THE INTERNATIONAL POLITICAL ECONOMY OF BANK NATIONALIZATION: Mexico in Comparative Perspective*

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"In the last two or three years, . . . a group of Mexicans . . . , supported and advised by the private banks, has stolen more money from our country than the empires that have exploited us since the beginning of history. . . . They've robbed us . . . , but they will not rob us again." With these words, President López Portillo nationalized Mexico's private banks and imposed controls on foreign exchange. Many of those attending this State of the Union address on 1 September 1982 stood to applaud, while the president cried and one banker fainted. Mexico's chief of state continued, "The revolution will speed up; the state will no longer be intimidated by pressure groups."

Mexico was not the only country to nationalize its banks during the 1980s. The Socialist party in France came to power in 1981 and embarked on a broad nationalization program that affected industry and finance. And in 1987, Peruvian President Alan García took a page from the Mexican book and decreed immediate government intervention into Peruvian banks. Why were three sweeping attempts made at bank nationalization in the Western Hemisphere and Europe in the 1980s when few similar efforts had been undertaken in preceding decades? Why did such nationalizations occur during a decade otherwise marked by widespread financial liberalization? And why did each nationalization campaign fail to accomplish the goals set by its architects?

International economic pressures during the 1980s, specifically the internationalization of financial markets and increased international com-

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petition, formed part of the motive for nationalization in each instance. The French Socialists argued that the greater state control of credit allocation afforded by bank nationalization would facilitate industrial adjustment needed to make the French economy internationally competitive again. They also suggested that nationalization would restore state control over the money supply. Presidents López Portillo and García both intended their nationalization of Mexican and Peruvian banks to stem the rising tide of capital flight and financial speculation and to help channel financial resources into long-term industrial investment. In all three cases, moreover, political problems related to international trade or foreign-exchange difficulties heightened the need for a symbolic move that would buy political capital for the government. An effect of international "contagion" is also evident. The Mexicans studied the French nationalization before implementing their own, and both these instances obviously influenced the subsequent Peruvian decision.

International forces also surface as important factors in explaining the outcome of debates over implementing bank nationalization in each case. Opponents of nationalization sought to limit its negative impact on private bankers by curtailing implementation. They derived the power to do so both directly from foreign allies like international private financiers and the International Monetary Fund and indirectly from leverage accorded them by their country's international financial position. In particular, Mexico's extreme international financial vulnerability in 1982 placed Finance Minister Jesús Silva Herzog (also the chief debt renegotiator) in a very powerful position within the Mexican government. The country's financial crisis and his close relationship and credibility with international creditors and leaders in the U.S. central bank and treasury department made him the one person in the administration most likely to be able to win concessions from Mexico's international bankers. This position gave him considerable leverage over other actors within the national government.[1] French Finance Minister Jacques Delors also opposed nationalization, but he enjoyed less leverage because France was less vulnerable financially and internationally than Mexico was at the time of nationalization. Instead, foreign banks operating in France played a direct lobbying role that greatly influenced debates about the extent of nationalization and terms of compensation in that country.

In both countries where bank nationalizations were implemented (Mexico and France), they fell far short of their goals. The cost, magnitude, and allocation of credit for long-term industrial investment did not change

1. By 1986, when Silva Herzog was forced to resign from the government, several factors had changed. The prospects for Mexico's situation regarding international payments were considerably improved, and others in the political elite had developed the kind of credibility that had been virtually monopolized by Silva Herzog in 1982.

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in the ways hoped. Political scientist Michael Loriaux has suggested that the exigencies of maintaining the value of the franc in a world of rapid capital flows and flexible exchange rates forced the French government to cede control over the domestic financial system (Loriaux 1988). Within two years of nationalization, several of the largest French banks affected had already been reprivatized. Meanwhile, the Mexican government, responding in part to indirect pressure from international creditors, also began a headlong rush to deregulate financial markets within months of the nationalization decree. By early 1990, the bill proposed by Mexican President Carlos Salinas de Gortari to reprivatize the banks had passed the Mexican legislature. In Peru in 1990, legal battles over the constitutionality of bank nationalization continued to stymie any attempts at implementation.

This article will place the Mexican bank nationalization in comparative context by highlighting the role of international pressures in motivating the nationalization decision and shaping domestic debates over implementation in different countries. It will not be argued, however, that international factors were the sole cause of nationalization or that cross-national similarities stemming from common international pressures completely outweigh differences due to varying domestic contexts.[2] Significant political differences include the fact that in France nationalization had been part of the Common Program of the Left since 1973 and was therefore an expected outcome of the electoral politics leading up to François Mitterrand's victory, while the nationalizations in Mexico and Peru were relatively sudden decisions imposed "from above." The salient commonality is an attempted solution to an important dilemma facing left-leaning governments in a world of increasingly internationally integrated financial markets. Such integration increases the "exit options" of domestic and foreign capitalists in response to unfavorable policy changes or uncertainty over the future direction of economic policy. Capitalists can thus signal their disapproval of seemingly socialist or populist governments by selling the nation's currency in large quantities or refusing to invest in long-term industrial projects. In other words, the rise of international financial markets has curtailed the range of economic policies that any national government can expect to implement effectively.

2. Major differences obviously exist among the cases discussed. For example, the macroeconomic context and policy history of each country differed considerably. Mexico and Peru were facing much more severe balance of payments pressures than France was. While all three had a history of protectionist trade policies, France had implemented exchange controls most successfully. France also has a centuries-old statist tradition that refers specifically to control of banking. The *Doctrine of Saint-Simon* calls for "the centralization of the most general banks and the most skillful bankers into a unitary directing bank dominating them all. . . . [The] general system of banks [is] the social institution of the future which will govern all industries in the interest of society, but especially in the interest of the peaceful and industrial workers" (Saint-Simon 1958, 106).

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Only by sharply restricting the freedom of capital can governments hope to implement policies that run counter to market pressures. In all three cases examined here, government officials perceived bank nationalization as a way to help induce long-term private investment in national industry when short-term financial transactions or foreign investment appeared more profitable. In all three cases, the options and pressures emanating from international financial markets awarded political power to those who were fighting the implementation of nationalization.

These case studies of attempts at bank nationalization suggest some preliminary hypotheses about how international financial conditions shape domestic politics. First, perceived loss of sovereignty over national monetary policy can provide an important political rationale for a nationalist backlash against domestic financiers. The second observation applies when total international economic isolation is ruled out. In this case, the greater a country's need for international finance, the more power will be held in the phase of policy implementation by government officials (like finance ministers) who have ties to the international financial community. Third, the more foreign entrepreneurs are operating in the country, the more power will be brought to bear against implementation of nationalization policies. It is clear in all three cases that the state as a unitary actor has relatively greater autonomy over domestic capital than over foreign capital. The likelihood that domestic opponents of nationalization will succeed varies in proportion to the amount of leverage gained from their international allies and situation. In all three cases, national governments seemed much more willing to move against domestic bankers than against foreign financiers operating in the same territory. In actuality, foreign banks were exempted from the nationalization decrees in all three cases.

The first section will expand on the motivations and goals of the Mexican bank nationalization and place them in comparative perspective. The second section will describe the issues raised and the pressures brought to bear by opponents of nationalization during the implementation phase in the three countries. It will also highlight the ways in which international factors shaped the relative strength of such opponents. The third section of this paper will briefly assess the medium-to-long-run impact of the nationalizations.

THE NATIONALIZATION DECISION

In Mexico in the early 1970s, after twenty years of domination by orthodox economic-development theory, political instability and exhaustion of import-substituting industrialization brought a renewed emphasis

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on "structuralist" economic policy.[3] Under the administration of Luis Echeverría, deficit spending and foreign borrowing financed government expenditures aimed at placating urban workers. But the legacy of previous state intervention in the economy along with opposition from government officials and large-scale capitalists stymied Echeverría's program. As Mexico succumbed to the demands of the International Monetary Fund and currency devaluation in 1976, Mexican intellectuals debated whether the state would be able to use inflows of foreign exchange from oil and foreign loans to revitalize Mexican capitalism and reinforce political stability. The oil and borrowing boom temporarily diminished public discord over the future orientation of the Mexican economy. Behind the scenes, however, "neoliberal" economists continued to lobby for decreased state intervention and international opening while structuralists pressed for increased state intervention, protection from the international economy, and emphasis on social welfare. This conflict was termed "the fight for the nation" (*la disputa por la nación*) by Carlos Tello, architect of the bank nationalization, and it resurfaced after oil prices collapsed in mid-1982 (Cordera and Tello 1979).

The dispute became even more intense because in the context of financial market imperfections and currency overvaluation, international borrowing heightened concentration in both industry and finance. To strengthen Mexican financial institutions in the early 1970s, the Mexican government had adopted a policy promoting concentration of financial activity and a shift from the original Anglo-Saxon model of specialized banking to the West German and Japanese model of "universal banking." Legislation passed in 1977 encouraged international activity by Mexican banks by permitting them to establish foreign branches and offering tax incentives for Euromarket transactions. Thus the boom in international financial markets in the late 1970s contributed to a process of financial concentration that was already under way in Mexico. Benefits of this boom flowed disproportionately to large-scale Mexican entrepreneurs. The increasingly evident differentiation between small- and medium-sized industry versus large-scale commercial, industrial, and financial groups provided a material basis for growing controversy over national development strategy (Maxfield 1990a).

Easy access to foreign loans also helped erode the institutional hegemony of the alliance between the finance ministry and the central

3. Their views on the causes and cures for inflation as well as the costs and benefits of government intervention in the economy are the key issues dividing structuralists from what are varyingly called "liberal," "monetarist," "orthodox," or "neoliberal" economists. Structuralists are much more supportive of state intervention in the economy and believe that structural problems in developing economies, such as external dependence, make inflation an inevitable part of growth that cannot be curbed through monetary and fiscal policy without causing unemployment and recession.

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bank, leading to increased competition between factions of the government that were oriented toward stability or industrialization and eventually to policy paralysis.[4] When oil prices dropped in mid-1981, López Portillo did not make commensurate changes in domestic policy such as cutting public spending or devaluing the peso. Worried about engineering a smooth presidential transition in 1982, López Portillo preferred to postpone politically difficult economic policy decisions as long as possible. In March 1982, he quietly asked several advisors (including his longtime associates Carlos Tello and José Andrés de Oteyza, head of the Ministerio de Recursos Naturales y Desarrollo Industrial) to prepare a study of policy options for confronting the nation's financial crisis.[5]

International Capital Mobility and National Industrial Investment

Economists Tello and de Oteyza were critical of orthodox development policies. Both had studied economics at the Universidad Nacional Autónoma de México with Horacio Flores de la Peña, a "left-wing" economist and self-described "socialist." Tello had also studied economics in East Germany and in England under Joan Robinson at Cambridge. Their training in critical economic thought and the connection with Flores de la Peña (who was then Ambassador to France) led the two economists to explore the possibility of nationalizing the Mexican banks as a solution to the country's economic problems. To this end, Flores de la Peña set up a study group to evaluate Mitterrand's nationalization of the French banks for illustrative purposes.

Tello, de Oteyza, and Flores de la Peña were the most prominent of a small circle of government advisors who—together with sectors of civil society that included the more independent labor unions, left parties, and intellectuals—believed that the internationalization of finance had spurred bankers to engage in excessively "anti-social behavior." The international integration of Mexican financial markets had created new opportunities for capitalists and fueled financial speculation. This trend undermined the state's capacity to induce and guide new capital formation; it also challenged the state's command of the heights (Tello 1984). Proponents of nationalization argued that expropriating the banks would allow the

4. Erosion of the power of the Mexican finance ministry and the central bank within the state dates back at least as far as the early 1970s, when the Secretaría de la Presidencia began to take over economic functions that were subsequently passed on to the newly created Secretaría de Programación y Presupuesto in 1976. Although a split between stability- and spending-oriented wings of the economic policy-making bureaucracy was evident, debates became more complex on many specific policy issues.

5. Although Tello had been out of the cabinet since his resignation as planning minister in 1977, he had maintained a close relationship with President López Portillo.

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government to regain lost control over the national financial system and harness the financial sector to the goal of economic restructuring.[6]

A similar argument was made in the French and Peruvian cases by proponents of bank nationalization. They perceived an inverse relationship between a private financial system and national industrial investment in the context of growing international capital mobility. By the early 1980s, French industrial investment and international competitiveness had been lagging for at least a decade. Many observers believed that industrial financing lay at the root of the problem: private French companies were not generating sufficient profits to invest with their own funds; their low profits made raising funds in capital markets difficult; and private banks were considered parasites rather than supporters of industry.[7] Proponents of nationalization argued that it would break the financial constraint on investment and provide an effective means of channeling savings and credit to a small number of carefully chosen firms that would become technical and industrial leaders (Lauber 1987). Finance Minister Jacques Delors stated that bank nationalization was intended to change "how the totality of banking establishments weigh different criteria in granting credits, so as to give greater consideration to the common good and the objectives of the planning process" (Lewis 1981, 26).[8]

A few years later, Alan García made a similar argument in Peru. He had become increasingly frustrated with the private sector's failure to make new long-term industrial investments, despite tax and credit incentives. The long-run success of his 1986 package of heterodox economic policies depended on new private-sector investment generating a surplus from which the state could capture enough revenue to make up for declining reserves of foreign exchange. Private-sector investment was not forthcoming, however, and in 1987 the heterodox plan began to unravel. García perceived bank nationalization as a way to resolve the investment dilemma that was undermining his economic plan. In his view, the banks were controlled by "economic nuclei" that channeled savings "according to their will," and he asserted that "the state should be the only assignor of credit" (Zuckerman 1987, 321).[9]

6. Tello made this statement in a personal interview, but this view is also evident in his book on the bank nationalization (Tello 1984).

7. Although private banks represented a minority of commercial banks, French officials claimed that private banks set behavior patterns for the whole sector (Fabra 1985, 176). At the time of nationalization, private commercial banks controlled some 40 percent of total French bank deposits. The figure for Mexico is roughly 80 percent and for Peru, 53 percent.

8. One list of industries to be given priority in credit allocation included energy conservation, new energy sources, microcomputers, industrial robots, wood production, pharmaceuticals, fishing, underwater technology, bio-industry, sea-floor mining, and drilling technology (Lewis 1981, 25). For the complete official rationales for nationalization, see in the Mexican case *Diario Oficial*, 1 Sept. 1982, p. 1; and in the French case, Dupont-Fauville (1983).

9. As in the other cases, the virtual absence of nonbank capital markets in the Peruvian

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International Capital Mobility and National Monetary Policy

In addition to frustration over patterns of credit allocation and industrial investment, the perception that international integration of capital markets had eroded the effectiveness of monetary policy was another source of irritation motivating plans for bank nationalization in Mexico, as in the other two cases. Although the Mexicans had always suffered from dollarization of the domestic money supply and international capital flight,[10] foreign-exchange inflows from oil exports and loans caused overvaluation of the domestic currency and spurred huge capital flight in 1981–82. The contrast between the hopes first raised by large foreign-exchange inflows and later dashed by uncontrollable and almost simultaneous outflow generated tremendous frustration for López Portillo and his economic advisors. In their view, private banks were the culprits.[11]

In June 1982, two months before the nationalization, the director of the Comisión Nacional Bancaria exhorted Mexican bankers to act with "social responsibility." He particularly criticized one "elitist bank in the service of a few privileged individuals that does not deserve to exist."[12] The president of the Asociación de Banqueros de México responded to this criticism by suggesting that the bankers might consider creating a fund of subsidized financing with the profits generated by exchange speculation and dollarization (Ramírez 1982), a point raised ten days before the nationalization. Shortly after the expropriation, one former banker cited the case of one of Mexico's two largest banks when he admitted in an interview that the banks "had become greedy. . . . when Agustín's [Legoretta's] father was alive, the bank [BANAMEX] tried to create at least one major business concern a year. But for the last five years it did not create one job. It bought up shares in existing companies. It created nothing but wealth for the bankers. The profit margins were as wide as the street out there . . ." (Robinson 1982, 50).

In August 1982, capital flight from Mexico reached proportions that were previously unimaginable. On 5 August, López Portillo was presented with evidence that a single bank had taken three hundred million dollars out of Mexico in a single day. That same day, a banker with five million dollars in his suitcase was detained only momentarily at the

financial structure allowed the government to contemplate increasing its control over industrial investment through bank nationalization. For more on how financial structures affect the balance of power between government and industry, see Zysman (1983).

10. Dollarization is created by the use of dollars rather than the local currency (pesos, in this case) as a store of value and medium of exchange.

11. The source for this and other statements attributed to López Portillo and his advisors in the next three paragraphs are anonymous interviews with former officials of the Mexican government. The interviews were conducted in San Diego in October 1984; in Mexico City between January and August 1985; and in Rhinebeck, N.Y., in October 1988.

12. "Debe desaparecer la banca elitista: Creel," *Unomásuno,* 4 June 1982, p. 1.

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airport on his way out of the country. These incidents infuriated the president, according to reports by close friends. He was also told of other such episodes: that one industrialist had sent a billion dollars to the United States; that BANCOMER, one of the country's two largest banks, had transferred 5 billion dollars to U.S. banks; and that Mexican real estate and other investments in the United States amounted to twenty-five billion dollars. López Portillo held discussions with his closest advisors (Tello, de Oteyza, Flores de la Peña, and the president's son, José Ramón López Portillo) and came away convinced that bank nationalization and concomitant controls on foreign exchange would halt this massive hemorrhaging of the nation's wealth.

In Peru too, dollarization and capital flight, compounded by big business's failure to invest domestically, fueled President García's frustration over economic policy. He believed he had struck a bargain with large-scale entrepreneurs when he first came to power and that they were now violating that agreement. The bargain was that his economic policy would give high priority to the growth of local industry and commerce if business would accept lower than average profits and refrain from capital flight. García believed that Peru's good growth performance in 1986 proved that he had kept his side of the bargain. But business, in his view, had cheated by using banks as conduits for capital flight. García hoped that nationalizing the banks and closing the foreign-exchange houses would stop the owners' export of personal capital as well as the capital flight facilitated by their enterprises.

In France, in contrast, what irked government leaders was not leakage from the money supply through capital flight or dollarization but expansion of the money supply. Mitterrand and Prime Minister Pierre Mauroy could not control the size of the national money supply, despite their repeated arguments that this activity must be a "national function." They claimed that controlling the money supply would be easier if the state controlled the entire credit industry through nationalized banks.

Neoclassical economic theory might have suggested otherwise—that nationalizing banks is not an efficient way to increase national sovereignty in monetary policy. Post facto empirical evidence from each of the three cases might also bear out this point. That is not the concern under discussion here, however. The point is that in all three cases, the growth of international money markets generated national problems for economic policy that government officials argued could be solved through bank nationalization.

International Economic Pressures and Political Legitimacy

A third motivation for bank nationalization in all three cases was that political problems related to trade or foreign-exchange difficulties

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heightened the value and need for a symbolic move such as dramatically expropriating private banks. In Mexico, López Portillo was being increasingly discredited for his mismanagement of oil wealth and foreign loans. He hoped that bank nationalization would appeal to the nationalist and populist ideals of the Mexican Revolution, improve his image, and reinforce the legitimacy of the ruling Partido Revolucionario Institutional in the crucial months of presidential succession, when the president and the PRI are typically at their weakest.[13]

Political symbolism also played a part in the story of French bank nationalization. Banks were widely perceived as symbols and champions of capitalism, and although a high degree of French state ownership dated back to 1945, the Communist party insisted on writing further nationalization of the banking system into the Common Program of the Left in 1973. When France's declining international competitiveness and other economic troubles helped bring a Socialist-Communist alliance to the electoral forefront in 1981, nationalization was still central to their policy agenda (Lauber 1987, 30).[14] Several months prior to the election, ten economists of the Socialist party adopted a pseudonym and published a blueprint for financial and bank policy called *L'Impositure monetaire.* It called for abolishing French money markets entirely, reducing the number of banks to ten to facilitate public management, using selective credit policy to promote national industry with low-cost, long-term loans, and creating a national investment bank. This program represented the extreme view on nationalization held by the current (*tendance*) of the Socialist party known as "Chevènement" (after Minister of Research Jean-Pierre Chevènement) or "CERES." Another Socialist party current, the "Rocardian" group (centering around Minister for the Plan Michel Rocard), expressed mixed feelings about bank nationalization.[15] To ensure

13. Interview with a former official of the Mexican government in New Haven, Conn., March 1988.

14. Although the Socialist party had enough parliamentary strength to govern alone, the government was coalitional between 1981 and 1984 by virtue of the fact that it included four Communist junior cabinet ministers.

15. From the late 1970s through the mid-1980s, the French Socialist party was organized around four currents and voted in national party congresses according to them: CERES, the Mitterrandistes, the Rocardians, and the Mauroyistes, each following certain individuals. CERES, which stands for Centre d'Etudes de Recherches et d'Education Socialistes, was renamed Socialisme et Republique in 1986 (Bell and Criddle 1984, 210–50). Among Jean-Pierre Chevènement's allies within the government were Budget Minister Laurent Fabius and Minister of National Solidarity (formerly called Social Affairs) Nicole Questiaux. The latter resigned over budget cuts in June 1982, and Fabius moved rightward politically. Several junior cabinet ministers were also members of the CERES *tendance* (see Hanley 1986, 234). In addition to Rocard, the Rocardian current included Prime Minister Pierre Mauroy, Finance Minister Jacques Delors, and Industry Minister Pierre Dreyfus. Dreyfus resigned in June 1982, citing old age. He was replaced by Chevènement, who continued his post at the Ministry of Research as well. Chevènement subsequently resigned in early 1983.

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CERES cooperation within the government, however, nationalization had to be part of Mitterrand's economic policy.

Peruvian president Alan García also tried to buy political capital with the symbolic value of bank nationalization, as his initially successful 1986 heterodox economic policy program gave way to inflation, foreign-exchange shortages, bitter intragovernment policy disputes, and growing capital flight by mid-1987. Leftist guerilla insurgency was also rising in Peru at that time, and García faced charges from the moderate left that he had sold out to international creditors by failing to fulfill his threat of limiting payments on debt service to 10 percent of exports. In May he faced a successful general strike organized by the left, and in mid-July his own party contradicted his expressed wishes in selecting a new president for the chamber of deputies.[16] The decision to nationalize the banks thus symbolized a shift in García's political strategy from wooing big business to renewing efforts to shore up leftist support.

To summarize, international economic pressures—increased international trade competition and the internationalization of financial markets—formed part of the public rationale for bank nationalization in all three cases surveyed here. In France, trade competition created a need for industrial restructuring, which architects of the bank nationalization believed would be easier to accomplish if the government directly controlled allocation of bank credit. In all three cases, international capital mobility also eroded government control over the domestic money supply and generated frustrations that the bank nationalizations were intended to eliminate. Finally, problems with international trade and balance of payments contributed to political changes that heightened the need for a symbolic "anti-capitalist" move to buy political capital for the governing party.

IMPLEMENTING THE DECISION

No consensus existed within the Mexican government, in either the cabinet or the ruling PRI, regarding bank nationalization. Opposition to the move within the government reflected pressures from the private sector and international creditors. Although the business community as a whole was divided in its response to the bank nationalization, former bankers and several large-scale industrialists worked with sympathizers in the government and the party to pressure, directly and indirectly, for limiting the impact of the bank nationalization. Finance Minister Silva Herzog opposed the measure, and incoming President de la Madrid, who was committed to trying to maintain good relations with Mexico's inter-

16. "Bank Expropriation Raises a Storm," *Latin America Regional Report,* 3 Sept. 1987, p. 7.

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national creditors, was less than enthusiastic. The capacity of proponents of nationalization to institutionalize greater mechanisms of state control over the economy through implementation of their plan was constrained by several factors: the power Silva Herzog derived from his role in Mexico's ongoing debt renegotiations, the weight of the president-elect's supporters within the PRI, and the need for party unity to ensure a smooth presidential transition.

Foreign Debt and the Power of the Opponents of Nationalization

Exchange controls and government expropriation of the banks were imposed by executive decree in Mexico (the Mexican Constitution was later amended to accord with the decree). President López Portillo announced his decision to the cabinet twelve hours before his address to the nation and asked for the resignations of anyone who objected. Miguel Mancera, head of the Banco de México, and Adrian Lajous, head of the state-owned Banco de Comercio Exterior, resigned. Finance Minister Silva Herzog, then deeply involved in debt renegotiations with the international banking community, also tendered his resignation. The president, however, refused to accept it, believing that Mexico's economic future depended on successful renegotiation of the debt. Thus Silva Herzog's key role in the negotiations gave him considerable power in subsequent intragovernment debates over implementing the bank nationalization.

After the decree of 1 September 1982, Carlos Tello was appointed to replace Mancera as head of the Banco de México. On 4 September, Tello announced a series of specific measures designed to increase savings deposits, make more credit available to small and medium-sized industries, and reduce inflation. But as Tello himself has pointed out in hindsight, simply changing bank ownership did not guarantee that their operations, practices, and uses would change (Tello 1984).

While Tello was announcing these initial implementation measures, Silva Herzog, in Toronto for the annual World Bank and IMF meetings, called a press conference and stated his view that the bank nationalization would not imply any real change in bank operating principles. The behavior of these two cabinet members and the tenor of their pronouncements during the days following the expropriation reflected deep differences of opinion and an intense power struggle. But it was not simply a personal struggle. The ministers' differences were linked to the divergent "constituencies" that each one believed he served. In private interviews, Tello said he felt responsible to Mexico's "popular sectors," to workers, peasants, and lower-middle-class entrepreneurs. Silva Herzog, in contrast, kept the views of international and domestic bankers and their

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business associates uppermost in his mind as he led Mexico's debt negotiations.[17]

Following the nationalization, Tello generally tried to avoid the press but indicated that (contrary to Silva Herzog's prediction) nationalization would mean a change in bank operating principles. Interest rates would be lowered and credit allocated according to socially defined needs. Silva Herzog meanwhile assured the world press gathered at the IMF–World Bank meetings in Canada that the banks would continue to operate as before, paying attractive interest rates and following market signals. Many prominent Mexican journalists were already gathered in Toronto to cover Silva Herzog's negotiations with the international banking community. Thus through the reports they sent back to Mexico, Silva Herzog succeeded in undercutting Tello's announcements in Mexico City.

Even before he left for Toronto, Silva Herzog had managed to undermine Tello's capacity to use the nationalized banks to implement significant economic change. Silva Herzog opposed several of the newly designated bank directors as sharing too much of Tello's "populism," and he refused to leave for Toronto until several names had been stricken from the list of new bank directors. "There was a tremendous battle," recalls one government official. "But for Silva Herzog, Tello's old mentor, Flores de la Peña, would have taken over one of the big four banks" (Robinson 1982, 50). Silva Herzog also opposed the appointment of Porfirio Muñoz Ledo, former labor minister under Echeverría and a leader of the opposition Corriente Democrática in the 1988 elections. In the end, the list included two former finance ministers, a host of former officials of the central bank, and a variety of government technocrats. As one bank analyst noted, "some were inexperienced, but there was no one the former owners could object to" (Robinson 1982, 50). A banker waiting with several colleagues at the home of private banker Carlos Abedrop for word of the outcome of Silva Herzog's negotiation remembers a phone call late the night before the finance minister left for Canada. The message was, "The good guys won" (Robinson 1982, 50).

Mexico's vulnerability to international creditors shaped the course of debate over implementation measures within the cabinet and within the governing PRI. Incoming President de la Madrid had derived some portion of his political support in the campaign for the nomination from domestic bankers and large-scale industrialists.[18] He sympathized with their opposition to the nationalization. Moreover, he opposed the break

17. I use the term *constituency* guardedly. Both Tello and Silva Herzog are technocrats with no direct electoral constituencies. For more on the ideological affinities and political behavior of different segments of the Mexican political elite, including so-called technocrats and *políticos*, see Centeno and Maxfield (n.d.).

18. Interview with a former official of the Mexican government in Mexico City, March 1985.

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with Mexico's international creditors implied by a debt moratorium and hoped to secure new international financing through successful negotiations with creditors.

According to Tello, de la Madrid's position on the nationalization made López Portillo move cautiously in adopting a strategy vis-à-vis the bankers. The choice was *dar el golpe y no machacar* (to hit but not smash).[19] If López Portillo and Tello had bound the incoming administration to pursue the extensive state control possible through bank nationalization by pushing detailed and binding legal and institutional changes or popular mobilization, they could have provoked a serious rupture within the PRI. One government official closely involved in the nationalization reported, "The whole system was already affected. . . . President-elect de la Madrid had not received the measure warmly. . . . If on top of this, one had developed a legal system that bound the incoming government, . . . this could have created a more conflictive situation for the Mexican political system than the one that already existed."[20] López Portillo made this point clear in a speech he gave at the end of October 1982, as outgoing president: "I would commit an unpardonable impropriety if I tried to definitively reorganize bank functions because this is the job of my successor. . . . [M]y administration would be irresponsible if it moved further with reorganization. This reorganization will be in better hands than mine with the next administration."[21]

Pressure from incoming President de la Madrid and from the IMF brought the quick repeal of exchange controls that López Portillo had imposed hand in hand with the bank nationalization.[22] De la Madrid opposed exchange controls and intended to remove them once in office partly because removal was a condition of IMF standby loan negotiations. A letter from the Mexican government to the IMF in November 1982 stated, "[T]he actual exchange system was established under crisis condi-

19. Interview with a former government official, San Diego, Oct. 1984.

20. Interview with a former official of the Mexican government in San Diego, Calif., Oct. 1984.

21. José López Portillo, "Reclama la crisis decisiones que ya no pude tomar," *Excelsior,* 29 Oct. 1982, p. 1.

22. Tello had originally hoped to use exchange controls to prevent capital flight and institute government budgeting of foreign exchange. In his first public address as director of the Banco Central, Tello announced a two-tiered exchange rate: a preferential rate of fifty pesos to one dollar, and a rate of seventy to one for nonessential transactions like tourism. Priorities for allocating dollars at the preferred rate were ranked as follows: obligations of the federal government, those of the rest of the public sector as determined by the finance ministry, obligations (including salaries) connected with Mexican representation abroad and membership in international organizations, obligations of credit institutions, authorized imports of basic foodstuffs and intermediate and capital goods for basic needs, imports of intermediate and capital goods for existing industrial plant or expansion according to government priorities, obligations of the private sector to foreign creditors contracted before 1 Sept. 1982, necessary obligations contracted in the border free-zone, and royalties and other obligations of foreign subsidiaries as approved by the government.

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tions. The Mexican authorities will adjust it to conform with . . . a policy of flexible exchange. . . ."[23] De la Madrid's opposition thus weakened López Portillo's commitment to exchange controls and other parts of the policy package that Tello considered necessary to implement nationalization successfully.

In Mexico, private international bankers (as opposed to official creditors) played a less direct role in debates over the extent of implementation of bank nationalization than they had in France. Foreign banks other than Citibank had long been excluded from operating in Mexico. Citibank, along with the national Banco Obrero, was excluded from the nationalization. In negotiating over the extent of nationalization, Mexico's private bankers did not have the direct lobbying assistance from private international bankers that French bankers had enjoyed. But as has been shown, the context of debt crisis made those in the Mexican political elite who shared the bankers' mind-set, Silva Herzog in particular, relatively more powerful than their French counterparts.

On 3 September 1982, two days after the expropriation decree, Mexico's former bankers began a series of secret meetings to discuss their possible response. Several days later, they were joined by a few large-scale industrialists (Robinson 1982). On 5 September, Carlos Abedrop, president of the Asociación de Banqueros de México, issued a protest of President López Portillo's charges against the bankers to the daily newspapers in Mexico City. Several present at these meetings wanted to pursue a strategy of open confrontation with the government. Subsequently, nineteen of the fifty-six banks affected by the nationalization filed suits in the Mexican Supreme Court to block implementation of the nationalization decree (all of them lost by early 1983). The majority, however, preferred to follow the bankers' political tradition of trying to avoid public confrontation, hoping that private pressure and negotiation would bring quick indemnization for expropriated property and the return of the nonbank stocks expropriated along with the banks. The bankers had supported de la Madrid in the political juggling preceding the PRI's choice of presidential candidate and were hoping that their influence with him would help them negotiate successfully.[24] To some extent, it did.

Tello indicated shortly after assuming directorship of the central

23. Quoted in Tello (1984, 219). Exchange controls were relinquished, and private exchange brokerages continued to operate, many of them owned by former bankers. Their power in the exchange market, in the absence of controls, was manifestly evident in the first half of 1985. On rumors of a stepped-up devaluation of the peso, border exchange houses bought dollars in such quantities that they squeezed the banks out of the market. To capture dollars—given the stiff competition from private-exchange brokers—the banks were forced to open their own exchange houses. One commentator suggests that in these events, "paradoxically, the ex-bankers robbed us [the nation] again" (Hernández Rodríguez 1986, 253).

24. Interview with a former official of the Mexican government in Mexico City, Mar. 1985.

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bank that some portion of the expropriated stocks would be sold back to the private sector. He agreed to sell 34 percent of stocks in the banks themselves and all stocks owned by the banks in nonstrategic industries. The bankers, however, were most interested in regaining control over the nonbank financial institutions that their banks had owned. In the short term, these enterprises were more profitable than many industrial concerns, especially at a time when many industrial companies were heavily indebted (Alcocer 1984). Regaining the nonbank financial institutions that had been part of their economic empires would allow them to develop a parallel private-sector financial market that would be free from government control. After negotiating behind the scenes with the former bankers, the de la Madrid administration announced provisions in 1984 for the sale of expropriated stocks of insurance agencies, stock brokerages, and other nonbank financial operations.

Comparing the Mexican and French cases highlights the extent to which the power of the Mexican opponents of nationalization (like Finance Minister Silva Herzog) stemmed from Mexico's vulnerability to international creditors. French Finance Minister Delors played a role similar to that of Silva Herzog in trying to moderate the impact of the bank nationalization, but he was not as successful. Delors "did almost everything he could to play down the importance of the [nationalizaton] bill and to limit its effects" (Fabra 1985, 176). He argued for only 51 percent nationalization instead of the 100 percent eventually ratified by the French Parliament. He also argued that banks should be allowed to maintain managerial autonomy: "A banker should be able to refuse to give credits to clients whom he judges to be poor risks by his criteria" (Lewis 1981, 27). Delors wrote each of the newly appointed heads of nationalized banks in early 1982, assuring them of total independence in management. But three months later, when Delors was out of the country at the annual meetings of the IMF and the World Bank in Helsinki, the French cabinet reversed this position. The banks were forced to come up with six billion francs for ailing state industries.[25] In this instance, Delors's power within the cabinet was clearly less than that derived by his Mexican counterpart from Mexico's desperate situation of external debt.[26]

Foreign Bankers and Conflict over Implementation Measures

In France, disunity within the governing party and the weight of international forces on the opponents' side were particularly evident in

25. "Banks Ordered to Fund French State Industries," *Financial Times,* 13 May 1982, p. 2; and "Banks' Independence under Threat," 7 July 1982, p. 12.

26. While Delors was not as powerful as his Mexican counterpart in 1982, the importance placed by international financiers and foreign treasury ministers on his moderating role within the government increased his influence considerably as France's external financial situation became more fragile in 1983.

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debate over the extent of nationalization. In contrast with the situation in Mexico, however, international influence stemmed from the direct pressure of foreign bankers operating in France rather than from the nation's foreign indebtedness. Cabinet ministers wrangled endlessly over whether foreign banks operating in France (such as Barclay's, Midland, Morgan Guaranty, and Bank of America) should be included in the nationalization bill that the administration was planning to submit to parliament for ratification. Chevènement thought they should be, while Rocard and Delors thought they should not. Representatives of the foreign banks considered Delors, who had frequently emphasized the need to retain foreign confidence in France, to be their interlocutor in this debate and believed that he "was likely to succeed in having foreign banks excluded from the nationalization program."[27] Fearing the impact on France's relations with the United States and other European countries, Mitterrand decided that foreign banks should be exempt from nationalization.[28]

On the related issue of whether to nationalize the foreign subsidiaries of French banks like Paribas and Suez, representatives of foreign banks lobbied government officials directly in a series of private meetings. The Paribas case in particular generated controversy. Paribas owned subsidiaries jointly with international financial concerns such as A. G. Becker and S. G. Warburg. Paribas Chairman Pierre Moussa met with the Rocardians in the cabinet to argue for exempting these subsidiaries. He issued a veiled threat that if such subsidiaries were nationalized, the foreign partners would pull out. Representatives from Paribas's partner banks also met with government officials to confirm this position.[29] The result typified policy outcomes in cases of political stalemate. Under the terms of the nationalization bill, foreign subsidiaries were included. But a loophole was left specifying that nationalized banks that ran into operating problems with foreign enterprises could arrange to reprivatize part of their operations. Finance Minister Delors personally spread the message to the bankers to "be imaginative" in solving the subsidiary problem.[30] Paribas rose to the challenge: with the aid of Swiss, Belgian, and Canadian partners, Paribas transferred ownership of its international operations offshore, thereby evading nationalization.

Comparing the debates over aspects of implementation of bank nationalization in Mexico, Peru, and France also reveals that international bankers, due to their greater position in the domestic economy, played a larger role in France in lobbying directly for compensation than they did in Mexico or Peru. In Mexico, negotiations over the amount and form of

27. "Ministers to Meet on French Bank Takeovers," *Financial Times,* 21 Sept. 1981, p. 28.
28. "Paribas, the Swiss Connection," *Financial Times,* 23 Nov. 1981.
29. "Paribas on a Knife-Edge," *Financial Times,* 9 Sept. 1981.
30. "Paribas, the Swiss Connection," *Financial Times,* 23 Nov. 1981.

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indemnization, as well as resale to the private sector of nonbank stocks expropriated along with the banks, began almost immediately after Tello took over as director of the central bank. Three areas of contention emerged regarding indemnization: the actual extent of bank stock holdings, the valuation of those holdings once defined, and the form and timetable for repayment.[31]

Debate over valuation centered on whether bank holdings would be assessed according to their book value, their nominal capitalized yield at a specified interest rate, or their market value. Another point discussed was the maturity and interest rate on the government bonds issued as payment. Tello proposed using an adjusted accounting value and issuing ten-year bonds at a lower-than-market interest rate, placing total compensation at 69 billion pesos (roughly 1 billion dollars). Under this scheme, owners of the three largest banks (BANAMEX, BANCOMER, and SERFIN) would have received a total of 47 billion pesos. This plan was not acceptable to the former bankers, however, and the negotiations extended into the de la Madrid sexenio. They were concluded in 1983 with the three banks receiving compensation more than double the amount proposed by Tello, some 118 billion pesos (Tello 1984).

In the French case, the bankers found a key interlocutor in the judicial system. The Council of State, an advisory legal body, deemed the government's proposed compensation too low. In response to the council's objections, the government sweetened the terms of indemnization. Compensation would be calculated at 50 percent of the average annual nominal stock exchange value of the bank over the preceding three years multiplied by three, plus 25 percent of the net assets of the bank and 25 percent of the annual average net profits earned in the preceding three years multiplied by three. This formula represented an increase of 10 to 15 percent in the compensation costs paid by the French government to the banks. The bankers still did not consider this amount sufficient. International banks with shareholdings in French banks met several times to develop an alternative proposal. After a London meeting in late October 1981, these banks (which included Wells Fargo and Bank of Scotland)

31. Defining the extent of bank holdings was difficult because bank books showed only an aggregate value for stock holdings, with no detailed breakdown of assets. Bankers or representatives from their stock brokerages would often go to company board meetings representing a percentage of stock holdings that exceeded the bank's actual holdings. As is done in other countries (like West Germany), these bankers would represent their bank's holdings, the holdings of their bank's nonbank financial subsidiaries, the personal holdings of the bank owners, and the stock holdings of many of their clients. Such a combination of stocks would give them significant influence over board decisions, but it did not correspond to their banks' book assets. It was particularly difficult to separate corporate bank holdings from the personal holdings of bank owners and directors. A final difficulty arose because most Mexican commercial paper is anonymous, marked only "pay to bearer" (Wise and Ortiz Dietz 1982, 43–53; Corro and Zúñiga 1982).

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issued a statement saying, "the compensation proposals, as they presently stand, fall short of generally accepted principles of international law concerning adequate, prompt and effective compensation." They suggested that a fair valuation would total about twice that resulting from government guidelines.[32] Rumors that U.S. shareholders might sue in U.S. courts to attach French bank assets in the United States added weight to this demand. In January 1982, the final legal arbiter, the French Constitutional Council, rejected the compensation terms that had already been increased once.[33] In the end, the government agreed to pay roughly half again as much as the original offer.[34]

The Peruvian Case

As in France and Mexico, dissension within the Peruvian government and governing party hindered implementation of the bank nationalization, but the direct role of international forces was less significant. Although international factors played a role in setting the stage for the Peruvian nationalization decision, foreign banks had far less at stake in the country compared with their investments in France. Peru's leaders believed that they had relatively little to gain from trying to maintain good relations with official international creditors, as many of Mexico's leaders had attempted to do. Private domestic bankers, the major opponents of nationalization in Peru, nevertheless found important domestic allies in the judicial system, within the ruling party, and in right-wing parties and organizations. Another difference was that popular mobilization and the threat and actual use of military and police forces played much larger roles in Peru than in the other two countries.

As in France, judicial intervention played a large role in the debate over Peruvian bank nationalization. It should be recalled that García had simultaneously announced the nationalization bill, closed foreign-exchange houses, and ordered legal government intervention in all the nation's banks. But within days of this announcement, the Peruvian

32. "Bankers Criticize Mitterrand Plan," *Financial Times,* 27 Oct. 1981, p. 38.

33. "France Not to Increase Foreign Payments for Nationalisation," *Financial Times,* 28 Oct. 1981, p. 1; and "We've Got Them on the List," *The Banker,* Oct. 1981, p. 10.

34. This account of opposition to bank nationalization in the implementation phase differs sharply from that of Brannon (1984). He concludes, on the basis of little evidence, that "although banks in both France and Mexico raised legal protests to the measures, both banking communities quickly locked step with the government and pledged cooperation after the legislative acts" (Brannon 1984, 12). Brannon suggests that a high degree of concentration in the financial sector, lack of an autonomous central bank, great prior government intervention in credit markets, and close cooperation between banks and government all facilitated implementation. Although one could quibble with his "measurement" of these variables in each case (for example, the extent of the autonomy of the Banco de México), these estimates make interesting hypotheses to test in further research on the politics of financial policy. On the role of central bank autonomy, see Maxfield (1990b).

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courts had ruled the intervention illegal. Fearing that right-wing forces would use this ruling as pretext for a coup, García backed down on the intervention. One official of the finance ministry admitted sheepishly, "We overlooked the legal aspect."[35]

Peru's debt-strapped economy and fragile political situation gave García so little room for maneuver that the bank nationalization effort created Peru's worst political crisis in fifteen years, even without the kinds of direct foreign pressure exerted in the Mexican and French cases. While the nationalization bill was debated in the Peruvian Congress, the right wing exploited the move to its benefit, arguing that it signaled growing totalitarianism. Enjoying newfound popularity, right-wing parties united under the banner of Fredemo, which was led by novelist-turned-politician Mario Vargas Llosa. They held mass rallies and organized media campaigns to protest the nationalization.

Congressional representatives from the Alianza Popular Revolucionaria Americana (APRA), President García's own party, were split over the nationalization. Those opposing it demanded a reduction in the scope of the bill to exclude nonbank financial institutions. In the end, most APRA legislators agreed to vote for the bill once it was limited to the countries' ten domestic banks. Members of the left-wing Izquierda Unida (IU), sometime APRA allies, demanded release of one hundred political prisoners in return for their support of the legislation. The government refused, and the IU retaliated by boycotting the vote on the nationalization bill, as did the center-right and right parties. Thanks to APRA's large majority in Congress, however, the bill passed early in October 1987.

The bankers adopted the position that they were not legally required to relinquish control until they were fairly compensated. García delayed signing the bill while compensation terms were debated. But a surprise move by owners of the largest bank, the Banco de Crédito, to evade the nationalization by selling off a majority of shares to bank employees spurred García to sign the legislation and prepare to take over the banks. Bank owners vowed to continue fighting the takeover in court. Meanwhile widespread opposition from right-wing popular mobilizations and the military encouraged the bank directors to prepare to resist government intervention physically. On 15 October, García sent tanks to break down bank doors and remove bank officials barricaded inside the country's three largest banks. The continuing dispute then centered on the Banco de Crédito. When the Peruvian securities exchange agency ruled this bank's stock transfer to employees illegal, bank employees physically resisted intervention by government auditors. Police used tear gas to disperse them. Several days after this clash between employees of

35. "Senate Is Pressed to Defeat Banking Bill," *Latin America Weekly Report*, 27 Aug. 1987, p. 9.

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the Banco de Crédito and police, a judge nullified the previous ruling and authorized the bank employees, as the bank's legitimate owners, to appoint a new director. In March 1988, García conceded that the Banco de Crédito was a worker-owned, self-managed, private corporation. By this time, the nation's other nine banks had been placed under the control of government-appointed committees, although they managed to obtain a judicial injunction allowing them to continue to be administered by their shareholders at least until compensation terms were set.

To summarize, in the Peruvian case, the implementation issues debated were similar to those raised in the French and Mexican cases. But government legitimacy was so fragile and the foreign financiers' stake in the country so limited that popular mobilization and the threat and use of military and police force became the main factors in limiting implementation. The Mexican and French cases reveal a common pattern in debates over the autonomy of bank operations, the scope of nationalization, and the terms of compensation. The outcome of the struggles between proponents and opponents of bank nationalization within the cabinet and the governing party were shaped in part by the direct intervention of foreign financiers in the French case and by the indirect leverage accorded by the nation's international financial situation in the Mexican case. Thus international pressures set the stage for nationalization and also help explain its limited implementation.

THE LEGACY OF NATIONALIZATION

The Mexican bank nationalization was designed to give the state a powerful new instrument for regulating the economy (*rectoría económica*). Architects of the bank nationalization believed that exchange controls and authority over credit allocation by the nationalized banks would give the state the capacity to discourage speculation and promote productive investment in agriculture, social services, and strategic industries producing wage goods or basic infrastructure. All the plans for the nationalization—the bank nationalization decree, new bank regulations issued in December 1982, the Plan Nacional de Desarrollo 1983–1988, and the Programa Nacional de Financiamiento del Desarrollo—indicated that the newly nationalized banks should channel credit to a large number of small and medium-sized borrowers and should support production, distribution, and consumption of wage goods (Márquez 1986, 182–83). Among the goals of financial policy were to increase internal savings and to decrease the cost and concentration of credit allocation among a small number of large corporate borrowers (Mexico SPP 1983, 183–90).

Yet neither the sectoral allocation of credit nor its concentration among a few privileged borrowers changed significantly following the nationalization. In the aftermath, Mexican government officials accepted

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the recommendations of the chief executives of companies formerly linked to the banks regarding nominees to the boards of directors of nationalized banks. A former director of the Banco de México noted, "it is clear that the nationalized banks did not flee from possible influence of private corporations on the orientation of their financing and that the authorities do not consider it [business influence] contrary to the national interest, as some enthusiasts of the nationalization seemed to think . . ." (Márquez 1986, 93–94).

Concentration in credit allocation actually increased. In 1981, 252 private-sector borrowers obtained loans larger than 500 million pesos, accounting for 13 percent of all borrowers. In 1985, 924 borrowers fell into this category, representing 51 percent of all borrowers (Márquez 1986, 274). The continued concentration of bank lending among a few privileged borrowers is not surprising, given the little change in the composition of the banks' boards of directors.

Nor did the sectoral allocation of credit conform to the expectations of the bank nationalizers. Although the proportion of financing going to public housing increased, the architects of the Mexican bank nationalization were disappointed in other areas of social-service financing. The proportion of total financing going to transportation and consumer credit shrank. Financing for agriculture also decreased. The sectoral allocation of credit and continued short lending and borrowing terms for financial products also indicated that the financial system was not contributing to investment in long-maturing industrial development efforts. If anything, it was facilitating increased oil dependence. The percentage breakdown of borrowing by sector presented in table 1 indicates that the proportion of industrial financing going to oil rose between 1981 and 1984 while financing for manufacturing and construction fell. In mid-1984, 98 percent of all bank deposits were time deposits committed to the bank for less than one year.[36] A 1987 World Bank mission concluded that "the market for longer-term financial instruments has shrunk significantly in recent years" (World Bank 1987, xviii).[37]

36. According to a U.S. State Department telegram sent by Jack Sweeney: Mexico 01493, Amembassy Mexico to SecState Washington, D.C., 21 Jan. 1985.

37. Architects of the Mexican bank nationalization intended to induce a rise in private-sector investment through changes in the cost and allocation of bank credit. But even if significant changes in credit allocation patterns had occurred, it is doubtful that such an outcome could have overcome the effects of economic austerity and political uncertainty on private-sector investment decisions. Private-sector investment fell 17 percent in 1982 and 25 percent in 1983. Private-sector investment in manufacturing, which accounts for 90 percent of Mexican manufacturing investment, fell to 1977 levels in 1983. In 1984 private-sector investment recovered somewhat, growing 17 percent, although one must consider the low 1983 base from which this growth was measured (Maxfield 1989). Evaluating the Mexican government's hopes for growth in the role of the private sector in economic recovery, a 1987 World Bank mission concluded that "the private sector has seen its relative economic position hold stationary, or even diminish. . . . [A] leading role for the private sector in bringing about

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TABLE 1 Mexican Commercial Bank Credits by Borrowing Sector, 1981–1984

Sector	*1981 (%)*	*1984 (%)*
Agriculture, livestock, mining, forestry, fishing	10.8	8.4
Energy industry (oil and electricity)	2.7	6.7
Transformation industry (manufacturing, nonmetallic minerals, steel and metal products, mechanical and electrical machinery)	24.1	23.0
Low-income housing	3.2	5.3
Transport	2.0	0.9
Consumer credit	5.9	4.4
Government	3.4	15.3

Source: Calculated from data in Banco de México, *Indicadores económicos y de moneda y banca.*

Patterns in allocating commercial bank credit also became increasingly irrelevant for guiding investment as the "parallel" nonbank financial markets began to attract savings at the expense of the commercial banking system. By extending Tello's decision to relinquish expropriated nonbank stocks to include nonbank financial institutions, the de la Madrid administration had allowed the development of a parallel financial system that diverted resources away from Tello's strategic development priorities, such as non-oligopolistic industry, agriculture, and housing.

Former bankers, including BANAMEX's Legoretta family and BANCOMER's Espinosa Yglesias, regained total control of the insurance companies, stock brokerage houses, leasing firms, and warehousing concerns that had been part of their financial empires. For example, Agustín Legoretta bought back the Casa de Bolsa BANAMEX, changed its name to INVERLET, and opened for business in 1984. His brother Eduardo opened the brokerage house called Operadora de Bolsa. Alberto Baillares of the Grupo Cremi (which included Banca Cremi) bought back Bolsa Cremi. Espinosa Yglesias bought back Seguros BANCOMER (now called Seguros de México). The Garza-Sada family, captains of the Grupo Monterrey enterprises including BANPAIS and BANCO SERFIN, bought back Casa de Bolsa BANPAIS, Arrendadora BANPAIS, and Aseguradora BANPAIS. The former owner of Banco del Atlántico, Carlos Abedrop, established the Grupo Olmeca, which comprises a brokerage house and roughly ten companies formerly owned by banks in electronics, chemicals, petrochemicals, and consumer goods. Olmeca also formed an "international

about recovery has yet to emerge" (World Bank 1987, 29).

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financial engineering" company. These newly reprivatized nonbank financial institutions quickly began to compete for savings and created a parallel financial market beyond state control. Total nonbank financing soared from 1 percent of the gross domestic product (GDP) in 1980 to 7.4 percent in 1988 (Moreno 1989, 10).[38]

By 1985 the Mexican stock market, an important segment of the parallel financial market, was booming. Placement of commercial paper grew 59 percent in real terms in 1985. Stock brokerages became major competitors with the banks for financial resources (Peñalosa 1986, 8). The twenty-nine private financial brokerage houses operating in 1984 had a collective purse equaling approximately 40 percent of the assets of the nation's two largest newly nationalized banks, BANCOMER and BANAMEX (Hernández Rodríguez 1986, 253). The development of nonbank financial institutions aggravated competition for bank credit, while savings rates remained depressed. This trend drove nominal interest rates up, leading representatives of small and medium-sized industries (who were largely excluded from the stock market) to complain that financing was no easier to obtain and no less expensive than before the nationalization.[39] Financing obtained through the parallel financial system, by selling stock or commercial paper, was as much as 20 percent less expensive than that available through the banking system. Access to this source of financing, however, was limited to the two hundred Mexican corporations registered on the stock exchange.[40]

38. The former bankers' entry into financial activities other than banking was one reason for the boom in stock-market activity and for the growing irrelevance of allocating commercial bank credit. A second reason for growth of the stock market was the Mexican government's urgent need for financing. Tello, chief author of the bank nationalization plan, expected the move to improve public-sector finances by lowering the cost of internal borrowing from domestic banks. Indeed, the external debt crisis forced the Mexican government to turn to internal debt for its financing needs. During 1983 and 1984, the government financed expenditure through a system of bank-reserve requirements, at negative real interest rates. But on the premise that government financing should not be inflationary, the new banking legislation announced in January 1985 limited reserve requirements to 10 percent (they were formerly about 50 percent) and also placed a maximum nominal ceiling on central bank credits to the federal government and its state-owned enterprises. Under the new government-financing regime, the public sector would try to raise funds through issuing government treasury bills known as CETES (Certificados de Tesorería). CETES transactions accounted for much of the growth in stock-market activity.

39. "CANACINTRA: poco importa la captación bancaria si el crédito sigue siendo caro e inaccesible," *El Financiero,* 30 Mar. 1984, pp. 4, 7, 12.

40. Stock brokerages earned high returns for their operations in the parallel portion of the financial system not controlled by the government. In addition to helping secure corporate financing, stock brokerages found lucrative business in a Mexican merger boom similar to the U.S. boom in the mid-1980s. In 1984 large-scale entrepreneurs, most of them associated with former bankers and their repurchased nonbank financial institutions, began to compete to purchase undervalued stocks of companies that were starting to recover from the 1982 crisis. The process reached fever pitch in mid-1984, when several stock brokerages were shut down for using confidential information to buy and sell stocks at spectacular profits. In 1986 the Mexican stock-market index rose by 600 percent, making it one of the best performers in the

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The boom in capital markets drew financial resources away from the banking system. Total deposits in the banking system fell from 25 percent of GDP in 1980 to 15 percent in 1988. But after correcting for the irregular practices that these banks continued to use to inflate their deposit record, the real rate of growth in bank deposits in 1984 was negative.[41] In real terms, it fell 13 percent in 1985. Nor did the number of depositors rise.[42] Dividing deposit levels by the money supply reveals that the flow of financial resources through banks was as low in 1984 as in 1981 and 1971, both record low years. The low level of financial resources controlled by banks aggravated the financing shortage faced by companies lacking access to the nonbank financial system and led to repeated calls by the business organizations most representative of small and medium-sized entrepreneurs (CONCAMIN and CANACINTRA) for a financial policy that would increase availability and lower the cost of working credit. The World Bank reported in 1987 that "[b]orrowers ineligible for preferred credit are obliged to either self-finance (difficult in a recession), draw from foreign assets, . . . or borrow from the costly free credit market, where effective, *ex post,* annual interest rates on short term loans were running 25 percent above inflation in 1986" (World Bank 1987, xviii).

Evidently, the Mexican bank nationalization did not change the sectoral and size concentration of bank-credit allocation as its architects had hoped. Equity financing began to replace bank credit and the nonbank private portion of the financial system boomed. In March 1989, partly in response to pressure from the World Bank, Mexico announced plans for a thorough financial liberalization that was to include eliminating the credit controls and preferential credit schemes that proponents of the nationalization had hoped to strengthen. In early 1990, Mexican President Salinas de Gortari proposed a constitutional amendment to reprivitize the banks, and it passed the congress.

Similar trends are evident in the French case. Credit allocation patterns changed little, equity markets began to replace credit markets, and liberalization plans were adopted not long after the nationalization. As in the Mexican case, those appointed to head the newly nationalized banks came from the banking community and guaranteed at least partial continuity in bank operations.[43] Despite the instance mentioned in which the government forced the banks to lend to several state-owned enter-

world. Many observers interpreted this trend as a sign of the strength of the Mexican economy, but they failed to note that only one new issue had appeared between 1981 and 1986.

41. Among these irregular practices is making loans larger than needed by the borrower, who has prearranged to redeposit part of the loan immediately. This practice is a form of "back-to-back" loan, which the corporate borrower reinvests entirely in the bank.

42. "Se estancó en 84 la cifra de depositantes de la banca," *Unomásuno,* 7 Apr. 1985, p. 8.

43. "State Takeover Leaves Few Scars," *Financial Times,* 4 May 1982, p. ix.

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prises, one trade journal observed in late 1983 that little had changed in the way credit was allocated in France. Surveying the impact after several more years of hindsight, another observer concluded that the "allocation of credits to the economy has not been greatly altered by the nationalization" (Philip 1985, 184). As in Mexico, real bank-lending rates rose after early 1983, despite the nationalizers' hopes that they would drop (Marsh 1985, 91). Despite the stated intentions to restructure the banking sector radically by reducing the number of banks to ten, no such restructuring occurred. In fact, after 1983 the French government discreetly encouraged the reappearance of private banking. As in Mexico, bankers whose holdings had been expropriated bought their way back into the private financial system (Fabra 1985, 179). The nonbank private portion of the financial system boomed. Whereas bank credits in 1982 accounted for 70 percent of financing, by 1987 they were down to 40 percent (Fenton 1987, 35).

In Peru, implementation of bank nationalization did not proceed far enough to have the impact on credit allocation that García had sought. Real interest rates did fall, but this outcome simply drove depositors away from the banks. As in Mexico and France, the parallel financial system boomed. By late 1988, it accounted for one-third to one-half of all lending to the private sector.[44]

CONCLUSION

International financial integration increases capital's power to constrain government economic policy by threatening to exit. In other words, it increases the structural power of capital, particularly of those actors with the most liquid assets. In the three bank nationalizations examined here, government elites perceived the internationalization of financial markets and the power it accorded domestic financiers to be eroding national control over monetary affairs and industrial capacity. Nationalization was rationalized as a way to regain national economic sovereignty. In the implementation phase, the opponents of nationalization benefited in France from direct intervention by foreign bankers operating in the country and in Mexico from indirect leverage accorded to foreign bankers by the country's international financial vulnerability.

International financial "dependence" or "interdependence," measured by proxy as central bank control over contraction and expansion of the money supply and by the extent of foreign debt and number of foreign banks operating within the nation, explains part of the motivation for bank nationalization as well as the success of opponents in limiting it. Although this proposition could be derived from advanced formulations

44. "Declining Role of the Formal System," *Latin America Weekly Report,* 10 Nov. 1988, p. 8.

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of dependency "theory," the suggestion that similarities can be observed between the impact of international conditions on domestic politics in relatively authoritarian "underdeveloped" countries and in industrialized democracies points to the need for a generalized theory of the international political economy of national financial policy.[45] To this end, it may be time to break the taboo, originally imposed by dependency theorists, against importing theory from the "developed" world to the "underdeveloped" world. Rather, studies of how international economic conditions shape coalitional politics in the United States, for instance, may be useful for Latin Americanists studying the politics of economic policy.[46]

45. The *dependistas* I refer to include Fernando Henrique Cardoso, Enzo Faletto, and Peter Evans (see Cardoso and Faletto 1978 and Evans 1979). They intended for their work to be interpreted as providing a framework rather than a positivistic theory.

46. See Gourevitch (1986). For other examples of Gourevitch's "second-image reversed" approach applied to countries other than the United States, see Gourevitch (1978), Katzenstein (1985), and Rogowski (1989).

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