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State, Class and the "Fixing" of Capitalism in Mexico[1]

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In 2007, the American economy experienced a severe crisis which spread across the whole spectrum of credit and financial markets. This also led to declining rates of investment, lower consumption and growing unemployment in that country. At the end of 2008, Agustin Carstens, the former Minister of Finance (2006-2009) and head of the Mexican central bank (2010-2016), expressed in an interview that economic stagnation in the US would have a limited effect on the Mexican economy. When the interviewer noted that Mexico usually catches "pneumonia" when the US has an economic "cold," the Minister responded that this time the Mexican economy would only "catch the sniffles."[2] The argument was that Mexico's sound policies protected the economy from external shocks.[3] This however did not materialize in Mexico. Mexico's GDP declined seven percent and 44.2 percent of the Mexican population lived under poverty in 2009.[4]

The policy response to the impact of the American crisis on the Mexican economy was a continuation of monetary policy based on public debt management and accumulation of foreign reserves to maintain the value of the peso. Fiscal spending on infrastructure, production subsidies and social program only had a secondary role in state policy. Critics pointed out that the state response to the 2007-2010 crisis intensified existing weaknesses in the Mexican economy because the appreciation of the peso reduced the competitiveness of Mexican exports.[5] Also, critics argued that foreign ownership of banks and financial opening only intensified the effects of the US financial crisis on Mexico. Foreign ownership of the banking sector and Mexico's monetary policies therefore diverted funds away from production and job creation.[6] High unemployment and poverty rates in Mexico during 2009 seemed to confirm these critiques to state policy.

Explanation of these outcomes, however, cannot be confined to considerations of policy errors or mismanagement. Rather, it is central to understand the societal forces that support and help sustain those policies. The paper argues that an analysis of the class structure in Mexico, particularly the capitalist class, sheds lights on the power relations involved in the making of policy responses to the recent crisis in two ways. First, the

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[2] Notimex. "México, más fuerte que en el pasado: Carstens," *El Universal*, 3 June 2008. Accessed 12 July 2011.

[3] See: Pedro Aspe Armella, "Los Orígenes de la Crisis," *Este País*, 215, February 2009, pp.8-12; Miguel Mancera Aguayo, "Crisis Económica en México: 1976-2008," *Este Pais*, 214, January 2009, pp. 21-30; Francisco Gil Diaz, "Fortalezas y Debilidades de la Economía Mexicana," *Este País*, 215, February 2009, pp. 29-31.

[4] Instituto Nacional de Estadística, Geografía e Información (INEGI). *Sistema de Cuentas Nacionales de México 2008-2011*, Aguascalientes, 26 May 2011; Comisión Económica para América Latina y el Caribe (CEPAL). *Anuario estadístico de América Latina y el Caribe 2009*, Santiago de Chile: Naciones Unidas, 2010.

[5] See: Carlos Tello, Sobre la Crisis Económica," *Este País*, 214, January 2009, pp. 8-13; Rolando Cordera Campo et al. "México Frente a la Crisis: Hacia un Nuevo Curso de Desarrollo," *Economía Informa*, 6:18, 2010, pp. 7-60.

[6] See: Eugenia Correa, et al. "Mexico's Economic Catastrophe: An Innocent Victim of the Global crisis or a Homegrown Affair?," *International Economic Policy Institute Working Papers*, 1, 2010; David Ibarra, "El Caos Financiero," *Este Pais*, 214, January 2009, pp. 14-18; Rolando Cordera Campo, et al. "de Crisis a Crisis: Del Cambio de Régimen Económico a la Transición Inconclusa," *Economía Informa*, 6: 17, pp. 9-29; Gregorio Vidal, "Los Oligarcas Rentistas Siguen Ganando," *Memoria* 250, pp. 12-17.

position of firms operating in Mexico in relation to portfolio and direct investment in the national economy changed throughout time. While the interests of exporting firms, domestic oligopolies and financial capital were evidently fragmented during the import substitution industrialization period (ISI) between the 1940s and the 1970s, this changed as financial and direct investment objectives were simultaneously pursued by firms and financial investors. In other words, the tensions between productive and financial processes were further internalized within firms and investors' interests after the 1980s. This shaped the state response to the crisis because public debt management and reserve accumulation attempted to conciliate these internalized tensions and guarantee capitalist profits in both financial and direct investments. Second, economic concentration and the weakening of democratic and progressive labour organizing in the country set the conditions that allowed the Mexican state and the capitalist class to pass the costs of the current crisis onto working and middle classes in the form of low wages and tax increases during the 2007-2010 crisis.

Overall, the balance of power in Mexico and the intertwining of capitalist classes in Mexico to international finance and national economic activities explain the focus on monetary policy in the form of public debt management and reserve accumulation. Following this introduction, the chapter draws on the concepts of class, capital fixity and mobility and neoliberalism to show how the ensemble of class relations influences state policy and *vice versa*. The third section provides a historical overview of the policies that transformed the class structures in Mexico during the 1980s and the 1990s, which influenced the interests of the capitalist classes during the 2007-2010 crisis. The fourth sections describes the main policies promoted by the Mexican state during the 2007-2010 crisis and depicts the way in which the state mediated conflict among firms and investors by passing the costs of the crisis on working and middle classes. The last section offers a summary of the arguments developed in the paper.

The National Fixity of International Capital Mobility

The chapter draws on geographical political economy to analyze the mobility and fixity of capital, and the way these dynamics shape class alliances and divisions on state policy in Mexico.[7] This perspective addresses how political economic relations are spatially embedded and how space is an active moment of economic and political power and an arena of social struggle.[8] This differs from other accounts in international political economy that emphasize the coercive role of international capital mobility over state policy in developing countries.[9] In these perspectives, capital mobility seems activated by the speed of technological transactions and the mechanical effect of financial speculation and capital flight over production, which 'blindly' facilitate the movement of commodities and money. The result is that the social agents that participate and execute these processes

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[7] Eric Sheppard, "Geographical political economy," *Journal of Economic Geography,* 11: 2, 2011, pp. 319 - 331.

[8] Erik Swyingedouw, "The Marxian Alternative: Historical-Geographical Materialism and the Political Economy of Capitalism," in Eric Sheppard and Trevor Barnes (eds.) *A Companion to Economic Geography*, Malden, MA: Blackwell Publishing, 2000.

[9] See: Jakob Vestergaard, *Discipline in the Global Economy. New Political Economy.* London: Taylor and Francis, 2008; Barbara Thomas-Slayter, *Southern exposure international development and the global south in the twenty-first century* , Bloomfield, CT: Kumarian Press, 2003; John Bellamy Foster and F. Magdoff, *The Great Financial Crisis:Causes and Consequence* , NewYork:Monthly Review Press, 2009.

nationally become greatly overlooked. The territorially-bounded social relations that capital mobility produces and reproduces nationally become marginalized.

In contrast, I draw on a geographical historical materialist perspective to understand how capital mobility and fixity are two dimensions of the same processes of capital accumulation that involve the complex interaction of social forces inside and outside the state. Global capital mobility refers to the circulation of money as capital at a world scale. According to Marx, capital is not a set of assets or a stock of wealth but rather a social relation in which value is preserved and multiplied through the appropriation of surplus labour.[10] Capital does not move in the form of production to expand the capital relation, but rather the latter can only be repositioned by changing the site of the productive process via the movement of money. Other forms of money capital are also connected to the capital relation. Credit money is a claim against existing commodities that result from labour exploitation or dispossession in the form of land commodification and the conversion of various forms of property rights into private property rights.[11] Fictitious money capital, such as shares, bonds and financial derivatives, is advanced based upon future surplus labour and value flows that do not exist and dispossession strategies that have not been implemented yet.[12]

The concept of money capital involves its momentary fixity in order to realize profits in the process of production and dispossession. In other words, money as capital has to be grounded somewhere in order to appropriate and use labor and nature to produce profit.[13] Firms and investors also rely on the fixity of capital to produce a landscape where capital can circulate in a coordinated way through the geographical concentration of infrastructure, transport relations, housing, labor and consumer markets and factories.[14] Such space ensures the availability of labor and the necessary conditions to accelerate the exchange of goods and their transformation into money.[15]

Capitalist competition constantly reproduces the tensions between capital mobility and fixity. Money capital does not have to be reinvested in the locations where it was originally appropriated. Money is therefore set in motion because firms and investors are constantly seeking to avoid asset devaluation and/or increase profits. Once value is produced, it can circulate and come to rest in another spatial fix, namely a city, region, or nation-state. Firms may invest in competing factories elsewhere, new sectors of the economy or other financial assets connected to different economic activities.[16] As capitals

[10] Karl Marx, *Wage Labour and Capital*, Moscow: Progress Publishers, 1978, p. 40.
[11] David Harvey, "The New Imperialism: Accumulation through Dispossession," in Leo Panitch and Colin Leys (eds.) *Socialist Register 2004The New Imperial Challenge*, Winnipeg, MB: Fernwood Publishing, 2004, p. 85.
[12] David Harvey, *Limits to Capital*, New York: Verso, p. 267.
[13] David Harvey, *Spaces of Global Capitalism: A Theory of Uneven Geographical Development*, New York: Verso, 2006, p. 86.
[14] Henri Lefebvre, *The Production of Space*, Cambridge: Blackwell, 1999, p. 219.
[15] David Harvey, *Spaces of Capital, Towards a Critical Geography,* New York: Routledge, 2001, p. 242.
[16] See: See Neil Brenner, "Global, Fragmented , Hierarchical: Henri Lefebvre's Geographies of Globalization," *Public Culture,* 10: 1, 1997; Neil Brenner, "Between Fixity and Motion: Accumulation, Territorial Organization and Historical Geography of Spatial Scales," *Environment and Planning D: Society and Space*, 16: 5, 1998.

attempt to suspend the contradictions they face to assure their own future profitability, cheaper labour and natural resources elsewhere are exploited, trade links expanded to obtain cheaper sources overseas, and investment shifted to more profitable financial instruments with nationally denominated interest and exchange rates. [17] As such, money is reallocated internationally to become once again territorially embedded in the form of production or investment in nationally-defined currencies and interest rates to generate profits.

The mobility of capital is expressed as the relocation of production and investment via money across nation-states and its re-territorialization in specific national jurisdictions.[18] The intervention of the state is therefore crucial in territorializing capital and mediating conflict within its own jurisdiction.[19] Financial claims over future production cannot continue circulating indefinitely at the international scale without an actual basis of production and realization. Finance is forced to relate back to the monetary basis as different economic activities need to be realized in some currency, which is secured by the state. [20] Nationally and territorially defined policies also shape investors' decisions according to their preferences in terms of national money.[21] The reproduction of capital also requires the state to secure the conditions where production and reproduction can take place advantageously for capital in a national space. Economic deregulation, labour fragmentation, and profit maximization are guaranteed through the nation-state's regulatory framework and its institutional, territorial, and legal cohesion.[22] The state also plays a central role in reorganizing space through policies that regulate economic restructuring through its ability to channel money flows into infrastructure investments, urbanization, and investment-promotion programs. This involves state investment in infrastructure and state legislation to shape labor markets and the form of investment.[23]

The state is neither a passive entity nor an institution with power of its own in the Weberian sense. Rather, it is a site of struggle where class power is institutionally materialized and mediated. Nico Poulantzas notes that social classes can only exist politically by way of their relationship with the state.[24] As such, the way tensions between the mobility and fixity are resolved and mediated by the state depends on the historical specificity of the national class struggle. This suggests that state policies are never predetermined. Instead, class conflict shapes state policy and state mediation of class antagonism can also affect the ways in which different social agents and economic

[17] Harvey, *Spaces of Capital*, p. 312.
[18] Benedict Anderson, *Imagined Communities: Reflections on the Origin and Spread of Nationalism*, New York: Verso, 1991, pp. 6-7; Nicos Poulantzas, "The Nation," in Neil Brenner, et al. (eds.), *State/Space*, Oxford: Blackwell Publishers, 2003, p. 66; Dick Bryan, "Global Accumulation and Accounting for National Identity," *Review of Radical Political Economics*, 33: 1, 2001, pp. 64-5.
[19] Nicos Poulantzas, *Classes in Contemporary Capitalism*, London: New Left Books, 1974, p. 73.
[20] Harvey, *Limits to Capital*, p. 293.
[21] Dick Bryan, "Global Accumulation and Accounting for National Economic Identity," p. 60.
[22] Konstantine Tsoukalas, "Globalisation and the Executive Committee: Reflections on the Contemporary Capitalist State," in Leo Panitch and Colin Leys (eds.), *Socialist Register 1999: Global Capitalism vs. Democracy*, London: Merlin Press, 199, p. 67.
[23] See: David Harvey, *The Urban Experience*, Baltimore: John Hopkins University Press, 1989.
[24] Poulantzas, *Classes in Contemporary Capitalism*, p. 25.

activities relate to the fixity and mobility of capital.[25] Here, I define social class not only as a division of society according to income or market power but rather as a social relationship. In historical materialist terms, social class is the process through which relations of production distribute historical beings into situations of antagonism and conflict. Under capitalism, this antagonism and conflict is characterized by the relationship between those that appropriate or/and control the appropriation of surplus (capitalists) and those who produce surplus through their labour and/or those who are forced to integrate themselves into to capitalist social relations through capitalist and state-sponsored strategies of dispossession (workers).[26]

The conceptualization of class in relation to capital mobility and fixity is pivotal to understanding the balance of power in the era of financial-led neoliberalism. Financialization entails the historical transformation of the role of banks in raising money for companies. Companies now raise money in open markets, while banks seek new sources of wealth through the sale of financial products and the extraction of financial profits out of the middle classes and the poor through consumer debt. This further articulates economic and social reproduction to the financial system.[27] In other words, finance permeates every act of production, consumption and social reproduction, and use-values are transformed into potential financial assets that generate profits.[28] Neoliberalism is the use of state power to impose market-based institutions and practices in all aspects of social life.[29] Thus, the era of financial-led neoliberalism refers to the intervention of the state to reinforce the financial logic of pooling together money capital in order to divide it and expel the middle classes, the workers and the poor through artificial creation of scarcity of all kinds.[30] Since the 1980s, state intervention contributed to the incorporation of fixity and mobility considerations into firms and individual investors' interests through austerity policies, downward pressure on wages, government debt and the liberalization of markets. The reduction of government spending through the elimination of public services and low wages opened opportunities to firms and investors in consumer debt markets because wage In this way, public debt as well as liberalization of markets allowed companies and individual financial investors to multiply their sources of wealth outside the place of production.

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[25] Joachim Hirsch and John Kannankulam, "The Spaces of Capital: The Political Form of Capitalism and the Internationalization of the State," *Antipode*, 43, 1, 2011, p.23.

[26] Jonathan Foster, "Class," in John Eatwell, Murray Milgrate and Peter Newman, *Marxian Economics*, New York: WW Norton, 1990, pp. 80-81; Ellen M. Wood, *Democracy Against Capitalism*, Cambridge: Cambridge university Press, 2000, p. 80; David Harvey, *Spaces of Global Capitalism*, New York: Verso, 2006, pp. 41-50.

[27] Thomas Marois, "Finance, Finance Capital and Financialization," in Ben Fine and Marco Boffo (eds.) *The Elgar Companion to Marxist Economics*, Camberly: Edward Elgar, 2012, p. 143.

[28] Christian Marazzi, *The Violence of Financial Capitalism* , Los Angeles: Semiotext, 2011, p. 107.

[29] Philip G. Cerny, Georg Menz, and Susanne Soederberg, "Different Roads to Globalization: Neoliberalism, the Competition State, and Politics in a More Open World," in Philip G. Cerny, Georg Menz, and Susanne Soederberg (eds.) *Internalizing Globalization: The Rise of Neoliberalism and the Decline of National Varieties of Capitalism*, New York: Palgrave, 2005, p. 12; Alfredo Saad-Filho and Galip L. Yalman, "Introduction," in Alfredo Saad-Filho and Galip L. Yalman (eds.) *Economic Transitions to Neoliberalism in Middle-income Countries: Policy dilemmas, economic crises, forms of resistance*, Routledge: New York, 2010, p. 1.

[30] Marazzi, *The Violence of Financial Capitalism*, p. 41; David Harvey, *A Brief History of Neoliberalism*, Oxford: Oxford University Press, 2005, p. 74.

Financialization has transformed the compositions of the capitalist class and its interests. With financialization, the difference of interests within the capitalist class in relation to capital mobility and fixity becomes blurred. For instance, the securitization of real estate and production can create liquidity out fixity.[31] The existence and expansion of capital fixity also relies on the ability of landed interests and real estate developers to link their activities to financial assets. Likewise, financial investors could channel their surplus liquidity in fixed privatized assets to solve their "surplus absorption problem."[32] Global production firms with a financial orientation might favour the fixity of their investment in low cost locations.[33] Financial-led liberalization in turn changed the relationship of fixity and capital mobility to accumulation.

This interpretation of the capitalist class differs from explanations that separate industrial from financial capital, and national from foreign capitalists as different fractions, in which one faction dominates the other. Rather, dispossession strategies and productive and financial activities are seen as part of the same process of international capital accumulation, which entails the internalization of the tensions between international capital mobility and national fixity within capitalist classes.[34] This internalization of tensions also blurs the differences between the interests of domestic and foreign capital as national capitalists become increasingly informed by international criteria of profitability, such as investment strategies, productivity rates, and levels of economic return at home and abroad. Thus, an understanding of the mobility of finance and the fixity of production and dispossession as part of the same accumulation process shows how tensions between the motion and the fixity of capital are increasingly internalized within the capitalist classes in Mexico, particularly in the context of the 2007-2010 crisis as firms and investors attempted to reduce their share of economic losses to a minimum. Such an analysis helps us to understand the power relations behind the policy responses to the crisis in this country.

Social Class, Fixity and Mobility in Mexico

In this section, I examine historically the way in which the capitalist class articulated itself to capital mobility and fixity during the import substitution industrialization period (1940-1982) and the neoliberal period (1980s onwards). Whereas tensions between capital fixity and mobility were partially externalized from firms during the import substitution industrialization (ISI) period through state protections, these tensions became fully internalized within firms and financial investors' interests after the 1980s. Changes to the capitalist class' connections to fixity and capital mobility were shaped by transformation in Mexico's social structure, particularly the weakening of middle and working classes through austerity policies and repression and co-optation of the labour movement.

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[31] Kevin Fox Gotham, "Creating Liquidity out of Spatial Fixity: The Secondary Circuit of Capital and the Subprime Mortgage Crisis," *International Journal of Urban and Regional Research* 33: 2, 2009: 357.

[32] David Harvey, *The Enigma of Capital and the Crisis of Capitalism*, Oxford: Oxford University Press, 2010, p. 50.

[33] See: Richard Bryan, "The state and the internationalisation of capital: An approach to analysis," *Journal of Contemporary Asia* 17: 3, 1987: 253-275; Harvey, *Spaces of Capital*., p. 333; Harvey, *Limits to Capital*, p. 286.

[34] Harvey, *Limits to Capital*, pp. 316, 319.

The ISI and the Fragmentation of Capitalists' Interests

During the import-substitution industrialization period (ISI), domestic markets in Mexico were protected with restrictions on imports, foreign direct and portfolio investment. Economic protections favouring national firms and some foreign investment did not entail the commitment of these companies to exclusively investing and circulating their capital in the Mexican economy in isolation from international accumulation. These firms and investors were still entangled in both national fixity and international capital mobility. Yet state intervention during the ISI prevented the full internalization of tensions between the motion and fixity of capital within firms and individual investors' interests.

The ISI policies led to the emergence of a domestic capitalist class that was strongly linked to capital fixity within the country in order to obtain the benefits of state subsidies and market protections from internal and external competition.[35] Domestic capitalists were intertwined with international capital mobility through their participation in financial groups. Financial groups consisted in the the organization of Mexican firms around banks, which allowed the channelling of resources to the group's own industrial and commercial firms.[36] These banks provided favourable lending conditions to those industries within their financial groups. Some of the largest Mexican banks were part of international bank syndicates, which provided loans to developing countries during the 1960s and 1970s. Still, the international mobility of their assets was constrained by capital controls.[37] Indeed, the *de facto* existence of non-legally recognized financial groups internalized the contradictions of accumulation between value-producing processes and the realization of financial profits via interest rates on syndicated loans. Yet, the profits of financial groups remained closely tied to the fixity of their capital within Mexico in the form of government protection and subsidies and domestic investment and market expansion.

In 1944, foreign firms were allowed to invest in Mexico, but they could only own 49 percent of a firm and had to guarantee high levels of local content in production. Their capital mobility through finance in the form of stocks and bonds was also limited. There were also restrictions on foreign investment in Mexican banks and public debt. The location of fully-owned foreign investment was confined to Mexico's border with the United States. The 1965 Border Industrialization Program allowed foreign plants to import machinery, raw materials and components on a duty free basis while using low-wage Mexican labor. These assembly plants had to guarantee that the totality of *maquiladora* imports and produced goods was re-exported so as to protect domestic industries from foreign competition.[38] These *maquilas* were part of global corporations which required low cost operations. These corporations' relation to capital mobility was expressed in their need to relocate its operations internationally to cheaper production sites with minimum

[35] Banamex, "Modifications in the Legal Requirements," *Review of the Economic Situation in Mexico*, 328, 1953, p. 3.
[36] Russell White, *State, Class and the Nationalization of the Mexican Banks,* New York: Taylor and Francis, 1992, p. 59.
[37] Leopoldo Solís, *Evolución del Sistema Mexicano Financiero*, Mexico, Siglo XXI, 1997, p. 19.
[38] Jorge Carrillo and Redi Gomis, "Generaciones de Maquiladora. Un Primer Acercamiento a su Medición." *Frontera Norte*, 2005, 27:33, p. 30.

trade restrictions. Still, their capital mobility in the forms of bonds and stocks was constrained by capital controls.[39]

In both cases, legally denominated foreign and national forms were linked to capital mobility and fixity. Yet, tensions between both processes were not fully internalized within firms during the ISI period through state economic intervention. Market protections and subsidies allowed domestic firms to realize profits in domestic markets without relying on international financial markets. Mexican banks also had limited links to international finance. As such, firms and Mexican banks did not have to move capital abroad continuously to realize profits nationally. The consequences of maquiladoras' capital mobility were also confined to the northern border of Mexico. Thus, capital flight from maquiladoras did not affect the entire economy. State policy during the ISI therefore attenuated the contradictions between capital mobility and fixity in the country.

Neoliberalism and the Internalization of National Fixity and International Mobility

The tensions between capital fixity and mobility started to be fully internalized within firms operating in Mexico as public companies were privatized, the economy was further liberalized and companies became more financially-oriented after the debt crisis of 1982. These changes also altered the composition of the capitalist class in Mexico. During the 1980s and the 1990s, privatization changed the composition of the capitalist class, leading to the creation of private monopolies or oligopolies owned by Mexican individuals.[40] New companies or individuals, who had a non-existent or a limited role in the economy prior to 1982, were now able to control a large market share through private monopolies and oligopolies.[41] The 1994 peso crisis led to further economic concentration. Those companies that survived the crisis had a larger share of the Mexican market. For instance, the share of total sales of the 49 largest companies in Mexico was 45 percent in 1993. This share rose to 70 percent in 1995.[42] Several companies diversified their investment across all industries, which ranged from telecommunications, media broadcasting, construction, banking, manufacturing and resource extraction.[43] Economic concentration in a handful of companies not only strengthened national oligopolies but also allowed some Mexican firms to expand their operations through acquisitions both in Mexico and the rest of Latin America.[44]

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[39] Greg Albo, Sam Gindin and Leo Panitch, *In and Out of Crisis. The Global Financial Meltdown and Left Alternatives*, Oakland: PM Press, 2010, pp. 48-9.
[40] Blanca Heredia, "State-business Relations in Contemporary Mexico," in Monica Serrano and Victor Bulmer-Thomas (eds.), *Rebuilding the State: Mexico after Salinas*, London: Institute of Latin American Studies, 1995, p. 136.
[41] For instance, this is the case of Grupo Carso, which includes the former public owned phone company Telmex, Inbursa Investment Bank, Inbursa Brokerage House, Seguros de Mexico Insurance Company. See: Carlos Morera Camacho, "Transnacionalización de los Grupos de Capital Financiero en México: Límites y Contradicciones," en Julio Gambina (ed.), *La Globalización Económica Financiera: su Impacto en América Latina*, Buenos Aires, CLACSO, 2002.
[42] Celso Garrido, *Desarrollo Económico y Procesos de Financiamiento en México*, Mexico city: Siglo XXI, 2005, p. 100.
[43] See: Celso Garrido, "Las Grandes Empresas Privadas Nacionales Mexicanas," *Nueva Sociedad*, 151, 1997.
[44] According to the United Nations Commission for Trade and Development (UNCTAD), CEMEX, a cement company; FEMSA, a food and beverages company; and GRUMA, a corn processing firm, are part of the top 100 non-financial firms from developing countries. Also, two of Grupo Carso's telecommunications

The financial orientation of Mexican companies increased during the 1990s as state policies promoted the development of the stock market and opened capital and money markets to international investors. The state promoted the role of the Mexican Stock Exchange as the main source of credit for companies. By 1999, ten companies represented 51.95 percent of the operations in the stock market.[45] The issuing of Mexican stocks as a percentage of global issuance increased from 5.4 percent in 1990 to 18 percent in 1993.[46] This was facilitated by a new law implemented in the early 1990s that authorized financial holding companies to head financial groups comprising banks, insurance companies, brokerage houses, and other financial institutions. Domestic oligopolies were also allowed to issue debt in international stock markets and participate in financial operations with international investment banks.[47] While these firms increased their financial orientation in international markets, financial interests did not detach these firms from territorially-embedded activities in Mexico. They still required decreasing production costs in their Mexican operations and a strong peso to hold liabilities in foreign currency and lower the costs of their international operations.

The influence of foreign investment in the Mexican economy also changed in the 1980s and the 1990s. International financial investors became relevant actors within Mexico's capitalist class because of the removal of restrictions on investment on private and public debt within Mexico in the 1980s.[48] The ownership structure of the financial sector was transformed after the 1994 peso crisis. During the 1982 crisis, private national banks were nationalized. Later on, they were privatized and sold to national investors. After the 1994 peso crisis, foreign banks purchased the majority of shares of Mexican financial institutions thanks to regulatory changes allowing more than 50 percent foreign ownership.[49] In addition, the combination of low wages and trade liberalization with the 1994 North American Free Trade Agreement (NAFTA) made Mexico an attractive production site for international companies in the manufacturing sector.[50] Particularly, *maquiladoras* expanded beyond the northern region and became central to Mexico's investment and employment.[51] The number of *maquiladoras* increased from 582 in 1982 to

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companies led by Carlos Slim, one of the wealthiest men in the world, are also part of this list. UNCTAD, *The top 100 non-financial TNCs from developing and transition economies, ranked by foreign assets*, Geneva: UNCTAD, 2008.

[45] Bolsa Mexicana de Valores, *Informe Anual 1999*, Mexico city: 2000, p. 28.

[46] Carlos Morera Camacho, *El Capital Financiero en México y la globalización*, Mexico city: UNAM, 1998, p. 53.

[47] Garrido, *Desarrollo Económico y Procesos de Financiamiento en México*, p. 124.

[48] Timothy Kessler, "The Mexican Peso Crash: Causes, Consequences and Comeback," in Carol Wise and Riordan Roett (eds.), *Exchange Rate Politics in Latin America*, Washington: Brookings Institution, 2000, p. 50.

[49] Sima Montamen-Samadian, "Economic Integration, Capital Flows and Financial Instability," Christos C. Paraskevopoulos, et al. (eds.), *Global Financial Markets and Economic Development*, Toronto: APF Press, 2000, p. 42; Thomas Marois, "Emerging market bank rescues in an era of finance-led neoliberalism: A comparison of Mexico and Turkey," *Review of International Political Economy* 18: 2, 2011, p. 180.

[50] Enrique Dussel Peters et al., *Inversión Extranjera Directa en México: Desempeño y Potencial*, Mexico city: Siglo XXI, 2007, p. 48.

[51] Kevin J. Middlebrook and Eduardo Zepeda, *Confronting Development: Assessing Mexico's Economic and Social Policy Challenges*, Stanford University Press, 2003, p. 538.

2717 in 1997. *Maquilas* share of manufacturing employment rose from 4.7 percent in 1980 to 25.3 percent in 1997.[52]

Foreign investment also internalized tensions between international capital mobility and fixity in their investment in Mexico. While foreign banks and global corporations could move money worldwide and relocate their production elsewhere, the profits of their Mexican operations remained highly localized. To put it differently, international investors were simultaneously implicated in the processes of international mobility and national fixity in Mexico. While they could shift their direct and portfolio investment elsewhere, the profitability of their financial assets depended on actual activities fixed in Mexico such as the state's ability to increase tax collection or sell more oil or national industries' productivity and sales.

Economic concentration and capitalists' relationship to national fixity and international mobility did not occur in a social vacuum in Mexico. Rather, these changes reflected larger transformations in the country's class structure during the imposition of austerity measures, the implementation of dispossession strategies and the defeat of progressive union activism after the 1982 debt crisis. Since the 1980s, increases in taxes and the price of public services were imposed on peasants, workers and middle classes in order to pay for foreign and public debt.[53] Likewise, government cuts affected social programs and the provision of food subsidies. The peso devaluation of 1995 worsened the situation of workers and middle classes. They lost 40 percent of purchasing power.[54] Austerity policies also led to the privatization of public companies and reduction of public services, and hence increased unemployment levels in the public sector.

The privatization of land and the removal of agricultural subsidies were the main strategies of dispossession implemented during the 1990s in Mexico. Prior to the privatization of land in 1992, land owned by peasants was organized through *ejidos*. The *ejido* conferred on each peasants the right to land, whose ownership was collectively organized. In this context, land owned by *ejidatarios* could not be sold or bought in the market. With changes in the Mexican constitution, land was privatized in 1992 in order to give peasants land titles to transform collective land into private property. With austerity policies, subsidies in agricultural inputs were also removed in the early 1990s. With the removal of these subsidies, peasants were unable to compete with domestic and agribusinesses and had to sell their land. The privatization of ejidos, the removal of subsidies and high unemployment in the public sector resulted into increasing competition of a larger pool of workers for low-paid jobs in cities.[55] This change in turn shifted the balance of class power in favour of the capitalist class because their production costs diminished given the increasing supply of labour in the 1980s and the 1990s.

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[52] Gerardo Mendiola, "México: Empresas Maquiladoras De Exportación En Los Noventa," *Serie Reformas Económicas*, Santiago: ECLAC, pp. 19-20.
[53] Eugenia Correa, "Changing Constraints on Monetary Policy," in Laura Randall, Changing Structure of Mexico: Political, Social and Economic Prospects, New York: M.E. Sharpe, 2006, pp. 158-59.
[54] Jefferson Cowie, *Capital moves: RCA's 70'year Quest for Cheap Labor*, Ithaca: Cornell University Press, 1999. p.175
[55] See: Gordillo Gustavo et. al (1998). "Between Political Control and Efficiency Gains: the Evolution of Agrarian Property Rights in Mexico," *CEPAL Review*, 99, 1998.

Low labour costs were accompanied by the defeat of democratic union activism through tripartite agreements and labour arbitration councils. Tripartite agreements were implemented in the late 1980s. These agreements promoted collaboration between workers and employers.[56] Through these agreements, unions relinquished their right to strike and accepted low wages while employers agreed to prevent drastic price increases. These agreements were implemented in the context of the Institutionalized Revolutionary Party's (PRI) one-party regime to weaken local labor activism in order to guarantee low wages and low standards for working conditions.[57] Working conditions in Mexico also deteriorated for middle-classes during then 1980s and the 1990s with the state-sponsored dissolution of important "white collar" unions such as the bank workers union. While other white-collar unions remained in place such as Pemex's Oil Workers Union and the National Teachers' Union, their leadership was characterized by corruption, political repression and close collaboration with the presidential administrations in power.[58] Labour legislation also allowed employers to label people in administrative positions as *trabajadores de confianza* or "trusted workers." Under Mexican labour legislation, this type of workers are excluded from collective bargaining and do not have the right to strike.[59] The Mexican state also weakened rank-and-file unionism through its conciliation and arbitration boards by approving a company's petition to modify a collective contract, cut wages or reduce personnel and mediating the negotiations between the union and employers.[60] Thus, dispossession strategies and the weakening of organized labour through state institutions shifted class power in detriment of Mexico's peasants, working and middle-classes.

This social structure facilitated the implementation of policies that allowed financial investors, banks, maquiladoras and large Mexican firms to be implicated in the process of international capital mobility and fixity. The liberalization of financial investment, the conversion of domestic oligopolies into important financial investors and the expansion of *maquiladoras* in the country shaped the position of large Mexican firms, financial investors, foreign banks and maquiladoras vis-à-vis processes of international capital mobility and national fixity. One of the main developments in relation to the capitalist class in the 1980s and 1990s was that large Mexican firms further internalized the tensions between capital mobility and their interests tied to the Mexican economy. This in turned shaped capitalists' responses and intra-class struggle during the 2007-2010 crisis.

Transition to Democracy, Neoliberal Continuity and the 2007-2010 Global Crisis

Despite the so-called "democratic transition to democracy" in 2000, the economic trends of the 1980s and the 1990s continued in Mexico. This influenced the involvement of firms and investors to fixity and capital mobility and state policy during the 2007-2010

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[56] Cirila Quintero, *Restructuración Sindical en la frontera norte: el caso de la industria maquiladora*. Tijuana: El Colegio de la Frontera Norte, 1997, p. 67.

[57] Norman Caulfield, *NAFTA and Labour in North America*. Chicago: University of Illinois Press, 2010, 149.

[58] Sergio Aguayo Quezada, *Vuelta en U: Guia para Entender y Reactivar la Democracia Estancada*, Mexico city: Taurus, 2010, pp. 241-45.

[59] See: Nestor de Buen, *Derechos del Trabajador de Confianza*, Mexico City: UNAM, 2000.

[60] See: Kevin Middlebrook and Cirila Quintero, "Protecting Workers' rights in Mexico: Local Conciliation and Arbitration Boards, Union Registration, and Conflict Resolution in the 1990s" *Labour Studies Journal*, 23: 1, 1998, pp. 21-31.

global crisis. The trends of economic concentration and financial orientation of firms intensified after Vicente Fox, the candidate of the centre-right Action National Party (PAN), won the 2000 presidential elections after more than 70 years of the one-party regime of the Institutionalized Revolutionary Party (PRI).[61] By 2007, the financial liabilities of the ten largest Mexican firms were 167 percent of their total net worth and capitalization through the stock market represented 169 percent of these companies' total assets.[62] At the mean time, the Fox Administration (2000-2006) gave large companies tax refunds equivalent to 98.9 percent of taxes originally paid by these firms.[63]

The crisis revealed the different stakes that various firms and investors had in the national fixity of capital in Mexico and international mobility. As a result, the capital mobility of one portion of the capitalist class affected other fractions' profits negatively. For instance, several firms and investors with operations in Mexico moved their investment internationally to increase profits and avoid losses during the 2007-2010 crisis. Financial investors shifted their investment away from Mexico to other assets abroad to settle financial obligations in developed countries. Banamex, Citigroup's Mexican subsidiary, paid for a second time since its acquisition 1.4 billion dollars to its headquarters to capitalize this bank's American operations.[64] Because of capital flight, Mexican stocks lost 18 percent and the Mexican peso depreciated 4.2 percent in 2008.[65] The immediate outcome of the crisis was peso devaluation as well as losses in the Mexican stock market as financial investors and banks shifted money away from the Mexican economy into other currencies such as the US dollar.

The ability of financial institutions and investors to move money internationally affected domestic oligopolies and Mexican-based multinationals mainly because it put downward pressure on the Mexican stock market index and the value of the peso. The devaluation of the peso also increased domestic oligopolies' and Mexican-based multinationals' debt exposure in foreign currencies. This affected mainly those Mexican firms who invested heavily in financial derivatives that bet against the devaluation of the peso. Several Mexican firms reported losses in derivatives operations that totaled 8 billion dollars (US) between 2008 and 2009.[66] The negative effects of capital mobility from financial institutions and foreign investors did not prevent Mexican multinationals and domestic oligopolies from moving their money abroad in the form of FDI and portfolio investment. The value of foreign assets owned by Mexican entities or residents was 5.12 billion dollars in 2008. This amount increased to 6.9 billion dollars in 2009, a growth of

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[61] Jorge Zepeda Patterson, "Introducción," in Jorge Zepeda Patterson (ed.) *Los Amos de México*, Mexico City: Editorial Planeta, 2011, p. 9.
[62] Germán Alarco and Patricia del Hierro, "Crecimiento y Concentración de los Principales Grupos empresariales en México," *Revista CEPAL*, 101, 2010, p. 187.
[63] Aguayo Quezada, *Vuelta en U: Guia para Entender y Reactivar la Democracia Estancada, p. 253.*
[64] Anonymous, "Banamex hace ganar a Citigroup mil 400 mdd en 2010," *Excelsior*, 23 December 2010.
[65] Claudia Assis, "Emerging-Market Debt Gains, Losses Slow Down For Stocks," *Wall Street Journal*, 2 February 2009.
[66] Sandra Reyes, "Encaminan Cambios para Regular Derivados," *El Norte*, 16 September 2009

almost 35 percent.[67] In 2009, Mexican companies' FDI was 5.6 times higher than in 2008.[68]

International capital mobility also manifested itself in Mexican *maquiladoras* when the shares and bonds of global firms declined during the 2007-2010 crisis. This was particularly evident in the auto sector, the largest investor in Mexican *maquiladoras*, when their financial assets declined as a result of international overcapacity and investors' aversion to auto shares and bonds.[69] Global companies with *maquiladora* investment slowed down production in Mexico in response to financial difficulties. Returns from their sales and cost-reduction measures in Mexico were not reinvested in production but rather channeled to financial markets in order to fulfill financial obligations and boost the price of their bonds and stocks.[70] Twenty 20 percent of installed capacity was not used between 2008 and 2010 because of plant closures and temporary technical shutdowns.[71] Still, the initial devaluation of the peso during the global crisis lowered the costs of production in Mexico, which proved beneficial to global corporations' strategy of shifting their direct investment from industrialized to developing countries. This was the case of the North American auto sector, which closed several plants in Canada and moved production to Mexico.[72]

This scenario shows that the capitalist class had different stakes in the international mobility and national fixity of capital. Mexican multinationals as well as domestic oligopolies, including national banks, had more vested interests in capital fixity in Mexico than foreign banks and international financial investors. The former relied more on their Mexican operations, domestic markets and peso assets to realize an important share of their profits even though international capital mobility also offered them the possibility to escape capital devaluation as well as in cheaper production locations. Domestic oligopolies and Mexican-based multinationals also required a strong peso in order to reduce exchange rate risk in their foreign direct investment and financial operations in international markets. In contrast, *maquiladoras*' main interests were not only tax exemptions but also a relatively low exchange rate. A strong peso threatened the competitiveness of their exports and diminished their gains from using cheap Mexican labour. As such, the interests of *maquiladoras* on peso devaluation diverged from financial investors, banks and Mexican oligopolies requirements of a strong peso. This shows that firms and investors were not exclusively committed to national fixity or capital mobility, but rather firms and investors linkages to international finance and fixed processes of national production, circulation and realization shaped intra-capitalist struggle and policy responses to the 2007-2010 crisis.

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[67] Banco de México. *Balanza de Pagos. Tercer Trimestre 2008 and 2009*.
[68] Anonymous, "7598 millones de dólares," *Poder y Negocios*, 9 April 2010, p. 13.
[69] See: Hepzibah Muñoz Martinez, "Finanzas Globales y Producción Local: Delphi en Wall Street y Matamoros," in Belem Vasquez (ed.) *Procesos Económicos, Urbanos y Laborales en la Frontera Norte*, Tijuana: El Colegio de la Frontera Norte, 2011.
[70] This was the case of car company General Motors in Mexico. GM had to cut costs in Mexico by eliminating the 12 000 jobs and reducing production shifts through technical shutdowns. This savings were channeled to financial markets in order to boost the price of GM stocks. Roberto Morales, "Lejos de la Tormenta," *Expansion*, 4 July 2010, pp. 112-13.
[71] INEGI, *Encuesta Industrial Mensual. Ampliada. Resumen anual 2008*, Aguascalientes: INEGI, 2009.
[72] Nicole Mordant, "Canada auto sector under threat from Mexico," *Reuters Canada*, 29 November 2011.

State Policy, Class Conflict and the "Fixing of Capitalism" in Mexico

This section explores how state policy attempted to "fix" capitalism in two ways during the 2007-2010 crisis. On the one hand, state policy attempted to secure investment within Mexico through a strong peso via government debt and the use of international reserves. This was a continuation of previous policies implemented in the 1990s and early 2000s.[73] On the other hand, these policies attempted to temporarily solve or "fix" the problems of capitalist profitability and mediate conflicts within the capitalist class. This conflict, as mentioned above, resulted from the differentiated linkages that capitalists had with international capital mobility and national fixity. Overall, state policy during the 2007-2010 crisis reflected the larger structures of class power characterized by the reliance of the Mexican economy on a handful of companies, the defeat of rank-and-file activism within organized labour and the imposition of dispossession strategies under the neoliberal administrations of the past three decades. The latter also explains why workers and the middle classes bore the costs of policy responses through regressive taxation and low wages.

During the 2007-2010 crisis, state policy centered mostly on public debt management, and to a lesser extent, on infrastructural spending, production subsidies for exporting companies and anti-poverty programs. In terms of public debt management, the Ministry of Finance issued and swapped short-term instruments in pesos for long term government debt. For instance, the Ministry of Finance issued a syndicated 30-year global bond with a fixed rate as well as the century bond due in 2110.[74] In 2011, yield increases in public debt ranged from 0.4 percent to one percent, depending on their maturity date.[75] Increases in the yields of government bonds and its conversion to long-term debt guaranteed high demand of the peso without causing liquidity problems for the Ministry of Finance and the Mexican Central Bank. Despite reductions in interest rates, yields in Mexican government debt remained higher than US Treasury bonds. This helped to ensure the worthiness of this currency, avoiding losses in peso investment due to devaluation. By December 2010, investment in Mexican assets by non-residents had an annual growth rate of 83.9 percent, in comparison to 10.7 percent increase in 2009.[76] By 2011, non-residents held 24.70 percent of the total public debt.[77]

Reserve accumulation also guaranteed the value of the peso. International reserves increased 25 percent in 2010.[78] Most of these foreign reserves came from the bonds sold by the Ministry of Finance and the oil sales from the state-owned oil company PEMEX.[79] Another way of accumulating reserves was through the sale of dollar put options by the

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[73] For an analysis of the use of reserve accumulation and debt management between 2000 and 2008, see: Thomas Marois, *States, Banks and Crisis. Emerging Finance Capitalism in Mexico and Turkey*, Chelteham: Edward Elgar, 2012, pp. 147-150.
[74] Banco de México, *Reporte Sobre el Sistema Financiero 2010*, Mexico City, 2010, p. 20; Secretaria de Hacienda, *Primer Informe Trimestral 2011*, Mexico City, 2011, p. 68.
[75] Secretaria de Hacienda, *Primer Informe Trimestral 2011*, p. 21.
[76] Banco de México, *Informe Anual 2010*, p. 40.
[77] Secretaria de Hacienda, *Primer informe trimestral 2011*, p. 72.
[78] Banco de México, *Informe Anual 2010*, Mexico City, 2010, p. 58.
[79] Banco de México, *Reporte Financiero 2009*, Mexico City, p. 62.

Mexican central bank. These put options gave buyers the right to sell dollars to the central bank at a preferential peso rate when the Mexican peso appreciated against the dollar.[80] The accumulation of reserves helped the Mexican central bank to intervene in exchange markets to avoid peso depreciation.[81]

These policies led to contrasting results. On the one hand, bank profits increased 7.4 percent in 2009.[82] The Mexican Stock Exchange Index of Prices and Quotations rose 12.4 percent during 2010. The accumulation of international reserves reached historical records, from 78 billion US dollars in 2007 to 113 billion in 2010.[83] Export manufacturing expanded 30 percent in 2010.[84] Inflation remained close to the three percent target. Current account deficits decreased from 1.5 percent of the GDP in 2008 to 0.5 percent in 2010. By 2009, the growth rate was -6.2 percent. Later, GDP growth recovered in 2010, reaching 5.4 percent.[85] On the other hand, direct investment lagged behind 2007 levels. While direct investment was 10 billion US dollars in 2007, direct investment declined 4.3 billion dollars in 2010.[86] Also, people's income decreased 12.3 percent between 2008 and 2010. The real minimum wage fell 1.2 percent in 2010. Eight percent of the population was underemployed and 27.3 percent worked in the informal sector.[87] Fifty percent of the population, around 50 million people, did not have enough income to meet their food, health, education, clothing, footwear, housing and public transportation needs in 2010.[88]

Evidently, the focus on reserve accumulation and public debt management was not effective in investment and employment creation and wage improvements. Yet, the centrality of these policies can be explained through the class structures that sustained them. The increasing financial orientation of Mexican firms, the concentration of diverse economic sectors into a few domestic and international firms and the weakening of rank-and-file union activism shaped the way in which the politics of money management prevailed over industrial, trade and full employment policies during the 2007-2010 crisis. More specifically, the internalization of fixity and mobility within firms' and investors goals influenced the predominance of debt management and reserve accumulation in the policy responses to the 2007-2010 crisis.

The relationship of large firms and investors operating in Mexico to capital mobility and fixity was not uniform. Rather, the stakes of domestic oligopolies, Mexican multinationals, financial investors and global corporations in these processes differed

[80]Ibid., p. 64.

[81] In 2009, Mexico received the first IMF's Flexible Credit Line (FCL) for 47 billion dollars. The use of this credit was not phased or conditioned on compliance with policy targets. The FCL was granted to those countries that had strong record of growth with low inflation. In general, three FCLs backed the authorities' macroeconomic strategy by guaranteeing sufficient foreign currency to cover debt obligations.

[82] Banco de México, *Reporte Financiero 2010*, Mexico city, 2010, p. 34.

[83] IMF, *Mexico, IMF Country Report*, p. 35.

[84] BBVA Research Group, *Situación Regional Sectorial, Análisis Económico*, México City, January 2011, p. 7.

[85] IMF, *Mexico, IMF Country Report* , p. 31.

[86] Ibid., p. 33

[87] CEPAL, "México," *Anuario estadístico de América Latina y el Caribe 2010*, Santiago de Chile: Naciones Unidas, 2011.

[88] INEGI, *Encuesta Nacional de Ingresos y Gastos de los Hogares 2010*, Aguascalientes, 2011.

according to their position in the Mexican economy. The strength of the peso through the central bank's use of international reserves was particularly important for Mexican oligopolies and Mexican-based multinationals because of their debt exposure in foreign currencies, particularly through derivatives. These companies bet against the devaluation of the peso in financial derivatives. When the value of the peso declined in 2007, the losses of large Mexican firms increased dramatically and value of the peso declined.[89] The Ministry of Finance and the Mexican Central Bank gave large Mexican firms access to cheap dollars from the international reserves through put options to pay companies' liabilities in derivatives.[90] Because of the continuation of this strategy, Mexican-based companies resumed their exposure to currency exchange fluctuations in 2010. In 2011, the annual growth rate of Mexican companies' debt in US dollars rose 10.7 percent in relation to the previous year.[91] Between 2009 and 2010, Mexican private firms issued 16.6 billions of dollars. Likewise, Mexican companies issued 14.6 percent more debt in foreign markets in 2010 in relation to 2009.[92] Domestic oligopolies also received the benefits from the strength of the peso because they were able to maintain the value of their Mexican assets and reduce their exposure in foreign liabilities. Large Mexican corporations' interests around a strong peso were compatible with those of international financial investors and banks, who also required a stable peso and profitable yields in their investment in public debt. The emphasis on monetary and debt management was not without conflict. *Maquiladora* representatives expressed their concern over a strong peso, and therefore the loss of competitiveness of their Mexican exports.[93] Agreements and disagreements over state policy were therefore influenced by the way large firms and investors internalized the contradictions between their financial goals and nationally fixed economic activities processes.

The internalization of tensions between fixity and mobility and intra-capitalist struggle required state intervention to mediate these conflicts. In order to mediate demands for a strong peso and the competitiveness of exports, the state policy was directed towards maintaining stagnant wages. Between 2008 and 2011, the average wage increases set by the Commission was 4.38 percent.[94] As a result, the real minimum wage only increased 3.84 percent whereas prices in the basic food basket increased 4.71 percent between 2009 and 2011.[95] The low costs of labor in Mexico increased the attractiveness of the Mexican economy as a production location for both domestic and foreign firms and ensured low export prices.[96] Targeting wages then solved the maquiladoras' concerns over export

[89] Banco de México, *Reporte Financiero 2009*, p. 81.
[90] The Foreign Exchange Commission is the government body in charge of intervening in foreign exchange markets to avoid devaluation. This commission consists of members of the Ministry of Finance and the Mexican central bank.
[91]Banco de México, *Reporte Financiero 2010*, p. 21; Banco de México, *Informe Anual 2010*, p. 42.
[92] Banco de México, *Reporte Financiero 2010*, p. 41.
[93] Isabel Becerril," Preocupa a la IP apreciación del peso," *El Financiero*, 24 January 2011.
[94] CONASAMI, Salario Mínimo general Promedio de los Estados Unidos Mexicanos 1964-2012, Mexico City, 2011. http://www.conasami.gob.mx/pdf/salario_minimo/sal_min_gral_prom.pdf
[95] INEGI, *Remuneraciones Salario Mínimo General Promedio e Inflación*, Aguascalientes, 2011.
[96]For instance, Mexican wages in the manufacturing sector were two percent lower than in China in 2009. During that same year, the number of working hours was 12 percent higher than in China. The cost of laying off workers in Mexico was 44 percent cheaper than in China. Thomas Black and Carlos Manuel Rodríguez, "Mexico más Atractivo que China," *Expansion*,13 July 2010.

competitiveness and left the strong peso policy intact. This also became compatible with the interests of large Mexican companies in low production costs in their national operations.[97] Both low wages and a strong peso became central to mediating internalized contradictions of capital fixity and mobility in firms' and investors' profit goals.

Profitable yields in public debt, which sustained reserve accumulation and a strong peso, required debt repayment, and therefore, an increase in non-oil revenues.[98] Mexico was in fact one of the few countries in Latin America that increased taxes during the 2007-2010 crisis. The main sources of non-oil revenue in the country are the value-added tax and the income and capital gain tax (Impuesto Sobre la Renta or ISR).[99] In 2010, the VAT increased one percent and income and capital gain taxes rose three percent.[100] While the largest firms in Mexico were the main beneficiaries of state spending, several business organizations complained about increases in the income and capital gain tax (ISR).[101] In order to attenuate discontent of firms over ISR, state policy imposed the burden of taxation over workers and middle classes through the VAT. This resulted in increases of non-oil revenues of 12.1 and 2.4 percent in 2010 and 2011 respectively.[102] While large companies operating in Mexico can claim tax credits on this tax, workers and middle classes cannot access corporate VAT exemptions. In fact, there was a 45.4 percent increase in corporate VAT returns during 2011 in comparison to the previous year.[103] This explains why large firms operating in Mexico did not oppose VAT increases. Thus, debt management and reserve accumulation, a strategy central to the mediation of internalized tensions of capital fixity and mobility, created new policy dilemmas, namely state accumulation of new resources to pay its debt without dismantling the existing structures of class power. And the temporary resolution to this dilemma was regressive taxation, which imposed the costs of the state response to the 2007-201 crisis on middle and working classes.

The centrality on debt management and reserve accumulation in state policy did not prevent the implementation of stimulus packages. The Felipe Calderon Administration (2006-2012) also implemented stimulus packages such as the Program to Promote Growth and Employment (*Programa para el Impulso al Crecimiento y el Empleo* or PICE) and the National Agreement for the Household Economy and Employment to Live Better (*Acuerdo Nacional en Favor de la Economía Familiar y Empleo para Vivir Mejor* or ANEFE). These programs promoted investment in infrastructure and production subsidies for exporting companies producing vehicles, auto parts, electronics and machinery. In the latter case, the Ministry of the Economy allowed companies to have production stoppages and absorbed some of the labor costs. In exchange, planned job cuts have to be limited to a

[97] Banco de México. *Informe Anual 2010*, p. 47.
[98] See: OECD, *OECD Perspectives: Mexico Key Policies for Sustainable Development*, Paris, May 2011.
[99] Food and medicines are still exempted from the VAT.
[100] By 2014, the latter corporate tax will return to its original 28 percent.
[101] Juan Carlos Miranda, "Necesario, el aumento al ISR: Carstens; pidió a empresarios hacer su parte," *La Jornada*, 11 September 2009.
[102] Banco de México, *Informe Anual 2011*, p. 35; Secretaria de Hacienda, *Primer Informe Trimestral 2011*, p. 31.
[103] Secretaria de Hacienda, *Primer Informe Trimestral 2011*, p. 27.

third of the decline of sales.[104] Overall, government expenditure increased from 22.8 percent of the GDP in 2007 to 26.3 percent in 2010.[105]

These stimulus packages did not improve wages and job creation because of the limitations imposed by the state's emphasis on resolving tensions between fixity and mobility through low wages and regressive taxation. Large firms were the main beneficiaries of government spending even though they did not pay the costs of increased taxation. For instance, while infrastructural spending led to 11 percent job increases in the construction sector between 2009 and 2011, the main beneficiaries of this policy were large construction companies closely connected to global corporations or Mexican-based multinationals and domestic oligopolies. The six largest construction companies in Mexico increased their profits 219 percent in 2011 in relation to 2010. The emphasis of state policy on low wages workers' wages also limited the effects of government spending. For example, wages only increased 0.30 percent between 2009 and 2010 and decreased .19 percent in 2011 in the construction sector despite government contracts granted to large companies for infrastructure.[106] Job and wage recovery in the overall manufacturing sector remained slow, and social benefits were reduced 1.1 percent.[107] Social assistance in the form of targeted-cash transfers in *Oportunidades* did not compensate for the lack of decent wages and social benefits.[108] The concentration of the economy in few companies and their financial orientation, regressive taxation and low wages explain therefore the failure of government spending in creating employment and decreasing poverty.

State mediation of internalized tensions between capital fixity and mobility need to be explained in the context of Mexican neoliberalism.[109] The top 100 largest firms in Mexico provide few jobs in relation to the working population in the country. For instance, these firms only provided 3.5 percent of the overall employment in the economy in 2007.[110] Thus, the policy responses that gave benefits to a very small sector of the Mexican population cannot be justified as crucial for inducing private investment in the country to create employment. On the contrary, state policies during the 2007-2010 crisis illustrate how neoliberalism operates in Mexico as the enhancement of capitalist class power through state power because state responses were beneficial to foreign and national investors with a large stake in both international finance and productive operations and market sales in Mexico. In other words, those large firms and investors that further internalized contradictions between financial and fixed processes received more benefits from state policy during the 2007-2010 crisis.

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[104] R. Galhardi, "Mexico. Programa para la Preservación del Empleo," *Organización Internacional del Trabajo Notas Sobre la Crisis,* 13 October 2009.
[105] IMF, *Mexico, IMF Country Report,* Washington D.C., 2011, 11/250 , pp. 31-32
[106] Susana González G, "La española OHL, a la cabeza en ganancias en 6 meses de 2011," *La Jornada*, 1 August 2011.
[107] SHCP, *Primer Informe Trimestral 2011*, Mexico City, 2011, p. 12.
[108] Heriberto Feliz Herrera, "México protege a los más vulnerables: resultados de Oportunidades," *Presidencia de la Republica*, Mexico City, 5 August 2011, http://www.presidencia.gob.mx/el-blog/mexico-protege-a-los-mas-vulnerables-resultados-de-oportunidades/#more-69284 (retrieved 11 August 2011).
[109] Enrique Villarreal , "Anuncia Calderón plan anticrisis de cinco puntos," *El Universal*, 8 October 2008; APR, "OCDE da bienvenida a plan anticrisis de Calderón," *El Economista*, 7 January 2009.
[110] Alarco and Del hierro, "Crecimiento y Concentración de los Principales Grupos empresariales en México," *Revista CEPAL*, 101, 2010, p. 186.

The nature of neoliberalism in Mexico as a class project was also evident during the crisis in the signing of tripartite agreements during the 2007-2010 crisis. The leader of both the Labour Congress (Congreso del Trabajo or CT) and the Mexican Workers Confederation (Confederación de Trabajadores Mexicanos or CTM) supported the government's plans for restructuring through the National Agreement for Labour Productivity. In this document, unions agreed to collaborate with the private sector to identify areas of improvement in production and enhance quality according to the needs of employers.[111] Local voices of dissent within the union movement were silenced through the cooperation of union leaders with large firms and the Calderon Administration. Thus, the repression and cooptation of the labour movement facilitated the implementation of public debt management and currency appreciation, which imposed the burden of taxation and low wages on Mexico's working and middle class.

The state focus on mediating the tensions between capital mobility within firms and investors' interests through public debt management and reserve accumulation shows how domestic political alliances accommodated the pressures of the global crisis to the goals of Mexico's capitalist class, enhancing neoliberalism in the country. Public debt management and reserve accumulation not only prevented further losses in the liabilities in foreign currency of large Mexican firms but also sustained the value of financial peso assets for both national and international investors. Low wages also compensated large exporters for potential losses in competitiveness and decreased the operation costs of large Mexican companies in the country. Regressive taxation provided the Mexican state with funds to implement problematic stimulus packages and repay public debt while leaving the class power structures intact. The Mexican state temporarily "fixed" or conciliated the internalized tensions between fixity and mobility, while "fixing" or territorializing investment within the country. This led to a temporary consensus among the capitalist class over state policy. Yet, this consensus is not stable. Capitalists' relationship to the contradictory processes of capital international mobility and national fixity show that the convergence of interests of this class is always historically contingent and mediated by state policy.

Conclusion: The Intensification of Social Conflict in Mexico

I have argued that an understanding of the national fixity and the international mobility of capital as part of the same process of capitalist accumulation sheds light on the contradictory interests that the capitalist class internalizes in the era of financial-led neoliberalism. The internalization of the tensions between motion and fixity within the capitalist class has concrete consequences on state policy. In the Mexican case, state responses to the 2007-2010 crisis responded to financial investors' and national oligopolies' demands for a strong peso to obtain profitable rates in government debt and lower their exchange risk exposure in foreign liabilities. These policies were not without conflict. The exporting sector was affected by a strong peso. In order to mediate not only internalized tensions within firms but also within the capitalist class in Mexico, the state imposed the burden of these policies on the working poor and middle-classes through low

[111] Presidencia de la República, *Diversas Intervenciones en la Firma del Acuerdo Nacional para la Productividad Laboral*, Mexico City, 22 May 2009.

wages and regressive taxation. In this way, the state could obtain revenues to sustain the value of the peso through public debt management and international reserves accumulation while guaranteeing low production costs to firms and investors. The legacy of austerity measures, dispossession, and repression and co-optation of organized labour since the 1980s allowed the state to impose the social costs of state policy onto middle and working classes during the 2007-2010 crisis.

By exploring the historical transformation of class structures, the intra-capitalist struggles and their effects on state policy, this chapter attempts to problematize the dichotomization of foreign vs. domestic capitalists; financial vs. productive investment as well as assumptions about the automatic effects of state spending in improving the well being of the population. The Mexican case, as a developing country, illustrates how large national companies had an influential role in shaping policy than other sectors of the economy given their historical role in the concentration of the Mexican economy and the compatibility of interests with other financial investors in the current juncture. The Mexican experience during the 2007-2010 crisis also shows how the national origin or ownership of a large company and its industrial orientation does not delink that company from financial activities. Funds can still be diverted away from wages to rewards share and bondholders. The Mexican state response to the crisis in the form of state spending in infrastructure and private sector incentives did not mechanically translate into better wages, more employment and poverty alleviation. In Mexico, the benefits of monetary policy to a restricted number of economic actors, the concentration of the economy in a few companies, regressive taxation and the continuation of low wages explain the limited effects of the stimulus packages. An examination of the of the capitalist class and state policy in Mexico is necessary to overcome the shortcomings of ready-made policies during times of economic crisis that automatically favour national industrial capital and state investment in infrastructure without critically examining class relations and the role of monetary policy in reproducing domestic power structures in the context of financial-led neoliberalism.

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