determines “who gets what,” market reforms can hardly escape the impact of political variables. Indeed, as Corrales (2000) has shown, political imperatives that ensured some measure of economic inefficiency were a basic feature of all successful market transitions throughout Latin America. For practitioners, one of the central lessons Mexico teaches is the political value of compensation: by conserving a government’s political capital, it can bolster a reform project’s overall credibility and permit reformist governments to reap the benefits of reforms while retaining their governing capacity.

Finally, this article parts company somewhat with other learning arguments of Mexican reforms which treat the state—not the state-labor dyad presented here—as the principal unit of analysis. Some analysts, for example, have explained Mexico’s impressive divestment record with implicit reference to the “policy learning” schema developed by Hugh Heclo (1974). Reflecting on the course of social policy change in Western Europe, Heclo described a process whereby state decision-makers in Britain and Sweden adapted their social welfare initiatives to changing social forces, past policy measures, and new information.
Heclo's approach confined the learning process itself largely to the state; and while other theorists later extended his concept to nonstate actors (Mitchell 1991), studies of Mexican divestiture and market reforms have been slow to incorporate this insight systematically into their analysis.

Thus, various authors attribute the ultimate outcome of Mexico's privatization experiment primarily to Hecloean learning dynamics (Bázdresch P. and Elizondo 1993; Córdoba 1994, 247; Harberger 1993). The general argument is that through trial and error, the government managed to move from smaller to larger firms by scrutinizing its failures, refining its techniques, strengthening its administrative capacity, and gaining experience in doing something quite novel: evaluating and selling PEs rather than creating and managing them.

No doubt, such learning occurred. But examining the interactive learning process revealed in the state-labor dyad confirms that another type of learning did, too, both inside the government and in organized labor. Through repeated interaction, cooperation replaced implacable conflict, zero-sum struggles gave way to more positive-sum contests (with the potential for mutual, albeit asymmetrical benefits), and political outcomes were increasingly determined by accommodation rather than efforts to completely subjugate reform opponents.

These factors hold relevance to Mexico's future. Given the PRI's historic defeat in July 2000 and the sea change among central political actors, conflict over various policy and political matters is inevitable. The learning dynamics examined here, however, suggest that despite setbacks or occasional gridlock, labor unions, political parties, and the new administration of Vicente Fox can still develop cooperative relations through repeated engagement. This prospect bodes well for the future of Mexican democracy.

Notes

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1. Brachet-Márquez contends that the prevailing view of a labor movement completely dominated by the Mexican state is historically inaccurate. Though labor was subordinate to state elites, she argues, unions retained effective agency; and at critical junctures, they managed to win concessions and social reforms from the state. In the process, labor altered the terms of an enduring but somewhat pliable "pact of domination."
2. In addition to these factors, throughout the 1980s the twin punch of economic crisis and policy adjustments (furloughs, plant closings) progressively degraded unions' political, material, and organizational strength.

3. Later members included the Ministries of Labor, Commerce, and Social Development, plus the comptroller general.

4. The termination of its contract stripped the SNTTAM of all juridical rights and essentially deregistered the syndicate as a legal union. Since ASSA maintained a legal contract with Aeroméxico's other carrier, Mexicana, it avoided this fate. The pilots' union, meanwhile, was protected under its covert arrangement with the government.

5. Almost anyone who had flown Aeroméxico knew of the carrier’s shortcomings: delayed or canceled departures, chronically late arrivals, lost luggage, and so on. Those with no personal experience (the vast majority of Mexicans) accepted the government's contention that “privileged” groups (labor) had abused their positions to extract personal benefits from the nation's airline, deliver poor service in return, then shift the costs of inefficiency onto the public.

6. Grupo Protexa, an industrial manufacturing conglomerate, won the first round of bidding in April 1988, but the deal collapsed the next month when the First National Bank of Chicago withdrew its pledge to help fund the purchase. In September 1988 NAFINSA opened a second round, but this time the bids fell well below Cananea’s reference price, $910 million, and were rejected as "economically insufficient." On November 8, NAFINSA declared the competition void (El Financiero 1988; El Universal 1988).

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