

The Rise of the New Money Doctors in Mexico

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Paper presented at a conference on the Financialization of the Global Economy, Political Economy Research Institute (PERI), University of Massachusetts at Amherst, December 7-8, 2001, Amherst, MA.

Dr. E.W. Kemmerer, renowned Professor of Money and Banking and International Finance, did not lecture to a class of juniors and seniors in the fall of 1926 as originally scheduled. Instead, in mid-October, he, five other experts, two secretaries and four wives were aboard the British liner Ebro, off the northwest coast of South America. He wrote in his diary, 'We arrived in La Libertad, Ecuador, after dark...Took launch to Salinas, transferred to a smaller launch, then to a dug-out canoe and were finally carried ashore on the backs of natives.'

--From Kemmerer, Donald L. 1992. *The Life and Times of Professor Edwin Walter Kemmerer, 1875-1845, and How He Became an International "Money Doctor."* Kemmerer, Donald L. P. 1.

ASPE: In the 1950s, when Japan was labor-intensive, it was good that Japan had a current account deficit. Then Japan became highly capital-intensive and now has a surplus of capital.

FORBES: This is getting complicated.

ASPE: I'm sorry if I sound professorial.

FORBES: Don't apologize. It's a pleasure to meet someone running an economy who understands economics.

--From a *Forbes* magazine interview with former Mexican Finance Minister Pedro Aspe, entitled "We Don't Tax Capital Gains." *Forbes*. August 17, 1992. Pp. 67-68.

Introduction

Toward the beginning of this century, an American economist named Edwin Kemmerer forded tropical rivers and crossed Andean mountain ranges to bring the gospel of the gold standard and responsible central banking to Latin American countries. Since Kemmerer's day, economic experts from industrialized countries have continued to advise Third World governments. Recent advice has come from a variety of academic institutions and schools of thought, from Gary Becker of the University of Chicago, to Rudiger Dornbusch of MIT, to Harvard professor Jeffrey Sachs. Despite this variety of sources, these recommendations reflect the new global consensus in economic policymaking: open trade barriers, deregulate markets, privatize state-owned industries, keep inflation under control, and growth and prosperity will follow.

Even more interesting than this endless supply of foreign advice, however, is how much of it is being supplied by officials of the underdeveloped countries themselves: in today's more sophisticated

Third World, the economic expert carried ashore "on the backs of natives" has been replaced by the native economic expert. In Chile, the Chicago Boys of the 1970s and 80s have been replaced by a more diverse group of Chilean foreign-trained economists, who are nevertheless committed to maintaining the Chilean economy on essentially the same neoliberal course (Kinney 1997). Whereas the military regime in Argentina in the 1970s was associated with a similar but smaller and less infamous team of foreign-educated technocrats (see O'Donnell 1973), more recent neoliberal reforms under President Menem were implemented by Harvard-trained Domingo Cavallo and his team of "Cavallo Boys." In 1992, *Business Week* magazine noted that in Latin America free market reforms were being implemented by "...a new generation of leaders, many of them educated in the U.S. A continental network of Harvard, Chicago and Stanford grads are back home atop business and government ministries spreading a new market mind-set" (Baker and Weiner 1992, p. 51). These economists have replaced Latin America's postwar "developmentalist" model--based on an active, interventionist state and the protection of domestic industry--with a new, more "market friendly" model of development, which is essentially identical to the one generally endorsed by mainstream economists throughout the world.

The phenomenon of foreign-trained economists in government has been particularly notable in Mexico; in 1993 a writer for the *Economist* magazine described Mexico as having "perhaps the most economically literate government in the world" ("Respect Restored" 1993: 4). Mexico has undergone a "technocratic revolution" (Centeno 1994). The high and intermediate levels of the Central Bank, Development Bank, Finance and Economy Ministries are nearly completely staffed by economists with international credentials; until recently, even Mexico's President was an economist with a PhD from Yale University. Even since the historic 1999 elections that ended the political monopoly of the Institutional

Revolutionary Party (PRI), the trend of U.S.-trained economists at the helm of economic policy remains; most notably, the Ministry of Finance is headed by a graduate of the University of Chicago.

In Mexico today, consultation with foreign economists is practically superfluous: native-born economists with elite Ivy-League training not only prescribe the same policies as those recommended by experts from abroad, but are in a far better position to implement these policies, since they occupy the highest levels of government. This internationalizing trend within the Mexican government, moreover, has had profound implications for Mexican economics as a whole, which has become thoroughly internationalized.

This paper examines the case of Mexican economics to address the general theoretical question of how foreign models of economic expertise come to be reproduced locally in developing countries. One explanation for this phenomenon, which tends to be assumed (although not explicitly stated) by the international business press, is essentially that economists are in charge of economic policy because they are they are the best people for the job. However, there are several outstanding objections to this explanation. First, there is no *a priori* reason to expect that those best qualified to govern will naturally be called upon to do so: this assumption confounds a normative judgement of the goodness of technocratic policies with an explanatory account of the process whereby the technocrats are empowered to implement them.¹

Second, the proposition that an academic economist is naturally better equipped to manage economic policy than, say, a lawyer with twenty years experience in banking, or a public official with a background in business, is hardly unassailable. The graduate training leading up to a Ph.D. is as esoteric in economics as it is in any other academic discipline; unlike pre-professional programs like law, engineering, or business, such programs tend toward the theoretical rather than the practically

applicable—especially in the United States, where academic employment is the implicit and most highly valued goal of graduate training in the most social sciences (*see* Colander and Klamer 1990: 181; Frey and Eichenberger 1993). The 1994 peso crisis in Mexico, and the recent macroeconomic meltdown in Argentina, provide particularly spectacular examples of how technocrats trained in U.S.-style academic economics can prove to be singularly incapable of managing national economies.

Third, there is a great deal of cross-national and historical variation in the presence of academic economists in top policymaking positions. It has only been in recent decades that economic experts have come to replace lawyers in these positions—and even today, the governments of different countries differ in the extent to which they have been "economized" (Markoff and Montecinos 1993). To take one prominent example, the current Treasury Secretary of the United States is Paul O'Neil, a business executive with only minimal training in economics. Although in Western European governments, a number of economists are in charge high-level economic ministries, it is extremely rare to find *American-trained* economists in government. In contrast, in developing countries, U.S.-trained economists in government have become ubiquitous—not only in Latin America, but in nations ranging from Turkey to South Korea to Pakistan (cf. "Economic Policy..." 10/14/93: 63).

Rather than assuming that certain kinds of professionals achieve prominence in certain fields of practice because of their objective qualifications, this paper departs from the idea that professions achieve hegemony through a process of legitimation (Abbott 1988). In other words, professions must fundamentally convince a group of people that they are those best qualified to be performing a certain kind of task. At the same time, however, the group to whom professionals must become legitimate is a variable rather than a constant. At times when nations are more deeply embedded in international financial markets, legitimacy with respect to external actors (such as foreign investors and international

financial institutions) becomes more important. This need to foster external legitimacy causes internationally-trained money doctors--both domestic and foreign—to proliferate in developing countries, and fosters the Americanization of national economics professions.

Mexican Economics: From Nationalism to Neoliberalism

Toppled by the Mexican revolution of 1910-17, the dictatorship of Porfirio Díaz was particularly known for a group of technocrats known as the *científicos*, who justified the more brutal and unjust aspects of the regime through references to European philosophical and economic theories. However technical they may have seemed at the time, the *científicos* were actually lawyers who dabbled in economics rather than economists in the modern sense. The Mexican economics profession was not inaugurated until after the revolution, with the establishment of Mexico's first economics program at the public national university (UNAM) in 1929.

From the outset, the UNAM program was aimed at training aspiring state functionaries. An advertisement for the new program announced that "Economics graduates can occupy the most important administrative posts in the Federal and local government because their knowledge is especially oriented toward this end" (*El Economista* 2/16/29: 6). The founders of the National School of Economics were government officials as well as individuals who had played an important role in the construction of Mexican government institutions, such as the Central Bank. These individuals were all keenly aware of foreign standards for economic policymaking, and several of them had studied abroad--most notably Daniel Cosío Villegas, who took courses in economics at various universities in the United States.

It was not coincidental that economics appeared and flourished precisely when the role of the Mexican state in the economy was expanding. During the 1920s and 30s, new institutions--such as the Central Bank and the industrial development bank--were founded to make new forms of state interventionism possible. These new forms of state intervention and the new institutions that would carry them out required a new class of experts and techniques. So eager were such government officials for economically literate employees that many UNAM economics students were hired while still in their first years of coursework; still others were government employees even *before* they began their University studies.

While the Mexican state was taking a more active role in promoting economic growth and development in the 1930s, it was simultaneously solidifying its mass base under the populist presidency of Lázaro Cárdenas. Many of the founders and first professors of the National School of Economics were supporters of Cárdenas and influenced by Marxist and other socialist ideas. As a result, the National School of Economics had a leftist element from its very inception. Marx was the most-cited theoretical author of the School's first 75 undergraduate theses, although very few of these theses could be characterized as Marxist or socialist in the strong sense. The appeal of these ideas can be explained in part as resulting from the lack of less radical theoretical alternatives to the classical economic prescriptions of unfettered free markets and free trade. In the mid-1930s, the ideas of Keynes were only beginning to be well-known in the developed world, and a Spanish translation of Keynes' *General Theory* would not be available in Mexico until 1942. Nevertheless, the first theses coming out of the UNAM School of Economics were not citing indigenous Mexican authors, but rather a standard canon of Western economists, including not only Marx, but also Smith and Ricardo. Mexican economics was, from its very inception, founded on international standards of expertise.

In Mexico, the 1930s were also a period of growing conflict between the state and groups within the private sector who felt threatened by the government's populist rhetoric and policies. This conflict was most clearly manifested in Cárdenas speech warning employers that if they were "tired of the social struggle, they can turn their industries over to the workers or the government" (LaBotz 1988: 61). In response, the private sector organized various forms of opposition to the government. One anti-Cardenista private sector group was the Mexican Cultural Association, which proposed the founding of a new school of economics untainted by the leftist ideology of the UNAM program. The Technological Institute of Mexico, or ITM in Spanish, was founded in 1946, with economics as its centerpiece program.² The founding institutions of the ITM included 7 large banks and several large companies from the Northern industrial city of Monterrey, including the Monterrey Iron and Steel Smelting Company and the Moctezuma beer company. Interestingly, the Mexican Central Bank was also involved in the new school's foundation, a probable result of connections between private and public-sector bankers (the Central Bank director at the time was a private banker who was important in the ITM's founding).

The ideological divide between the UNAM and ITM economics programs became particularly apparent in the 1970s. Throughout the 1960s, Mexican public university students became increasingly radicalized. What the student movement's diverse sectors had in common was opposition to an unjust social order, and the undemocratic political system that had maintained the stability necessary for this order to prosper; in 1968, the brutal massacre of a student movement gathering at Tlatelolco plaza served to further radicalize the movement. To smooth over social tensions, the populist government of Luis Echeverría (1970-76), tolerated leftist activism within the university, and vastly increased public education budgets and university admissions. The student movement took advantage of this atmosphere

of greater tolerance to demand radical changes in the programs of studies of different departments of the UNAM, and greatly increased participation of students and professors in academic policymaking. A set of curriculum changes implemented in 1975 were designed to satisfy movement demands, and remade the School's program into an essentially Marxist one--among numerous other changes, the new program had 7 required semesters of Marxist theory.

While the new leftist focus of UNAM economics put its students at an obvious disadvantage in gaining access to mainstream foreign postgraduate programs and scholarships, the ITAM—the new name for the ITM after it became officially autonomous in 1962-- had been transformed into a prep school for graduate economics study in the United States. The Americanization of the ITAM can ultimately be attributed to the efforts of two of its graduates, who subsequently became Banco officials, and studied abroad with Central Bank scholarships. In succession, both served terms as directors of the ITAM economics program in the mid-1960s and early 1970s. Under the directorship of Gustavo Petricioli, who had studied at Harvard, and Francisco Gil Díaz, who had studied at Chicago, the ITAM program became much more rigorous and highly mathematized, and the faculty came to include more Central Bank officials and economists who had studied abroad. These professors helped their students obtain positions at the Central Bank, admission to foreign economics programs, and scholarships for studying abroad. By 1976 the University of Chicago was the single most important destination for ITAM graduates pursuing postgraduate study abroad, and the two most-cited theoretical authors of 1976 theses were Gary Becker and Milton Friedman.³

Beginning in the 1980s, the ITAM --virtually unknown to scholars of Mexican political elites in the 1970s--rose to acquire an importance disproportionate to its small size. Among the ITAM graduates to have achieved high public office since 1982 have been three Finance Ministers, a Finance

Deputy Minister, and practically the entire upper stratum of the Mexican Central Bank. Graduates of other private programs (such as the Anahuac in Mexico City and the Tec in Monterrey) and elite publicly-funded graduate programs (such as the Colegio de Mexico and the CIDE) were also notable newcomers to Mexican economic policymaking. All had predominantly foreign-trained faculties, and provided their students with either solid preparation in U.S.-style economics (which can be utilized to pursue postgraduate training abroad), or a graduate education that is generally equivalent to foreign postgraduate training. Because top policymakers with elite foreign credentials prefer to work with associates with similar credentials and a similar approach, getting an MA or a Ph.D. in economics has become a near prerequisite for acquiring a medium- to upper-level job in the Mexican economic policy bureaucracy. This, in turn, has favored graduates from highly-internationalized undergraduate economics programs, with elite foreign degrees and a good record of placement in foreign graduate programs. This trend has also favored those Mexican graduate programs in economics that most closely resemble those in the United States, both in terms of the international credentials of the professors teaching there, and with respect to the course content.

Meanwhile, the economics programs of the UNAM and a number of other public universities have suffered from a decline in prestige, and a generalized inability to get good jobs for their graduates (Consultores 1993).

Resource Dependence and the Rise of the New Technocrats

Economics in Mexico today is dominated by U.S.-style programs staffed by American-trained Ph.Ds. In part, the process that gave rise to this Americanization can be traced to recognition in Mexico of the scientific rigor of U.S.-style economics. The Central Bank (Banco de México), in

particular, has always been known for valuing international standards of expertise. Frequent contact with its organizational counterparts in other countries meant that the Banco de México was highly attuned to the techniques and professional standards of Central Banks around the world, which it emulated. As part of its commitment to international standards, beginning in the mid-1940s the Banco de México had a scholarship program for sending its personnel to study abroad, many of whom studied economics--the first large-scale program for foreign postgraduate study in Mexico. Significantly, Central Bank officials were responsible for the remaking of the ITAM into an essentially American-style program--the perfect launching-pad for future generations of foreign-trained technocrats.

Another key source of domestic support for internationalized economics has come from the National Council on Science and Technology (CONACYT). Founded for the general purpose of supporting economic development through funding for higher education, the Council has provided extraordinary opportunities for Mexican economists to study abroad: in 1995 alone, 194 Mexican students were studying abroad with Science and Technology funding (CONACYT 1995). Indeed, graduates of this scholarship program were so obviously prominent among the neoliberal reformers of the 1980s and 1990s that former Chicago professor Arnold Harberger has called the Council "a secret weapon without which Mexico's economic transformation would never have been accomplished" (Harberger 1996:311).

However, funding for scholarships only partly explains how Mexican economics became Americanized. The most important reason why U.S.-style economics programs thrive in Mexico is that they are successful in mobilizing resources—in particular, in getting jobs for their graduates. This success in securing jobs, in turn, is strongly related to increased demand for U.S.-trained technocrats in government. After 1982, foreign-trained economists had a nearly unchallenged monopoly over

Mexican economic policymaking (see Table 1). Most extraordinarily, this trend has even outlasted the 70-plus year rule of the once hegemonic Institutional Revolutionary Party, or PRI. Under the administration of President Vicente Fox of the right-wing National Action Party (PAN), economists with doctoral degrees from the United States are still in charge of top economic policy decisions.

Table 1: Characteristics of Top Economic Policy Making Slots⁴ by Presidential Administration

| Presidency (term) | No. Top Econ. Policy Slots | Undergrad. Econ. Degree N (%) | Foreign Grad. Training N (%) | Foreign Grad. Training, Econ. N (%) |
|---------------------------------|-----------------------------------|--------------------------------------|-------------------------------------|--|
| Avila Camacho (1940-46) | 5 | 0 (0) | 0 (0) | 0 (0) |
| Aleman (1946-52) | 5 | 0 (0) | 0 (0) | 0 (0) |
| Ruíz Cortínez (1952-58) | 4 | 1 (25) | 0 (0) | 0 (0) |
| López Mateos (1958-64) | 4 | 1 (25) | 1 (25) | 1 (25) |
| Díaz Ordaz (1964-70) | 4 | 1 (25) | 1 (25) | 1 (25) |
| Echeverría (1970-76) | 7 | 2 (29) | 4 (57) | 2 (29) |
| López Portillo (1976-82) | 13 | 4 (31) | 7 (54) | 4 (31) |
| De la Madrid (1982-88) | 7 | 6 (86) | 7 (100) | 5 (71) |
| Salinas (1988-94) | 5 | 4 (80) | 5 (100) | 4 (80) |
| Zedillo (1994-2000) | 8 | 7 (87.5) | 8 (100) | 7 (87.5) |

Source: Camp (1994) and assorted news media for more recent information.

Biographical information on these technocrats (cf. Camp 1994) suggests that unlike the earlier (mostly lawyer) policymakers in Mexico before 1982, who generally followed Camp's (1980, 1984) classical trajectory of going straight from UNAM law to a political career, economists usually arrived at top economic policymaking positions only after receiving postgraduate education of some sort. This provides an important clue as to how economists made their way into top policy positions in Mexico.

Unlike an UNAM law degree, an UNAM economics degree was clearly not sufficient for entrance into the high ranks of Mexican economic policy making. The political career that led to high office with scant or unspecialized credentials was based on horizontal ties that were formed within the School of Law, not the School of Economics (Grindle 1977, Camp 1984). Therefore, in lieu of being able to rise on the basis of their political connections, economists in Mexico had to depend more on their credentials.

The idea that Mexican economists rose to high government position based on their credentials, however, begs the question of to whom those credentials were legitimate, and why. After all, an organization may hire a given sort of professional for different reasons. One reason is that the profession has been "legitimated" within the organization itself. Thus, for example, hospitals hire doctors because hospital administrators believe that doctors are the best experts available on matters concerning the human body. In contrast, another reason why an organization may hire a particular kind of professional is that its expertise has been legitimated by a powerful external actor, to whose standards the organization must conform. An example is companies' widespread hiring of affirmative action officers; corporate executives may not "believe in" affirmative action officers' expertise, but hiring them is nevertheless a good way to appear to be complying with the law (Edelman 1997).

Markoff and Montecinos (1993) suggest that sometimes the adoption of international standards of economic expertise arise in response to their dependence on the resources of powerful external actors (p. 46). Foreign-trained economists in Third World governments represent a form of ceremonial conformity to the standards of actors with power over these governments, rather than a functional adaptation to increased technical need. Thus, resource dependence can be seen a critical variable in determining the internationalization of policymaking bureaucracies and local economics professions in developing countries.

The historical importance of external pressures on economic expertise in developing countries is suggested powerfully by Drake's (1994) collection of essays on the history of "money doctoring" in Latin America. The original "money doctor" was Edwin Kemmerer, a Princeton economist who travelled the globe during the first decades of the twentieth century giving advice on monetary policy to the governments of developing countries. In keeping with the conventional wisdom of his day, Kemmerer told his clients (which included Colombia, Peru, China, and Bolivia) to set up independent central banks, to practice fiscal and monetary rectitude, and to adhere to the gold standard. Why were the governments of developing countries so eager to invite Kemmerer to give such unwelcome and predictable advice? As Kemmerer himself observed, "a country that appoints American financial advisers and follows their advice in reorganizing its finances, along what American investors consider to be the most successful lines, increases its chances of appealing to the American investor and of obtaining from him capital on favorable terms" (Kemmerer quoted in Eichengreen 1994:111). In an era of highly globalized financial markets, Kemmerer's approval gained the confidence of foreign investors, and access to new loans at more reasonable interest rates; as a result, many countries voluntarily submitted to being "Kemmerized" (as the practice was popularly known).

Like the history of "money doctoring" in Latin America, the history of Mexican economics and foreign-trained economists in the Mexican government can be viewed as reflecting Mexico's dependence on external resources. The period during which Mexican economics was founded was, in retrospect, a time when the Mexican government was extraordinarily independent from external demands. The stock market crash of 1929 brought about the collapse of global financial markets, and the widespread default of developing countries on their foreign obligations. In the 1930s, there existed no international financial institution (like today's IMF) capable of coordinating the claims of creditors and

making developing countries pay: they simply suspended payment, and international lenders simply stopped lending to them; external borrowing in Latin America would not again reach the level of the 1920s until fifty years later. Mexico went in and out of default throughout the 1920s, and remained in default from 1932 until 1942, when Mexico began negotiations with its creditors under the auspices of a U.S.-led initiative (Eichengreen 1994, Aggarwal 1989, Bazant 1968). In the context of World War II and the deglobalization of financial markets, the Mexican government was in a position to make demands of the industrial powers rather than the reverse: conditionality and external pressures on Mexico were extremely low.

Independence from international pressures was reflected both in the policy making agenda of the Cárdenas administration (1934-40), and the nationalist and even socialist-sounding rhetoric of the first decade of the UNAM School of Economics. Cárdenas nationalized the foreign-owned oilfields, and emphasized the consolidation of popular support rather than the promotion of foreign investor confidence. During the 1920s and 30s, neoclassical economists were flourishing in both England and the United States (cf. Yonay 1998). However, the decidedly *cardenista* UNAM School of Economics selected among international standards of economic expertise for the most congenial authors; Marxist and socialist rather than neoclassical rhetoric prevailed among the earliest UNAM economics theses.

The period of relative autonomy from global financial markets ushered in by the Great Depression was gradually ended by the construction of a new postwar financial order with the United States at its captain, and new global financial institutions--especially the World Bank and the IMF--as its lieutenants. The new postwar international economic order made foreign-trained economists important assets for the governments of developing countries. As Vernon observed in his study of Mexican economic policymakers in the early 1960s,

...the increasing flow of communications between nations and with international agencies on [economic] subjects has demanded that every country develop a class of responsible officials which is capable of holding up its end in the interchange. In Mexico the economic technician has become an integral element in the decision-making process on issues affecting Mexico's development (Vernon 1963: 136).

During the postwar, the governments of developing countries were offered resources by organizations such as the World Bank and the IMF in exchange for compliance with certain policy prescriptions. In addition to mostly being fluent in English and the language of economics, many of Mexico's técnicos had employment histories in international organizations, and thus had the advantage of personal networks with foreign officials and inside information.

The peso devaluation of 1954 was a landmark in Mexican economic policymaking, both marking the beginning of a period of increased reliance on external borrowing, and giving rise to Mexico's first IMF loan and structural adjustment package. It seems significant that Mexico's first top economic policymaker with foreign graduate credentials in economics--Raúl Salinas Lozano, who became Minister of Commerce in 1958--came to office only a few years after Mexico's devaluation and consequent IMF standby arrangement. From 1954 to 1958, Salinas Lozano had been Director of the National Investment Commission, which had been created under the joint recommendation of the Mexican government and the World Bank, and which gave Salinas Lozano a working familiarity with the staff of international development agencies. Even more significantly, from 1956-58, Salinas Lozano had served as an alternate governor of the IMF (Camp 1995).

Thus, while the Mexican government used foreign-trained economists as critical intermediaries in the search for foreign resources, these economists used their sought-after foreign credentials as a means of acquiring more prestigious and important jobs; foreign credentials were utilized as tools serving both

individual and organizational ends. Over time, the handful of foreign-trained economists of the 1950s swelled to a sizeable group, which rose to the top of the economic policymaking bureaucracy. The training of these economists came from diverse sources, from scholarships from foreign graduate programs, to financing for foreign training offered by the UNAM starting in the 1960s.

However, Mexico's need to comply with the demands of external actors during the stabilizing development period (1955-70) was limited both by the small *extent* of its dependence on foreign resources, and their lack of *conditionality*. Mexican external debt relative to GDP was maintained at a quite moderate level until the lending boom of the 1970s. Conditionality was low: the IMF standby loan of 1954 was accompanied by structural adjustment measures, but was repaid within a few years. The World Bank--Mexico's largest multilateral/bilateral creditor by 1965--would not begin its era of policy-based lending until the 1970s.⁵ Most importantly, the bulk of Mexican external debt during stabilizing development was to private sources (more than 70.9% of all borrowing in 1965) (Thompson 1979:175). Far from attempting to impose their policy preferences on the Mexican government, by the late 1960s private lenders were competing for the privilege of having politically and monetarily stable Mexico as a creditor: Mexico had acquired the Third World's highest credit rating and was able to acquire loans on nearly First World terms (Thompson 1979 174-85). Thus, it seems that although external pressures on Mexico during the stabilizing development period were greater than they had been in the decades following the Depression, they were quite moderate.

In contrast, the 1970-1982 period represented a strange hybrid, during which the flow of external resources was enormous, but their conditionality relatively low. As Frieden (1991) shows, during the lending boom of the 1970s, although the destination of foreign loans was determined by domestic politics, as a more general phenomenon, heavy external borrowing was determined by

international factors. These factors included the reglobalization of financial markets through a growing offshore banking sector (which eluded national banking regulations), and the glut of "petrodollars" from oil-exporting nations, which gave banks a surplus of investable funds.

During the presidencies of Echeverría (1970-76) and López Portillo (1976-82), Mexican government debt increased enormously. During this period, the rapid growth of Mexican foreign external debt was offset by rapidly increasing oil revenues. Although a devaluation and IMF standby loan in 1976 required the Mexican government to implement structural adjustment measures, these attempts by the IMF to increase loan conditionality were undermined by the free availability of foreign financial resources, as well as the enormous revenues that the Mexican was receiving through petroleum sales. Because of the oil boom, Mexico was able to pay off its IMF loan of 1976 in advance (Teichman 1988:65).

Mexico's increasing dependence on external financing during the 1976-82 period put a premium on foreign economics credentials, leading to the further consolidation of the position of foreign-trained economists in Mexican economic ministries (Centeno 1994). However, there was also substantial variation among these foreign-trained technocrats. Some of them were fiscal and monetary conservatives, who tended to have studied in the United States; others with a more nationalist and interventionist point of view often had done their postgraduate studies in England. During the late 1970s, when external resources to the Mexican government were relatively abundant and free of conditionality, and oil revenues were at an all-time high, foreign-trained economists from the far left of the developmentalist consensus--the "structuralists" mentioned by Mexican political scientists (cf. Basañez 1991, Villarreal 1984)--came to hold important policy-making positions (Heredia 1996:104).

While the more conservative policymakers remained in control of the Ministry of Finance and the Banco de México, the more radical group found institutional homes within sectors of the Ministry of National Resources (which was in charge of the rapidly-expanding parastate industries) and the Secretary of the Presidency. These economists included José Oteyza and Carlos Tello, both of whom had pursued graduate studies at Cambridge University--a well-known center of Keynesian thinking. In general, the emphasis of these officials was on "deepening" Mexico's process of import substitution, and accelerating Mexico's economic growth, even at the cost of inflation (Teichman (1988) has referred to them as the "quasi-populist tendency" within Mexican public administration (p. 94)). Conflict among these different tendencies became most intense during the López Portillo administration, when the more radical economists effectively blocked the effort of more conservative technocrats to move toward trade liberalization (Heredia 1996:108-141). When López Portillo nationalized Mexico's private banking system in 1982, it was Tello (the architect of the nationalization plan) whom he placed at the head of the Mexican central bank.

In general, however, it is worth noting that these leftist economists were never (with the exception of Carlos Tello's brief tenure as central bank director) at the head of the Mexico's four most central economic policymaking institutions: the Commerce Ministry, the central bank, the Finance Ministry, and the recently-created Ministry of Budget and Planning. The latter three of these ministries were dominated both by more conservative, inflation-conscious developmentalists of the sort that had prevailed in the 1960s, and increasingly by a younger generation of U.S.-educated economists who would turn out to have views quite antithetical to developmentalism.

The years 1981-82 marked a major reversal of Mexico's economic fortunes, and a dramatic increase both in Mexico's level of external dependence, and the conditionality of the resources on which

it depended. In 1981, a fall in world oil prices and rapidly-rising global interest rates, leading to a dramatic increase in Mexico's short-term external debt (Kraft 1984: 34-5). Meanwhile, international political changes had occurred that would have a critical effect on Mexico's policy options, dramatically increasing the conditionality of external resources. The free-marketizing Reagan administration immediately recognized that the debt crisis could be used as a way of leveraging policy reform. The initial Mexican rescue plan coordinated by U.S. Treasury Secretary James A. Baker III offered debt rollover in exchange for the adoption of market-oriented and investor-friendly policies by developing countries (Miller 1986:16). With Reagan in office, the new World Bank director Tom Clausen used loans repeatedly for the promotion of neoliberal policies in developing countries (George and Sabelli 1994:58).

The outbreak of the debt crisis of 1982 brought about the definitive ascent of foreign-trained economists to the pinnacles of power, and helped promote weeding-out of the more leftist foreign-trained economists, in favor of more conservative, free-market promoting technocrats. Although nobody can say with absolute certainty why López Portillo chose de la Madrid to be the official PRI candidate in September of 1981, it almost surely was a measure designed to inspire the confidence of bankers and investors; he was described in the foreign business press as "a technocrat, adept at modern economics but out of touch with Mexico's revolutionary traditions" ("The New Hero" 1981: 68). In deference to the incoming president, two top-level economic policymakers were appointed even before de la Madrid's accession to the presidency. One was Finance Minister Jesús Silva Herzog, Jr., who had a Masters' degree in economics from Yale University, and a reputation for prudence and conservatism leading the *Economist* magazine to remark that he seemed to be "...more popular with the New York bankers than he is with some of the folks back home" ("Mexico's Happy Creditors" 1984:

60). De la Madrid's other pre-presidential appointment was central bank director Miguel Mancera, an ITAM graduate, also a Yale MA in economics, and a conservative central banker to the core.

The intervening months between de la Madrid's selection as candidate in September of 1981 and his ascension as President in December of 1982 were marked by the blossoming of Mexico's debt problems into a full-blown debt crisis, and a struggle between different camps of government economists with similar foreign credentials, but very different ideologies. On one side were "radical" economists inspired by developmentalism and its more radical cousin, dependency theory--most importantly, Carlos Tello, formerly director of the Ministry of Budget and Planning (and briefly head of the central bank), and José Andrés de Oteyza, the Minister of National Resources. Both had studied at Cambridge University. On the other side were the more orthodox, Yale-educated economists, Jesús Silva Herzog and Miguel Mancera, along with their numerous allies within Mexican public administration.

The battle between the Yale and the Cambridge economists came to a head over how to deal with Mexico's external debt crisis. On August 18, 1982, Mexican Finance Minister Jesús Silva Herzog informed the U.S. government, the IMF, and the world financial community that Mexico would be unable to meet its debt payments. After initially declaring its inability to pay, Mexico faced the critical choice of whether to attempt to meet its obligations to its creditors, or to default. For Jesús Silva Herzog, a Yale M.A. who had spent his formative professional years at the Mexican central bank, the latter course was not an option: Mexico would behave as a responsible debtor. Silva began immediately to steer Mexico toward a negotiated settlement with the banks, for which he would have to enlist the support of the U.S. Treasury, Paul Volcker of the Federal Reserve, the Bank for International Settlements, and--most importantly--the International Monetary Fund. In order to meet its obligations,

Mexico needed bailout funds from the U.S. Treasury and IMF, both of which demanded uncomfortable concessions in return for their support: the U.S. Treasury wanted to buy Mexican oil at a heavy discount (the equivalent of a loan at over 30 percent); the IMF, on the other hand, wanted Mexico to commit to the usual package of structural adjustment austerity measures. The oil deal was finalized over the objections of Oteyza, and with bitter criticism from Mexico's left opposition press (Kraft 1984: 15-16).

But it was the IMF deal that was the most difficult for the leftist economists to swallow. The widespread capital flight preceding the debt crisis was diagnosed by these economists as a effect of the exaggerated ease with which the rich could move their capital out of Mexico. As a remedy, Oteyza and other like-minded Mexican economists advised the imposition of capital controls. These controls were thoroughly opposed not only by the IMF, but also by orthodox Mexican government economists like Silva and Mancera; in an overt sign of disagreement, in 1982 Mancera published a pamphlet entitled "The Disadvantages of Capital Controls." The leftist economists also advised the nationalization of the Mexican banking system--an idea which must have particularly appalled Mancera as a traditional and conservative central banker. On August 31, 1982, López Portillo took their advice and signed capital controls and the nationalization of the Mexican banks into law; at the same time, Mancera was deposed as head of the central bank, and Carlos Tello put in his place (Kraft 1984: 38).

Whether or not these heterodox measures were the correct solution to Mexico's problems, they directly contradicted Silva's strategy of committing to debt repayment and compliance with the requirements of foreign governments and international financial institutions. López Portillo's decree represented a severe setback for Silva's negotiations with the IMF; matters were made even worse by the fact that Tello had replaced Mancera on Mexico's negotiation team. But Tello was isolated, and the policies he favored were opposed not only by Silva, the IMF, and foreign negotiators like Paul Volcker

of the Federal Reserve, but were also precluded by the harsh fact that Mexico's funds were running out: unless Mexico was willing to default on its debt, it would have to accept the IMF's terms, which Volcker also required as a precondition for his ongoing intermediation on behalf of Mexico with private banks.

Tello attempted to hold his ground in negotiations with the IMF, insisting on exchange controls, a generous wage policy, and high government spending; rumors abounded that he was attempting to strengthen his position by entering into a debtors' cartel with Argentina and Brazil (Kraft 1984: 44-5). However, IMF negotiators knew Tello was outnumbered on the negotiating team, and that de la Madrid's ascension to the presidency would solidify their position. On November 10, 1982, Silva announced the terms of the IMF deal: Mexico was committed to cutting the budget deficit from 16.5 percent of the GNP in 1981 to 8.5 percent in 1983; to drastically reducing foreign borrowing; and to lower government subsidies dramatically (Kraft 1984: 46). On December 1, 1982, Miguel de la Madrid assumed the Mexican presidency: Oteyza was replaced by a new Minister of National Resources, Mancera was reinstated as central bank director, and Silva was kept on as Minister of Finance. The IMF and the fiscal and monetary conservatives within the Mexican government had won.

The stage was set for the next phase of Mexican post-debt crisis policy: structural adjustment was now to be followed by deeper and more long-term liberalizing reforms. The officials in de la Madrid's administration shared in common a similarly conservative position with respect to policy toward Mexico's creditors and the IMF. On such issues as free trade, however, there were deep disagreements among the conservatives. Until the mid-1980s, de la Madrid put forward a moderate policy of gradual and selective opening to free trade, similar to a policy originally attempted in the 1960s. But later, disagreements developed regarding the speed and depth of the trade opening: on one

side were the "liberal developmentalists" within the Ministry of Commerce, and on the other the "free traders" in the Mexican central bank. Commerce Minister Héctor Hernández Cervantes was a graduate of the UNAM economics program who had done his graduate work at the University of Melbourne in Australia rather than in the United States. Hernández advocated only gradual and selective opening to international free trade, and was generally in favor of an active state in a mixed economy. At the same time, there existed a small group of radical rent-seeking protectionists within the Ministry, whose position undermined the credibility of Hernández and his team (Heredia 1996:170-202).

On the opposite end of the debate was a younger generation of foreign-trained officials at the Banco de México who were much more fervent believers in market forces than fiscal conservatives and old-style liberal developmentalists. The most important of these was a young University of Chicago graduate named Francisco Gil Díaz--the same Gil Díaz who as director of ITAM economics had helped remake it into a center of U.S.-style neoclassical economics in the 1970s. Gil Díaz had numerous U.S.-trained allies outside the Banco de México, including Pedro Aspe of the ITAM and the Budget and Planning Ministry, and Jaime Serra Puche of the Colegio de México. At the same time, the President's Office of Economic Advisors brought together yet another team of U.S.-trained economists to support free trade ideas, which included Chicago-trained Herminio Blanco.

The Ministry of Finance occupied an intermediate position between the Banco de México and the Ministry of Commerce, since it was divided between officials who supported free trade and those who opposed it. But in 1985, an administrative reform eliminated two subministries, and created a new subministry headed by Pedro Aspe; later, in 1986, Silva resigned (for internal political reasons). These developments pushed the Finance Ministry into the free trade camp (Heredia 1996). Silva's successor as Finance Minister was Gustavo Petricioli, the man responsible for the renovation and Americanization

of ITAM economics in the mid-1960s, who brought in other free traders, notably Yale-educated Jaime Serra Puche (Heredia 1996:168-9, 238-9).

The position of the free-market economists in Mexico was strengthened by the ongoing deterioration of Mexico's macroeconomic situation, which was accelerated by the earthquake of 1985 and the fall in oil prices of 1986, and which failed to improve despite the peso's radical devaluation--evidence, according to these economists, that Mexico needed to become more export oriented (Heredia 1996:173-80). Aided by their alliance with World Bank and IMF officials espousing similar policies--and opposed by Commerce Ministry officials and private sector interests--the free trade coalition within Mexican public administration prevailed. In 1984, the Banco de México began to disseminate policy proposals in favor of accelerated trade opening. A World Bank trade policy mission was sent to Mexico in November of 1984, which negotiated and collaborated closely with officials in the Central Bank and Finance Ministry; later that year, the World Bank granted Mexico the first "Trade Policy Loan" in the Bank's history, which provided Mexico with a series of loans in return for comprehensive trade liberalization. In March, 1985, a letter from Silva and Mancera to the IMF agreed to "a complete revision of trade policy," beginning with the replacement of quantitative import controls with tariffs (Buchanan and Rhein 1985: 61). In 1986, the Reagan administration further strengthened the hand of international financial institutions and free traders within the Mexican government by announcing that it would not negotiate on Mexico's behalf with international banks unless Mexico "implemented substantive structural reforms," and arrived at a new agreement with the IMF ("Silva Lining" 1986: 81).

Thus, whereas during the first forty-odd years of Mexican economics, resource dependence was a contributing factor to the rise of foreign-trained economists in government, the extreme resource

dependence brought on by the debt crisis resulted in a selection *among* foreign-trained economists in government: first, for the most fiscally and monetarily conservative technocrats, and later for those most likely to favor free markets and free trade. Today, Mexico depends heavily not only upon multilateral agencies like the IMF and the World Bank, but also on the confidence of foreign investors, who finance Mexican current account deficits and ongoing debt payments. The extreme degree of Mexican dependence on external resources was illustrated most recently by the peso crisis and devaluation of 1994-95, a debacle that led to the replacement of Yale-trained economist Jaime Serra Puche with Stanford-trained economist Guillermo Ortíz Martínez. Having American-trained economists in charge of economic policy may not be a sufficient condition for macroeconomic stability, but it certainly appears to be necessary—or at the very least, *considered*, necessary by governments in power (Schneider 1997).

Conclusion

This paper has reviewed the history of the rise of foreign-trained economists in the Mexican government, and the consequent internationalization of the Mexican economics profession. As with all professionals, Mexican economists' takeover of the state rested on a process of legitimation. The vigorous domestic promotion of Mexican economics by domestic actors attests to the legitimacy of foreign standards of economic expertise among certain Mexican government officials. However, international pressures on the Mexican government were key factors in fostering the proliferation of U.S.-trained economists in the Mexican government after 1982. Such pressures first helped foreign-trained economists ascend to new heights in the public sector, and later selected among top-level government economists to favor those most in line with the views of the organizations upon which the

Mexican government depended. This trend has contributed to the transformation of Mexican economics from the leftist, nationalist profession of the 1930s to an Americanized profession today (Babb 2001).

The Mexican experience shows that whereas foreign "money doctors" may be used by Third World governments to help foster investor confidence, medium-income developing countries can also come to produce their own money doctors, utilizing foreign-trained natives in their negotiations with international organizations. The foreign-trained technocracies that get produced do not necessarily share a single vision. In underdeveloped countries with large and highly-developed corps of foreign-trained economics professionals, an increase in resource dependence may lead to a process of selection among available economics professionals in government, favoring those technocrats whose views coincide most closely with the views of officials from foreign governments and international financial institutions.

Perhaps the most interesting parallel between turn-of-the-century money doctors and the new Mexican technocrats is the similarity in the *content* of the advice that they give. Like the money doctors of yesteryear, the neoliberal economists are firm believers in monetary and fiscal rectitude, and were such fervent budget-cutters in the early 1980s that after 1983 there was actually a budget surplus--quite an achievement for a period of economic crisis (Lustig 1992:30). Although Kemmerer's beloved gold standard is no longer a viable option today, the Mexican technocrats prescribed the next best thing--legal central bank independence--which they achieved in 1993.

Perhaps most interestingly, the new Mexican technocrats have abandoned the developmentalist discourse that prevailed after World War II, focusing on the achievement of free markets and free trade with the assumption that economic growth will naturally follow. This represents, in many ways, a return

to the prevailing discourse among internationally-respected economists at the turn-of-the-century and interwar period. Like other mainstream economists of his day, Kemmerer "saw inflation and inconvertible currencies as the primary evils within the world economic system...[and]...spoke little of promoting 'development' or 'modernization.' Instead he sought primarily to promote gold-based convertible currencies as the basis for a self-adjusting and self-regulating international economic trading and investment order" (Rosenberg and Rosenberg 1994:67). It is surely significant that during the Kemmerer period national economies were highly globalized, just like today: at the most general level, there seems to be a relationship between economic globalization and *laissez-faire* economic ideology.

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Endnotes:

¹ Indeed, economists and other rational choice theorists have been telling us for years that government interference in markets needs to be minimized because honest and competent policymakers cannot be reliably produced in a world of individual utility maximizers: we ultimately can thank economists for formalizing the insight that no policymaker--not even an economist--is above politics, and that every policy has its constituents (cf. Krueger 1974).

² In the 1950s, other private-sector economics programs would be established in Monterrey and Guadalajara; these programs, however, lacked the ITM's ideological, policy-oriented goals.

³ It is important to point out this Chicago-School bias was only a phase in the ITAM's history, a byproduct of Director Gil Diaz's Chicago training. After Pedro Aspe assumed the Directorship of the ITAM economics program in 1978, MIT became more popular, both as a source of citations and as the graduate program of choice.

⁴ Total slots for each presidential administration equal the number of top policy positions, multiplied by the number of individuals who occupy those positions. Thus, the data for an individual who occupies two positions at different times during the same administration, are counted twice. Top policy positions are defined as the President of the Republic, Minister of Finance, Minister of Commerce, and Central Bank Director (throughout the entire period), and Minister of Budget and Planning (for the administrations corresponding to the years 1976-1992).

⁵ In reviewing World Bank lending to Mexico in the mid-1950s, Thompson (1979) shows that the World Bank "implied" that its support was contingent on Mexico's adoption of sound financial policies, he also concludes that these proposed requirements "...were probably not inflexible. Considering the close and developing relationship between Mexico and the World Bank, the essential requirement was that Mexico convince the World Bank that its policies were sound from the points of view of development and stability" (p. 117).