

# Institutional solutions to economic problems in Mexico: 1987-1997

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## Resumen:

El autor efectúa un análisis respecto al manejo de la crisis económica vivida en México durante ese periodo, y cómo las acciones emprendidas por los actores relevantes: el gobierno, el empresariado y las organizaciones de la clase trabajadora, han permitido el reforzamiento de las instituciones y la generación de espacios permanentes de diálogo y de generación de compromisos tripartitos, lo que ha permitido generar estabilidad económica y fortalecer la institucionalidad democrática.

Palabras clave: Política Económica. Negociación. Crisis Económica.

The restructuring of the Mexican economy started back in 1982, when President Miguel de la Madrid (1982-1988) faced the worst economic crisis in modern Mexican history. Inflation, negative economic growth, a huge foreign debt, a drop in oil revenues and a conflicting relationship with the business sector, were some of the symptoms of a distressing economic context. The solution to the inflation problem and the creation of a path towards economic recovery came late in the government of De la Madrid, and was achieved by the establishment of a series of tripartite agreements between the government, labor and the business sector in December 1987.

The Economic Solidarity Pact (PSE), and subsequent economic pacts, controlled inflation and restructured the economy through the development of an

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heterodox economic strategy that brought together income policies, fiscal, and monetary policies and a process of trade liberalization. (See Table I).

Between 1987 and 1997, the governments of Miguel de la Madrid, Carlos Salinas de Gortari (1988 - 1994) and Ernesto Zedillo (1994 - 2000) used the pacts to secure the support of business and labor organizations for the stabilization and reform of the economy. The use of tripartite agreements to foster cooperation in an authoritarian government was a distinctive characteristic of the Institutional Revolutionary Party (PRI) governments and helped achieve economic governance without the open use of mechanisms of coercion.

This article seeks to explore the following questions: what factors explain the capacity of PRI governments to develop the tripartite agreements that brought economic stability and are the basis for the economic liberalization experienced in 1980's and 1990's? What elements account for business and labor preference for corporatist negotiation between 1987 and 1997?

By looking at the role of institutions in shaping preferences for tripartite negotiations, the objective of this work is to analyze the building of the Economic Pacts and its impact on the stabilization and the reform of the Mexican economy. A distinctive characteristics of the Mexican authoritarian political system under the control of the PRI was the used of cooperative mechanism to foster cooperation in order to helped achieve economic governance.

## **Theoretical Approaches to Tripartite Concertation and Economic Reform**

Theoretical explanations of corporatist politics and economic reform in Mexico have generally taken both a state-centered and an interest-based approach to the process of political negotiation and economic reform.

State-centered approaches were common in the study of Mexican politics because many analysts assumed that the Mexican regime fit Schmitter's definition of state corporatism. (Schmitter, 1974) Analysts believed the State had the capacity to organize and control societal actors' policy preferences.<sup>2</sup>

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<sup>2</sup> Guillermo O'Donnell (1977) also suggested it was possible to distinguish two types of corporatist: 1) *estatizante* ("statizing"), which consisted the subordination of societal actors to the state, and, 2) *privatista* ("privatist"), which entailed the "opening of institutional areas of the state to the representation of organized interests of civil society" (p.48). For works on Mexican corporatism see Bizberg, (1990); León (1991), Luna, (1987).

Studies on structural adjustment, for their part, stressed the role of the state elite's autonomy and their institutional capacities to outweigh opposition to liberalization (Schamis, 1999:237).<sup>3</sup>

However, the use of a state-centered approach to the study of corporatist politics and economic reform has some theoretical limitations. First, the concept of "state corporatism" does not explain relational properties, although autonomy and capacity are both relational concepts. Thus, autonomy cannot be taken as a given, as many scholars assumed. Second, it is difficult to clearly establish the borderline between state and society; these boundaries are elusive (Mitchell, 1991, 91). Scholars that used the notion of state corporatism in Mexican politics have been unable to explain the permanence of corporatist institutions during the State retrenchment and in the transition to democracy. Furthermore, as seen in this study, corporatist institutions were a key piece of the puzzling smooth economic reform process in Mexico.

Interest-based perspectives also had a strong influence over the studies of corporatism and economic adjustment. Many analysts explained political preferences for tripartite political arrangements and economic reform policies solely as a result of the material interest of workers, business, or state elite's.<sup>4</sup> The assumption made was that policy preferences were derived from the economic interests of individuals and that the state controlled these preferences through a system of inducement and constraints.<sup>5</sup>

A consequence of this economic functionalist approach was the belief that economic policy operates only as a response to economic change. This is particularly so in studies on corporatism and analysis on economic adjustments and reform developed at the end of the 1980s. On the one hand, scholars of corporatism hold the incompatibility between a free market model open to economic competition, and the patrimonial, vertical political relations, derived from corporatist politics.<sup>6</sup> On the other hand, studies on adjustment strategies

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<sup>3</sup> See Danel Janet (1988), De la Garza and Rhi Sausi,(1985), De la Garza, Enrique, (1989).

<sup>4</sup> I believe that, at times, the inability of interest-based approaches to spell out timing, variation, preference change and institution formation, pressured scholars to developed *ad hoc* explanations. Although the Mexican regime was authoritarian, the most common *ad hoc* variable for explaining outcomes that did not follow the internal logic of the interest-based approaches was the authoritarian variable. Scholars believed that account in questions like the timing, preference change, variations and institution building was the result of the state's capacity to control all political and economic interests in the country.

<sup>5</sup> See Bizberg, (1990<sup>a</sup> 1990b ); Kaufman Bazdresch and Heredia, (1993), Valdés (1997).

<sup>6</sup> See Aguilar Camín, (1989); Bizberg, (1990<sup>a</sup>, 1990b))Luna (1987), Meyer (1989) Sánchez Susarrey (1988).

argued that economic interests move political actors, thus actors' interests change politics. It seems that only electoral politics were considered by scholars of the political economy as a constraint to economic actors' capacities for defining policy choices.<sup>7</sup> Consequently, these kinds of approaches have been unable to explain choice. In particular, these approaches do not explain 1) conflicts between the strategies and interests of worker, business organizations and state actors, and 2) the coexistence of free market policies with vertical political relations derived from corporatist politics.

The materialist perspective suffers from an inadequate consideration of institutions in the explanation of policy preference development. Additionally, most theoretical approaches on Mexican corporatism and adjustment strategies have followed the materialistic perspective. Studies have failed to penetrate on the mechanisms of institution building for cooperation or to fully understand the institutional forms to solve collective action problems in times of economic change.

Studies that explain state corporatism and the politics of economic reform in Mexico have taken the interests' portion of the formula as the driving force of political action. This analytical stand believes that political behavior can be easily deduced from the economic interest of individuals or the market power of collective actors<sup>8</sup> (Garret and Lange: 1996:49; Martin, 2000:27). In other words, it is presumed that preferences for policy strategies can essentially be inferred from the material conditions of the firm, industry, workers or unions (Martin, 1995; Murillo, 2000).

Although interests have an important impact on actors' choices for economic policy and strategies, preference for concertation is not simply a matter of material interests. Demand-driven factors for preference formation cannot fully explain how actors make choices, why actors change their preferences, and what the origins of institutions are. These theoretical approaches also fall short of explaining the timing of policy preference change, nor do these frameworks fully consider institution building. Furthermore, interest-based explanations cannot fully account for the case of the Economic Pacts in Mexico, their timing, variation and institutional development.

This study seeks to overcome these limitations by looking at the role of institutions, ideas and its interaction between interest in the making of economic policy in Mexico. By looking at the institutional context, this study will contemplate the micro-foundation of policy choices for concerted

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<sup>7</sup> See Cook, Middlebrook and Molinar (1994). Smith, Acuña and Gamarra (1994).

<sup>8</sup> See Frieden and Rogowski, (1996).

agreements. This analysis is theoretically based in what has been called historical institutionalism because it is interested in looking at how institutional configurations shape political interactions (Steinmo, Thelen, Longstreth, 1992) or, in the words of Kranser, how "...preferences are developed through involvement in political activity which is structured by institutional arrangements" (Kranser, 1989:77).

### **Crisis and the Reform of the Mexican Economy**

When Miguel de la Madrid became President of Mexico his biggest challenge, and that of the regime, was the rebuilding of an economy in a context of limited resources. The inability to continue paying the external debt, along with the expropriation of the private banks, created a climate of animosity against the Mexican government from the international and domestic businesses. To re-establish economic stability and growth De la Madrid moved towards the deep restructuring of the economy and politics.

Access to key resources to keep the economy running was an important constraint for the spectrum of policy choices for the Mexican government. De la Madrid's administration believed in the need for a shift from the inward-looking development strategy to a process of market liberalization (Córdoba, 1993; Lustig, 1989)

The export-led strategy incorporated the business sector as a key actor. Thus, the traditional regime alliance had to suffer a significant transformation and the building of a financial-big business-government technocrats coalition took place.<sup>9</sup>

The discretionary power of the Mexican presidency and its control over the distribution of material benefits were crucial in the making of a new alliance (Heredia, 1994: 21). The first set of actions of the government of De La Madrid were the rebuilding of a broken relationship with the business community, which had been seriously affected by the expropriation of private

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<sup>9</sup> It seems that at the beginning of his presidential term de la Madrid was not convinced by the wonders of free market reform nor the notion of narrow participation of the state in the economy. On December 4th 1982 he sent a series of legislative proposals to reform articles 25,26,27,28 and 73 of the Mexican Constitution. The idea was to define the principles that regulate the role of the state in the economy. It proposed a "mixed" economic system in which the private, the social sectors, as well as the state, participate in the economy, and the establishment of a system of state democratic economic planning. However, it appears that de la Madrid gradually abandoned some of these ideas, probably as a result of pressures from the international economic context, and the political alliances behind his project. See Valdés ( 1997:210-211).

bank by President José López Portillo (1976-1982). The first set of government strategies to ease the concerns of the business sector, and show the government's willingness to support business were compensations of former bank owners; the support of non-banking financial intermediaries (brokerage houses), government supports for highly indebted Mexican firms (Elizondo, 1993:9; Hernández, 1990: 746; Garrido and Quintana, 1988: 50). These policies placed former indebted large industrial firms in a position of privilege, and fostered the growth of non-banking financial institutions - brokerage houses. (Elizondo, 1993:9; Garrido and Quintana, 1988:50).<sup>10</sup>

After a sluggish phase of trade liberalization between 1983 and 1985, a major step came when the country formally joined the General Agreement on Tariffs and Trade (GATT) in July 1986. Institutionalizing and speeding-up liberalization helped consolidate a political alliance with the large industrial export sector as the process promoted the interests of large, internationally linked asset holders (Thacker, 1997:23).

The policies that sought to control deficit spending, and a process of free market reform, placed enormous pressures on labor confederations linked to the regime via the PRI, and the small independent unions. During the first year of De la Madrid's administration, the regime managed to secure the support of labor by giving up to labor pressures on minimum wage increases twice a year (Collier, 1992:82 ). Yet, further into De la Madrid's administration, economic modernization demanded austerity measures, the end of many union prerogatives, the reallocation of industries and an introduction of new production technologies (Alvarez, 1991). However, in the context of a serious economic downturn, unions link to the PRI were willing to trade off jobs for wages. On the other hand, the structural weakness of the independent labor movement made it easy for the government to pressured for free market reforms (Middlebrook, 1991:4).<sup>11</sup>

Between mid-1985 and mid-1987 the two attempts made by the government of De la Madrid to stabilized the economy had seriously failed: The Program

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<sup>10</sup> In 1980 commercial banks captured 95% of deposits by 1990 only captured 62%, see Elizondo (1993:9). "From 1983 to 1988(...) the capital assets of brokerage housed grew almost 600 times" (Heredia,1992:17).

<sup>11</sup> During the first two years of de la Madrid administration, the economic policies promoted a mass movement unified by labor coordinating committees and popular organizations. Organizations such as the National Coordinator of Education Workers (CNTE), the National Front for the Defense of Wages and Against Austerity and Price Increases (FND-SCAC), the National Committee for the Defense of the Popular Economy (CNDEP), the National Popular Assembly of Workers and Peasants (ANOCPE) appeared. See Alvarez ,1991.

of Immediate Economic Reorganization (PIRE) and the Program for Encouragement and Growth (PAC). (Aspe, 1993:16-18; Lustig, 1992:43-45).

Things got out of hand in 1987. The October 1987 crash of the New York Stock Exchange impacted in the Mexican stock exchange which dropped 16.5% in just one day, and 26% in five days.<sup>12</sup> Later, the uncertainty created by the crash generated a speculative attack against the peso which in turn produced a major devaluation on November 18, 1987 (Aspe, 1993: 18-19; Lustig, 1992:46). Price increases and the deterioration of the economy brought about increasing tensions between capital and labor, hence, a rapid solution had to be found.

### **Setting the Stage for the Pact: Interests and Institutional Capacities**

Economic uncertainty and inflation were seriously hurting the chances of transforming the Mexican economy, and, furthermore, were hurting the social basis of the new regime alliance, headed by the government technocratic fraction.

The Workers Congress (CT) threatened a general strike to be held on December 18. Although the umbrella labor body, the CT, and the labor confederations were linked to the PRI, the menace of a general strike and the demand by the leader of the Confederation of Mexican Workers (CTM), Fidel Velázquez,<sup>13</sup> of a 46% emergency increase in wages, showed the annoyance of the official labor sector toward the economic policy of the government.<sup>14</sup>

For their part, businesses were concerned with reform and inflation. Inflation was generating high administrative costs and clearly disrupting the possibilities for firms to develop long-term business strategies and planning. For the small and medium firms, labor unrest, increasing social tensions, hyperinflation and economic recession were matters of concern.<sup>15</sup>

Two events in October of 1987 modified much of the context in which the regime had to define its strategy toward the economic crisis and the process

<sup>12</sup> Zuñiga, J. Antonio and Luis Acevedo Pesquera, (1987) "Desplome de las bolsas más grandes del mundo", *Unomásuno*, (October 20) , 1.

<sup>13</sup> Fidel Velázquez comments to the press were unusually strong: "we have come to the limits of our efforts" or "we will not continue making more sacrifices". See *Proceso*, November 30, 1987, p.7

<sup>14</sup> See Latin American Weekly Report, 17 December 1987, p.10.

<sup>15</sup> Interviews with businesses leaders and government officials, Mexico City, January 19, 1996; March 28, 1996; June 10, 1996; June 11, 1996; June 13, 1996; November 6, 1996.

of market liberalization. The first event was the nomination of Carlos Salinas de Gortari, on October 4th, as the PRI candidate for the July 6, 1988 presidential elections. Salinas de Gortari's candidacy signified the triumph of the technocratic faction in government.<sup>16</sup> The second event was the collapse of the Mexican stock market and the peso crisis. The devaluation of the peso fueled negative expectations. Most sectors in the economy made a forward calculus and believed that as the 1988 presidential elections approached, the government had lost the political support necessary for another economic adjustment strategy. This forward looking assessment by businesses and labor triggered inflationary expectations, thus threatening a long awaited market reform and the regime's alliance in and of itself.<sup>17</sup>

Economists in the government, headed by Pedro Aspe, Secretary of Budget and Planning, and under the initiative of PRI's presidential candidate, Carlos Salinas de Gortari and his chief economic advisor, José Córdoba Montoya, developed the plan of a program for a concerted heterodox economic plan, the Economic Solidarity Pact. According to Pedro Aspe the Pact was designed to: 1) correct public finances permanently, 2) restrict monetary policy, 3) correct the wage momentum (ex-ante indexation), 4) agree on prices in leader sectors, 5) liberalize trade, 6) negotiate price leaders (inflation targets are set), and 7) adopt measures for price controls.<sup>18</sup>

The PSE, proposed a "concertation" as the mechanism for the coordination of public tariffs, prices, and wages according to the predicted future evolution of an inflation index built upon a "basic consumption goods basket" (Moreno Brid :327) In other words, contracts were design over a forward-looking calculation of inflation.. Rational actors had information about future inflation; this in turn limited the incentives for increasing the prices of goods as well as the demand for continued increases in salaries. With the alignment of prices and wages the pacts were able to synchronize the contracts, avoid overlapping, and minimize the Olivera-Tanzi effect (contract overlapping).

The policy demands of the proposed economic program, required the government to control the budget, monetary policy, wage policy, prices, and trade liberalization. Clearly, the Mexican government had the institutional capacities to follow the recommendations made by the policy makers as a result of these basic factors: 1) the executive's strong control on economic policy, 2) the government insulation from electoral pressures, 3) the corporatist

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<sup>16</sup> *UnomásUno*, October 5, 1987, p.1

<sup>17</sup> Interview with business leaders, Mexico City, May 20, 1997 and September 23, 1997, March 2, 1998.

<sup>18</sup> *Ibid.* pp. 23-24.

system of state-society relations, and 4) the knowledge built on a legacy of past price controls experiences.

The Mexican Constitution of 1917, in particular the Law on the Executive Attributions on Economic Matters of 1950 (December 30, 1950) had provided the presidency with extensive powers on economic policy. The executive control on: Monetary Policy<sup>19</sup>, international loans, foreign investment, fiscal policy, the introduction of the budget, government expenditures, industrial policy, labor policy and the control on government organisms and state own enterprises (Carpizo, 1978:135-156). Such formal powers were enhanced by, as argued by Weldon (1997) the leadership of the president, and the PRI the control over Congress. Consequently, the Mexican president found itself insulated from electoral pressures, and with extraordinary discretionary power (Carpizo, 1978; Heredia, 1994:9).

The management of income policies demanded not only formal powers, as these were dictated by the Constitution, but the capacity to build consensus. The nature of the corporatist relationship provided the regime with a set of tools that allowed for the concertation and coordination of wages and prices. On the one hand, the historical alliance between labor and the regime gave the president sufficient political capital to demand wage restrictions to the leaders of labor confederations (Burguess, 1997). On the other hand, interest aggregation guaranteed the control of collective action problems and provided a system for coordinating the alignment of prices and wages.

In Mexico, labor and business organizations managed their conflicts and coordinated their actions with the government. The Mexican regime had the political capital and the institutional mechanism not only to control wages but prices as well.

The Mexican government had developed various mechanisms of price controls of goods and services. Since 1954 until 1997 the Ministry of Commerce, SECOFI, had a tight controls on prices. The prices in the economy were set by SECOFI, yet, allowing firms to have "reasonable profit margin" in their businesses (Dávila, 1991:35-36). This system of prices controls help respond to the inflationary pressures that the Mexican economy experienced in the 1970s.

When the PSE was launch all prices in the economy came under the control of the government.<sup>20</sup> For decades SECOFI had gathered abundant information

<sup>19</sup> Until December of 1993 when the new Law of the Banco de México granted its autonomy from the executive. See <http://www.banxico.org>

<sup>20</sup> To modify product prices the producers had to file a petition to SECOFI. SECOFI would review the report, study the productive chains involved in the production of such good, and approve or deny the petition

about the behavior of prices and the production chains of Mexican products. SECOFI was strict in its objective of price controls, however, it had to cultivate a careful balance between retaining price controls and maintaining profits (Dávila, 1991:36).<sup>21</sup> Indirectly, SECOFI's policy of tight price controls became a source of pressure for companies to become more efficient and modernize.

An important component of the government's capacity to monitor price controls was the Mexican consumer protection agency (PROFECO). Created in 1976, as a product of the Federal Law for the Protection of Consumers, PROFECO is the government agency in charge of the promotion and protection of consumers' interests.<sup>22</sup> In 1989, the government of Salinas de Gortari, granted PROFECO the power to sanction businesses that did not comply with price controls. During the Pacts, the PROFECO worked as a sort of "Damocles sword" over the heads of business.<sup>23</sup> PROFECO played an important role in the monitoring of the price accords established in the *Pactos*.<sup>24</sup>

In sum, technocrats' capacity to understand key aspects of inflation, cabinet cohesion, the executive's control of the economy and its insulation from electoral politics, and legacies of expertise on price controls, provided the regime with the mechanisms to control the most important macroeconomic aspects of the new heterodox stabilization program.

#### Achieving Cooperation: Interests and Institutional Legacies in the Business Sector

The success of the economic reform project was strongly dependent upon the cooperation of all sectors in the economy. Income policies (which made the plan heterodox in nature), and social concertation were two key aspects of the stabilization plan. Income policy involved "the joint adoption by government, labor, and business of nominal guidelines to anchor the exchange rate, wages, and key prices" (Córdoba, 1994: 239). Social concertation was understood as "...a neocorporatist mode of policy making that emphasizes the institutionalization of consultation, cooperation and consensus on macroeconomic policy involving peak representation from organized capital, trade unions, and the state" (Encarnación, 1997:388).

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<sup>21</sup> Interviews with businessman, Mexico City, March 15, 1996 and government official, Mexico City, July 15, 1997.

<sup>22</sup> <http://www.profeco.gob.mx>

<sup>23</sup> Interview with a business person, Mexico City, May 18, 1999.

<sup>24</sup> Interview with government official, Mexico City, July 15, 1997.

The design of the stabilization program required the establishment of a set of credible commitments made by all parties, as well as predetermined general guidelines of a system that would monitor, coordinate, and sanction the parties involved in the Pacts.

Agreements for a concerted stabilization plan started by the end of October 1987 and went all through November and December.<sup>25</sup> The first meetings were held between members of the De la Madrid Cabinet and the leaders of Mexican business associations. The business sector was represented by a limited number of business organizations which took part in the pact negotiations: the Business Coordinating Council (CCE), Mexican Business Council (CMHN), National Confederation of Industry (CONCAMIN), National Confederation of Manufacturing Industry (CANACINTRA), National Confederation of Commerce Chambers (CONCANACO), National Association of Department Stores and Supermarkets (ANTAD), Employers Confederation of the Mexican Republic (COPARMEX); Mexican Brokerages National Association (AMCB); Mexican Bank Association (AMB), and the National Farms Association (CNA).<sup>26</sup>

The initiation of the *Pacto* also depended upon the support of the most important business organizations, the heads of large firms, and the "official" labor movement (Kaufman, Bazdresch and Heredia, 1993:3). For government policy makers and business leaders it was evident that the control that business organizations held over their affiliates, and the oligopolistic structure of markets were a helpful component for the success of the concertation effort (Kaufman, Bazdresch and Heredia, 1993: 15).

In order to convince the business sector to compromise with the economic program the government had to commit itself to continue the stabilization program and the liberalization and privatization of the economy.<sup>27</sup> For the COPARMEX and the CCE, who had always been critical to statist, protectionism and pro-labor policies, the furthering process of economic liberalization coincided with their traditional positions toward the economy.<sup>28</sup> As it was put by former president of the CCE, "We believe that the liberalization of the economy was great".<sup>29</sup>

<sup>25</sup> Interview with business leaders, Mexico City, March 18, 1997; May 20, 1997 and August 3, 1997.

<sup>26</sup> In Mexico, the 1936-1996 Chamber Law established that joining a chamber was mandatory for all business and that chambers were consulting organs of the State. See Ley Federal de Camaras de Comercio 1936-1996.

<sup>27</sup> Interview with businessman, Mexico City, May 21, 1997.

<sup>28</sup> Interviews with business leaders, Mexico City, March 18, 1997 and May 20, 1997.

<sup>29</sup> Interview with government officials, Mexico City, March 19, 1998.

The liberalization and stabilization of the economy through wage and price freezes meant significant losses for the small and medium industrialists gathered around CANACINTRA, used to decades of protectionism. However, this sector agreed that only a process of cooperation could control inflation without the need of a "shock" adjustment plan and its effects.<sup>30</sup> Trade liberalization was packed as a key component of the pact, hence trade opening was the price to pay in order to be included in the pact negotiations (Kaufman, Bazdresch and Heredia 1993:17)

It was evident that the Pactos gave the business sector the possibility to: 1) participate in the economic planning of the country, 2) permanently discuss economic policy with the government, and 3) check on the government.<sup>31</sup> These were exceptionally important issues in a country where, because of the PRI's control of the executive, the congressional and judicial powers, it had proven extremely difficult to examine, monitor, and provide oversight of the functioning of government.<sup>32</sup>

Business organizations engaged in a process of information with its rank and file about the benefits of a tripartite agreement with the government and labor, and the economic costs of inflation and a failed economic reform. Although most organization, specially COPARMEX and CANACINTRA, did not trust the government, most of the rank and file believed that the cost of no cooperation were higher than the costs of a freeze in prices. Furthermore, the rank and file considered that it was better to negotiate and monitor government actions rather than to be self-excluded from the process of negotiations and freed the government to take unilateral decisions.<sup>33</sup> Yet, business organizations had to engage in a process of information to persuade its membership about the advantaged of the agreement.<sup>34</sup>

As the most important business organization of the country, the CCE played a central role in the development and support of the Pacts. As the umbrella organization where business interests were gathered (AMIS, AMCB, CANACINTRA, CONCANACO, CONCAMIN, COPARMEX, CMHN and the CNA) the CCE acted as the coordinating mechanism in the negotiations and as a communication channel where business sector concerns regarding the Pacts were transmitted and discussed.<sup>35</sup>

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<sup>30</sup> CONCAMIN, Informe de Labores, 1987-1988, Asamblea General Ordinaria, México D.F., March 24, 1988, p.8.

<sup>31</sup> Interviews with business leaders, Mexico City, February 7, 1997; March 19, 1998 and June 16, 1998.

<sup>32</sup> In 1997 for the first time in its history the PRI lost its control over the chamber of deputies

<sup>33</sup> Interview with business leader, Mexico City, February 7, 1997.

<sup>34</sup> Interview with business leader, Mexico City, May 20, 1997.

<sup>35</sup> Interview business leader, Mexico City, March 18, 1998.

After the general framework of the *Pactos* was accomplished, the government's next step was the advancement of the concertation at the sectorial level with each industrial chamber. Smaller chambers complied with the decisions made by the larger organizations and confederations and, together with the government, developed Concertation Agreements (*convenios de concertación*).<sup>36</sup> The Concertation Agreements consisted of compromises made by the business chambers and the actors involved in the production chain determining the price of goods.<sup>37</sup>

### **Achieving Cooperation: Interests and Institutional Legacies in Labor**

For the *Pactos* to function, it was key to control two decisive variables: 1) the exchange rate, and 2) wage increases. However, these two variables were linked. To coordinate prices and diminish variance (relative prices) it was critical to anchor wages.<sup>38</sup> Thus, it was crucial to engage in some kind of agreement with the labor sector, otherwise the Economic Pacts would fail.<sup>39</sup>

Negotiations with the labor sector were different and probable less complicated than with the business sector. The incorporation of the labor sector since the 1930s into the structure of the governing party and the state apparatus, and the systems of inducements and controls over the labor sector, provided the mechanism to establish a remarkable system of political bargaining and a strong state-labor historical alliance (Collier and Collier, 1991; Burgess, 1999). The corporatist system of negotiation provided the regime with the devices to regulate popular demands, "de-radicalizing" working classes and, at the same time, organizing working classes in order to establish a system of political legitimization for the state (Reyna, 1977).

The Mexican corporatist system in terms of labor was fundamentally based on two pillars, the largest labor confederation in the country, the CTM<sup>40</sup>, and the Workers Congress, which has always been highly controlled by the CTM and unions with close ties to the PRI. The Party-Union alliance, born in the

<sup>36</sup> Interview with business representative, Mexico City, June 17, 1998

<sup>37</sup> Interview with government official, Mexico City, July 15, 1997.

<sup>38</sup> Interview with government official, Mexico City, October 30, 1998

<sup>39</sup> Interviews with labor leader Mexico City, March 15, 1996; March 28, 1996; May 1, 1996; June 5, 1996; June 10, 1996; June 11, 1996; June 13, 1996; October 30, 1996; January 19, 1996; February 11, 1997; October 22, 1996; November 4, 1996; May 20, 1997; September 23, 1997; March 18, 1997; May 14, 1997; May 16, 1997; February 7, 1997.

<sup>40</sup> With 2 million affiliates in 1980, See Camacho, 1980.

1930s, held together even in times of accelerated decline of the political influence of labor.

In November 1987, Labor Secretary, Arsenio Farrell, convinced Velázquez that in the race between prices and wages, the latter could never keep pace with the former and this process would only generate more inflation. According to the Labor Secretary the key was to convince the labor leader "(...) that the important thing was not to demand for more wage increases, but that the key to the solution of the problem was to find a system for controlling price increases".<sup>41</sup> Farrell was able to convince Velázquez to support a tripartite agreement.<sup>42</sup>

Yet, even with the backing of Velázquez it was also crucial to find the support of other large and influential organizations within the Workers Congress<sup>43</sup>, such as the CROM, the CROC the CRT, the teachers union (SNTE), and the state workers union (FSTE).<sup>44</sup> Because of their size, the backing of these organizations was important for the success of the negotiations.

The historical alliance between the regime and the labor movement played a significant role in the union's backing of the PSE. As it was argued by the leadership of one the biggest labor confederations in Mexico and a traditional CTM rival, the confederation found its reason to exist in the alliance with the regime.<sup>45</sup> Labor leaders knew the state was the dominant partner and that workers were organizationally weak.

The backing of more modern unions was extremely important. The packaging of free-market policies in the PSE played an important role in providing its base of support.<sup>46</sup> With the reform of the economy some union leaders visualized a window of opportunities for companies and unions. This is seen in the case of the Mexican Telephone Company (TELMEX), keystone for the technological modernization of the country, and its union (STRM)

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<sup>41</sup> Interview Mexico City, March 12, 1998.

<sup>42</sup> Interview with government official, Mexico City, March 12, 1998.

<sup>43</sup> Interview with government, Mexico City, March 12, 1998.

<sup>44</sup> At the beginning of the 1980s the Mexican Regional Labor Confederation (CROM) had 400,000 affiliates, the Revolutionary Confederation of Workers and Peasants (CROC) with 850,000 affiliates, the Revolutionary Workers' Confederation (CRT) with 370,00 affiliates, the National Union of Education Workers (SNTE) with 645,500 affiliates and the Federation of Public Service Workers' Union (FSTE) with 1,518,100 affiliates. See Bizberg, 1990:376.

<sup>45</sup> Interview with labor leader, Mexico City, October 22, 1996.

<sup>46</sup> Controls over minimum wages have little impact over these workers position toward the PSE because workers on these sectors had salaries higher than the minimum wage and unions had a strong collective bargaining power (Interview with labor leader, Mexico City, February 11, 1997).

(Bizber, 1990:376).<sup>47</sup> The General Secretary of the STRM, Francisco Hernández Juárez, was a key figure in the success of the Pacts. Hernández Juárez developed a strong alliance with Salinas de Gortari, based on a common project of economic modernization and that of a “new unionism” (Hernandez Juárez, 1991).

As the leader of STRM and, by 1990, head of FESEBES<sup>48</sup>, a labor confederation that assembled unions from the most dynamic and modern sectors of the economy, Hernández Juárez participated in the process of concertation. For Hernández Juárez, free-markets, new technologies and production processes were unavoidable, yet, in a context of union participation these processes could deliver better wages and employment opportunities.<sup>49</sup>

At the end of 1987 and with the pacts at their doorstep, labor leaders knew they had little space to maneuver for either the rank and file economic leverage or the promotion of their political interests (Whitehead, 1991: 58). With Salinas de Gortari as the PRI presidential candidate, and the technocratic faction taking control of the government, the labor movement realized that they had, at least for a time, lost the battle in the definition of the nation’s economic project.<sup>50</sup> Thus, the best suitable strategy was to incorporate themselves into the Pact negotiations, a bitter-sweet arrangement, put by labor leaders: “if you are not in, you are in limbo”<sup>51</sup> By including themselves into the tripartite agreement, workers tried to reduce the orthodoxy of economic measures and minimize its costs.<sup>52</sup>

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<sup>47</sup> Since 1972 the Mexican Telephone Company (TELMEX) was a company with 51% of its shares owned by the government and the rest 49% by private hand. In probably one of the biggest privatization process of state own companies, in 1991 the government sold its participation to the private sector. Mexican businessman, Carlos Slim, became its main shareholder. Hernández Juárez 1991:43-49.

<sup>48</sup> The Federation of Good and Services Union ( FESEBES) was created in April of 1990 with the backing of Salinas de Gortari, however, it was officially recognized until 1992 due to the opposition of CTM. The FESEBES included workers unions in telecommunications, airline, electrical power generation, tramway, film and television and automobile (VW). See Middlebrook, 1995:296.

<sup>49</sup> Hernández Juárez strongly supported concertation schemes. The process of company and union concertation for the modernization of TELMEX was extremely successful. During the process of privatization the workers of TELMEX became co-owners of the company with 4.4% of the shares and have always actively participated in company strategies. See Hernández Juárez, 1991:48-49. Also see León,1992: 273-274 and 267-277.

<sup>50</sup> Interview with labor leader, Mexico City, March 28, 1996

<sup>51</sup> Interview with labor leader, Mexico City, February 11, 1997

<sup>52</sup> Interviews with labor leaders, Mexico City, October 22, 1996; October 29, 1996; October 30, 1996; November 30, 1996; May 14, 1997.

## The Pacts as Institutions

In December 15, 1987 the representatives of labor, business and the government signed the Economic Solidarity Pact. The PSE and following economic pacts lasted a decade and were a critical policy making instrument that contributed. By entering and remaining in the pact negotiations, organized actors made sacrifices and took risks in the short run for the prospect of future gains. In the end, the outcome of the cooperative effort was positive for the economy reform project defined by the new regime alliance. The maintenance of the commitments by all sectors drastically reduced inflation in a short period of time, stabilized the economy and opened the path for a free market reform.

The generation of effective consultation between actors helped build bridges of cooperation, confidence, and information sharing. As the government stuck to its commitments, it precipitated a sense of trust and positive expectation.<sup>53</sup> A critical government commitment was fiscal austerity, and a continued process of privatization public enterprises. Privatization was one of the core components of the reciprocity to business.<sup>54</sup> The administration of de la Madrid, and Salinas de Gortari unquestionably honored such commitments while they were in power. **(See Table I)**

The continued renewals of the pact over a period of ten years, from 1987 to 1997, provided an opportunity for adjustments in the economy. The new agreements brought flexibility to the accords, in particular they brought about price freezes, and introduced policies that gave emphasis to issues such as growth, productivity, deregulation and trade barriers.<sup>55</sup> In order to solve the problem of scarcity and simultaneously increasing firm's profit margins, the government and business chambers developed a price matrix for every good the economy produced based on the manufacturing costs of product and this was included in the "concertation agreements".<sup>56</sup>

Routines were institutionalized with the creation of the Commission for the Follow-up and Evaluation of the Pact (CSEP). The follow-up commission became a formal institution with the signing of the Pact for the Stability and

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<sup>53</sup> Interview with business leaders, Mexico City, May 20, 1997 and June 16, 1998.

<sup>54</sup> Interview with business leaders, Mexico City, February 7, 1997; May 20, 1997 and June 16, 1998. Also see Schneider 1997:203.

<sup>55</sup> See Comisión Nacional de los Salarios Mínimos Noviembre 1993, Centro de Documentación: Pacto de Solidaridad Económica, Pacto para la Estabilidad y el Crecimiento Económico y Pacto para la Estabilidad, la Competitividad y el Empleo 1987-1993

<sup>56</sup> Interview with business leader, Mexico City, September 17, 1997 and government official, Mexico City, July 15, 1997.

the Economic Growth which occurred in the first days of the Salinas de Gortari presidency (December 12, 1989).<sup>57</sup> The commission was a high level board headed by the Labor Secretary and met weekly for a ten year period. All economic policy decisions were discussed inside the pact commission. The government was represented by the members of the economic, labor and social cabinet. The director of the Consumers National Institute, the Federal Attorney for Consumer Issues, the technical secretary of the follow-up commission and the coordinator of the sub-commission in prices were also present at every meeting. The labor sector was represented by President of the Workers Congress, the CTM, CROC, CROM, CRT, FESEBES, and the largest unions. For the business sector the CCE, CANACINTRA, CONCAMIN, CONCANACO, COPARMEX, ANTAD and, depending on the agenda, other business representatives were invited.<sup>58</sup>

The Mexican government institutionalized the relationship through the building of a set of rules that structured their interactions (Knight, 1992). The commission induced stability and consistency to the collective life of those players in the pact and facilitated concertation by "1) reducing the cost of cooperation, and 2) constraining participant's future choices" (Lange: 1984; Soskice, Bates Epstein, 1992).

The follow-up commission was a mechanism that guaranteed, first, government compromises. Second, government consultation with business and labor over economic policy. And, third, it limited possible defection of the private or labor sector through the establishment of a system of inducement and constraints that increased the cost of no-cooperation and rewarded cooperation. Hence, the follow-up commission produced a set of collective goods or benefits that benefited all players that were willing to be at the negotiating table.<sup>59</sup>

By monitoring, coordinating actors, developing a system of sanctions, and distributing gains, the follow-up commission contributed to promote flexible adjustments in policy and to generate a sense of credibility and reciprocity. In sum, the commission built key elements to foster collaboration. The game in which actors were asked to engage had to be perceived by all actors involved as one of positive gains and not as a zero-sum game (See Córdoba, 1994:241; Axelrod, 1984).

<sup>57</sup> See *El Mercado de valores*, num 1, enero 1 de 1989, pp.29-31.

<sup>58</sup> Minutes of the Comisión de Seguimiento y Evaluación del Pacto for April 4, 1991, April 18, 1991; August 1, 1991, February 4, 1993; March 19, 1993; May 6, 1993; May 21, 1993; December 16, 1993; January 18, 1994; February 22, 1994; March 1, 1994, November 24, 1994.

<sup>59</sup> Interview with business leader, Mexico City, June 16, 1998.

The traditional corporatist system of intermediation and the sanctioning capacity of the state in Mexico, together with its knowledge and information of the economy and the system of prices, supported the design of a successful monitoring mechanism. The limited numbers of encompassing multi-sectorial business associations and labor confederations in Mexico certainly helped overcome problems such as free riding and defection.

The representational monopoly of peak labor and business organization as well as their strong vertical integration, improved, not just the bargaining process, but the functioning of external (among the players of the pact) and internal (within the organizations) monitoring systems (Lehmbruch, 1979). It also contributed to the perception of greater symmetry in class relations (Lehmbruch, 1984:9). The power of the State together with a system of networks and alliance between the private sector and the government proved to be ideal for setting an effective system to control “bad apples”.

### **The 1994 Crisis and the End of the Pacts**

By the end of 1993, Mexico was experiencing a peaceful transition from an inward-oriented economic model to a free-market economy. The new regime alliance had been able to tighten its control on the political system. The stability and the economic grounds established by the Economic Pacts (**See Table 1**) provided for a smooth transition. By fall 1993 the governments of the U.S., Mexico, and Canada had successfully achieved a Free Trade Agreement to begin in January 1, 1994. Later, in May of 1994, Mexico became a member of the Organization for Economic Cooperation and Development.

The Pacts played a key role in sustaining price stability, and economic certainty. However, the pressures to lower inflation without strong fiscal adjustment increased the need to use the exchange rate and salary containment as the two fundamental policies to maintain price stability. The consequence of this set of policies was the continuous appreciation of the peso, with serious effects on export revenues and slow real wage recovery (Ros, 1994).

In 1994, the emergence of a guerrilla army, the Zapatista Army for National Liberation (EZLN), in the mountains of Southeast Mexico in January, the killing of the PRI presidential candidate for the 1994 elections, Luis Donaldo Colosio, and the increase of interest rates in the U. S led to a dramatic change in the political and economic context. These events further weaken the peso. (Naím, 1995). To avoid a serious hike in Mexican interest rates and capital flight as a result of these outcomes, the Mexican central bank, Banco

de México, expanded the short-term dollars-indexed central bank bills, Tesobonos, in order to replace the debt bonds in pesos, Cetes.<sup>60</sup>

Due to concern over the increasing short-term debt (Tesobonos) and doubts over the government's capacity to fulfill its debt obligations by the beginning of 1995, the Mexican stock market was slowly moving downwards.<sup>61</sup>

After the inauguration of President Ernesto Zedillo, and a week of continuous rumors about Zapatista mobilizations, the pact failed to provide the necessary certainty to economic actors and, on December 21, 1994 a major run against the peso triggered the economy into a deep economic recession. In the first semester of 1995 real GDP decreased by 5.8 percent with respect to the same period of the previous year. Consumer spending and public and private investment decreased by 14.7 percent with respect to the level recorded for the same period in 1994 (<http://www.banxico.gob.mx> 1994 Banco de México Report). The Central Bank directed monetary policy toward the stability of the general price level.

It January 2nd, 1995, the government attempted to develop a new tripartite agreement. In 1995 all parties believed that the government was to blame,<sup>62</sup> yet, the severity of the crisis moved labor and business leaders to develop a new accord.<sup>63</sup> On January 3rd, labor and business signed a new Pact—the Accord of Unity to Overcome the Economic Emergency (AUSSE).<sup>64</sup>

From January to October 1995, the government tried to develop a series of concerted programs to alleviate the economic crisis. The Accord of Unity to Overcome the Economic Emergency (PARAUSE) of March of 1995, as well as the AUSSE, had disappointing results. The PARAUSE included measures such as tax increases and a drop on government spending that impeded the full support of large sectors of the business community and unions.

By October 1995, the economy was still operating under a context of uncertainty, and the peso continued to stumble day after day. The government needed a mechanism to reinforce confidence. On the 29th of October, the

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<sup>60</sup> The Financial Times, Friday, January 27, 1995, p.16

<sup>61</sup> Financial obligations for 1995 were the amortization of: a) Tesobonos for 11,696 million dollars, b) public sector's external debt for 4,329 million dollars; c) bank liabilities for 4,018 million dollars, and d) non-banking private companies debt for 1,443 million dollars (1994 Banco de México Report. <http://www.banxico.gob.mx>).

<sup>62</sup> Interview with government official, Mexico City, March 18, 1998.

<sup>63</sup> Interview with labor leaders, Mexico City, November 30, 1996 and October 29, 1996 and a business representative April 8, 1997. .

<sup>64</sup> *Reforma*. Wednesday January 4, 1995, p.1

Zedillo's administration built a new accord, yet this time the government managed to obtain the support of all sectors.

A much more complicate negotiation took place.<sup>65</sup> The Economic Recovery Alliance (ARE), was supported and signed by the entire business and labor sector, yet it was vague and there were still collective action problems with the labor sector. The government tried to ease pressures on workers by freeing collective bargain negotiations, yet still tried to make recommendations on minimum wage increases. The government also supported the agricultural sector with PROCAMPO established with the AUSSE. The business sector made investment compromises and was committed to increase prices only if justified. Large companies agreed to consume national goods and to develop alliances with small and medium companies. The ARE was ratified the 22nd of March of 1996 and on the 26th of October, 1996, a new accord was signed under the name of Alliance for Growth (APC), which sustained the same compromises made in the ARE.

The APC lasted until December, 1997. Later, in February of 1998, a new accord was established, the Cooperation and Consulting Accord of the Productive Sector. However, this new agreement did not hold binding commitments for any actor, nor policy-making capacities or concrete action programs. Thus, the economic pacts, as seen since 1987 came to an end. By 1997 economic stability had been achieved.

## Conclusions

This paper has indicated that the use of both institutional and interest based variables can be a useful theoretical approach for understanding the development of actors' policy preferences and strategies for building institutional mechanisms for concertation in Mexican politics.

Most studies Mexican corporatism have explained the processes of political incorporation, negotiation, and the development of mechanisms for social partnership from a broad macro-structural view, based on the assumption that actors' policy preference are determined by their material interests. This approach has prevented scholars from understanding the elaboration of actors' choices by assuming that the material interests are the only variables affecting actors' strategies. Broad-macro interest base perspectives have also failed to explain the complex dynamics of tripartite arrangements by assuming negotiations as a natural outcome of material interests. This view of political

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<sup>65</sup> Interview with government officials, Mexico City, March 19, 1998.

processes limited the capacity of students of Mexican politics to understand the micro-foundations of political action that account for factors such as timing, content, and variance of policies, institution building, and institutional legacies.

The success of the Mexican stabilization and economic reform package during the 1980s and 1990s can be attributed to the development of institutional solutions based for economic concertation. Tripartite agreements were an outcome of a political coalition interest for reform, concerns over economic instability, and institutional legacies.

In the late 1980s, actors lived in a context of indeterminacy that questioned their present and future institutional and strategic alternatives, as well as the consequences of their present choices. The regime coalition was able to controlled uncertainty by defining a set of rules that channeled distributional conflicts, and provided a framework that defined the strategies.

The Economic Solidarity Pact and the subsequent agreements, were a political design built upon institutional legacies provided by the nature of the authoritarian regime: corporatism, presidentialism and the strategies of a strong political coalition. These factor proved to be a fertile ground where to develop the instruments to face the challenges of a process to control inflation and reform the economy. Established tripartite agreements were built to solve the problem of inertial inflation and reform the economy towards free trade. The case of the economics pacts in Mexico showed that institutional solutions to economic problems are a sensible strategy to developed mechanisms to create the necessary agreements to govern the Mexican economy in times of crisis.

Table I. The Dynamics of Mexican Economy: Selected Macroeconomic Indicators

Year	GDP	Fiscal Deficit b	Trade: Average Tariff (%)f	State own Enterprises	Open unem- ployment	Inflation (% CPI)
<b>1982</b>	-0.6	16.9	22.6	1155	4.3	58.92
<b>1983</b>	-4.2	8.6	22.6	1074	5.3	101.76
<b>1984</b>	3.6	8.5	22.6	1049	5.7	65.54
<b>1985</b>	2.6	9.6	22.6	941	3.7	57.75
<b>1986</b>	-2.5	16	22.6	737	4.4	86.23
<b>1987</b>	0.6	16	10	617	3.9	131.83
<b>1988</b>	1.2	13	9.7	412	3.6	114.16
<b>1989</b>	3.3	5.6	13.1	379	3.0	20.01
<b>1990</b>	4.4	3.9	13.1	280	2.8	26.65
<b>1991</b>	3.6	1.5	13.1	241	3.4	22.66
<b>1992</b>	2.8	0.5	13.1	217	2.6	15.51
<b>1993</b>	0.6	2.5	13	213	2.8	9.75
<b>1994</b>	3.6	0.1	12.5	n.a	3.4	6.97
<b>1995</b>	-6.9	0	13.1	n.a	3.6	35
<b>1996</b>	5.1	0.7	13	228	5.5	34.38
<b>1997</b>	7.0	1.3	13	234	3.7	20.63
<b>1998</b>	4.9	1.14	n.a	268	3.2	15.93
<b>1999</b>	3.7	1.04	n.a	247	2.5	16.59
<b>2000</b>	6.6	1.04	n.a	203	2.2	9.49
<b>2001</b>	-0.3	0.70	16.5	201	2.4	6.37
<b>2002</b>	0.9	1.15	16.5	203	2.7	4.76
<b>2003</b>	2.3 a	0.96	n.a	n.a	2.87*	5.087*

Sources: State own enterprises taken from Rogozinski, Jaques, (1993), *La privatización de empresas paraestatales*, PCE, México D.F.: p.45. This includes enterprises with state participation, decentralized agencies and fiduciary institutions. Trade liberalization taken from Salinas de Gortari, Carlos, (1994), *Sexto Informe de Gobierno, Anexo Estadístico*, p.148 and Zedillo Ponce de León, Ernesto, (1996), *Segundo Informe de Gobierno, Anexo Estadístico*, p.100. GDP growth and fiscal deficit taken from Banco de México <http://www.banxico.org.mx>, April 4, 2000, and [http://www.banamex.com/essem/pdf\\_re/essemfeb99.pdf](http://www.banamex.com/essem/pdf_re/essemfeb99.pdf).

Open unemployment (those who work less than 15 hours per week) and inflation taken from Murillo, Victoria, (2002), *Labor Unions, Partisan Coalitions, and Market Reforms in Latin America*, Cambridge: Cambridge University Press, p.96. \*Annual average on the second quarter, <http://www.inegi.gob.mx>,

[www.shcp.gob.mx](http://www.shcp.gob.mx). a cifra preliminary para el primer trimestre, <http://shcp.gob.mx/index01/html>

GDP from 1997 and 2003, taken from <http://www.inegi.gob.mx>. b as percentage of GDP.

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