

Financial Liberalisation, the Banking Crisis and the Debtors' Movement in Mexico

Geneviève Marchini, University of Guadalajara

Introduction

In the aftermath of the 1982 external debt crisis and in a very restrictive international environment, Mexico abandoned its inward-looking economic model and adopted a more open, export-led and market-oriented stance. Since 1988, the authorities have taken critical steps that induced an increasing level of internationalisation of the economy, and, in 1994, regional integration through the implementation of the North American Free Trade Agreement (NAFTA). These reforms have led to important transformations in the country's economic structure as well as in its trade patterns. On the social and political side, they have widened the income gaps between different social sectors and regions, and eroded support for the ruling party, the *Partido Revolucionario Institucional* (PRI, Institutional Revolutionary Party). PRI has lost some of its traditional allies, weakening the old corporatist structures and stimulating the creation of new social movements.

A few months before the *Ejército Zapatista de Liberación Nacional* (EZLN, Zapatista Army for National Liberation) uprising in Chiapas, another protest movement was being born in the rural sector. Unlike the Chiapas rebels, it didn't represent poor, indigenous, landless peasants, but rather, heavily indebted small and medium producers. After the December 1994 crisis, the *Barzón* debtors' movement expanded at the national level to include urban small and medium enterprises (SMEs) and household borrowers. This new type of social movement rapidly became an important social and political agency that compelled the authorities and the banks to take its demands into account.

This paper seeks to understand the emergence of this movement and its main features and its achievements. The paper is divided into five sections. The first reviews the main features of structural reforms in Mexico and their results, to explain the context in which the debtors' organisation is rooted. The second and third parts of the paper show how financial opening and bank deregulation produced a growing indebtedness of rural producers,

industrial SMEs and households, leading to the birth and first steps of the *Barzón* movement in 1993-94. The fourth section accounts for the explosion of the debtors' movements since 1995, while the last deals with its successes and failures in defending its membership.

Structural reforms in Mexico: main characteristics and political economy

Mexico's main liberalising reforms were launched in 1988 during the last year of the De la Madrid administration and they were pursued 'aggressively' by the new government of Carlos Salinas de Gortari, who took office at the end of the year. Structural reforms were coupled with a new stabilisation program that had been introduced earlier, in December 1987, in order to attack a threatening inflationary economy.

Although the previous stabilisation policies (applied since December 1982)¹ succeeded in restoring the current account balance and Mexico's capacity to serve a restructured external debt, they failed to achieve fiscal balance and price stability. Macroeconomic imbalances grew wider, as the overall fiscal deficit reached 14.4 per cent in 1987 (15.6 per cent in 1982), and the inflation rate (Consumer Price Index) climbed to 159.2 per cent in 1987 from 98.9 per cent in 1982. Moreover, these poor results were obtained at a high cost: steady growth didn't resume after the 1983 recession, living standards plunged, and the income distribution disparity worsened. As part of the effort to balance the federal budget, public investment in physical infrastructure and human capital sank while private investment remained at a low level; obsolescence became widespread among the industrial sector.

Some structural reforms were sketched out during the 1982-1987 period; a few minor privatisation operations were carried out successfully, but, above all, the authorities took several important steps towards trade liberalisation. In 1983 they introduced the program

¹ The program was a standard stabilisation package supported by the IMF. The main measures included a sharp devaluation of the currency, restrictions of domestic demand achieved through cuts in public expenditures and lower real wages. They sought to reduce the excessive domestic demand while stimulating the overall demand for domestic goods, either through higher exports or switching domestic demand from imports to local goods.

aimed at developing in-bond *maquiladora* (assembly plant) industries, while in 1985, some of the non-tariff barriers implemented in 1981-82 were lifted, and higher-range tariffs were lowered. Finally, in 1986, Mexico became a member of the General Agreement on Tariffs and Trade (GATT). These measures did not appear to have stimulated the adjustment and modernisation of domestic tradable sectors; on one hand, an undervalued *peso* protected them from foreign competition, while on the other, the gloomy perspectives of the domestic economy, combined with the credit crunch suffered by the private sector, further dissuaded Mexican entrepreneurs from undertaking new productive investment.

In the financial realm, the nationalisation of the banking system was not wholly reverted,² but all the subsidiaries of the banks, and especially their market arms, the brokerage houses, were returned to the private sector. This measure, combined with the monetarist reform of public sector financing,³ caused extensive change in the composition of the financial sector. On one side, financial repression limited the development of banks, which were dedicated mainly to satisfying public sector financial needs; on the other, as the government relied increasingly on market financing, this same deficit fostered the development of money market securities and private market intermediaries. Furthermore, this measure has had important consequences for the relationship between the government and the leading sectors of Mexican big business. As a matter of fact, the main initial purpose of the privatisation brokerages was a political one, since it was aimed at restoring this sector's confidence, a high priority goal for President de la Madrid. Its relations with government had been deteriorating since the early 1970s. Mexico's entrepreneurs disliked the populist rhetoric of Presidents Echeverría (1970-76) and López Portillo (1976-1982), as well as the increasing participation of the public sector in productive activities. The conflict became more acute in the late seventies, when it provoked increasing capital flight, and it culminated in 1982 with the nationalisation of the banking sector. This last measure led to further criticism of government authoritarianism, and to demands to put an end to the PRI's hegemony and to democratise the political structure (Kessler 1999, 52). Thus, the

² This highly controversial measure had been taken in late August 1982 by the López Portillo administration, together with the suspension of payments on the external debt. This last populist move contrasts dramatically with the market-oriented character of the next administrations.

³ In 1985, deficit finance from the central bank had been forbidden and access to cheap sources of funds through legal reserve requirement severely curtailed.

brokerages' privatisation, combined with a public restructuring program for corporate foreign debt, 'helped the ruling party regain its credibility among Mexico's economic elite' (55).

Whatever its success in winning back the confidence of Mexico's big business, the administration was unable to regain support from the popular and middle classes, nor from medium and small businesses as well. As a consequence, although Carlos Salinas officially narrowly defeated his leftist contender, Cuauhtemoc Cárdenas, and the PRI conserved its majority at congress, the results of the 1988 elections confirmed the new strength of opposition parties. While the *Partido de Acción Nacional* (PAN, National Action Party) gained frustrated middle class and small and medium entrepreneurs votes, its leftwing competitor, the *Frente Democrático Nacional* (FDN, National Democratic Front; now *Partido de la Revolución Democrática*, PRD, Democratic Revolution Party),⁴ received increasing support from the urban and rural poor. Moreover, 'public outrage, repeated denunciations from opposition parties, and increased international exposure put the PRI leadership on notice that future electoral victories—at least at the national level—would have to be legitimate' (Kessler 1999, 84). As economic failure appeared to be the main explanation for the PRI's electoral vulnerability, the Salinas administration deemed it had just six years to achieve economic recovery and growth in order to secure a fair victory for the ruling party in 1994. These social and political circumstances certainly explain partially the speed and the sequence of the structural reforms that were introduced between 1988 and 1992. Indeed, the characteristics adopted by these policies can be explained either in these terms or on economic grounds.

The new 'heterodox' stabilisation package had been implemented in December 1987. It was based on a diagnostic that dismissed excess domestic demand as a cause for the increasing level of inflation; instead, it explained it in terms of inflation inertia.⁵ This program's key mechanism, the so-called 'Pacto' (Pact for Economic Solidarity), was established as a tripartite agreement between the government and the representatives of

⁴ This party had been receiving members of the PRI's leftist currents, as Cuauhtemoc Cárdenas himself, who opposed the new pro-market stance adopted by PRI governments since 1982.

⁵ See Agénor & Montiel 1999, chapter 10, for a review of heterodox stabilisation programs.

labour and business, reflecting the particular political structure of the country. Its main features combined a pegging of the exchange rate to the U.S. dollar, a temporal freeze of wages, private and public sector prices, and further fiscal adjustment. In 1988, the initial fixed exchange rate was replaced by decreasing daily devaluations of the nominal rate of the peso, while prices and wages were adjusted in line with projected inflation. The mechanics of the program were maintained throughout the whole Salinas administration; and, adjustments were agreed in tripartite bargaining every December. The program succeeded in stopping inflation quickly. In turn, this success was instrumental in achieving fiscal balance.⁶ However, the peg created a real appreciation of the *peso* that was not reversed, and in 1994, the Mexican currency was severely overvalued. As a consequence, since 1988 Mexico has posted increasing current account deficits that threaten the viability of the program. As we shall see, the features of this program, coupled with a specific combination of structural reforms, have also been harmful for Mexico's tradable sectors, and particularly for small and medium enterprises.

Since they were initially designed to support the adjustment process, some of these structural policies, especially fiscal reform and trade liberalisation, had already been launched in 1987. Fiscal reform (1987-90) helped to strengthen federal revenues and to diminish their reliance on oil revenues. Trade liberalisation was accelerated in December 1987; tariffs were lowered as was their dispersion, and import licenses were mostly removed. This policy sought to discipline domestic producers, as increased foreign competition would induce them to moderate price adjustment. The Salinas administration intensified these policies and broadened the scope of liberalisation. For analytical purposes, the measures can be classified into two broad groups: those aimed at reducing the direct intervention of the Mexican government in economic matters; and those which were intended to re-establish the country's access to international finance. In the first group, we can list the elimination of subsidies to production and consumption and the end of industrial policy, the deregulation of some key domestic sectors, like telecommunications or transport, the privatisation of big state-owned enterprises (SOEs) between 1989 and

⁶ An analysis of the sources of the budget deficit shows that in 1987 it was due mainly to the inflationary component of interests paid on the domestic public debt. As inflation slowed and nominal interest rates declined, the deficit disappeared.

1992, and the liberalisation of the domestic financial system (1988-92). In the second group, the main measures were the signing of a Brady Plan agreement (1989-90), and the opening of the capital account of the balance of payments (1989-92).

In a few words, speed and simultaneity of adjustments characterised these reforms, which were classified by the World Bank as ‘shock therapy,’ since the main measures had been introduced in less than two years. Such a pace of reform had been made possible by the high degree of autonomy traditionally enjoyed by the Mexican president.⁷ It has been motivated on political grounds by the need to regain support for the ruling party through economic success, and, on the economic side, by the intention to give strong signals, so as to attract the foreign funding needed to pursue the stabilisation package. Together, these policies, and especially the Brady agreement, the privatisations of big SOEs, and the opening of domestic securities markets to foreign investment (domestic public debt and equity markets), allowed Mexico to receive the inflows it urgently required.⁸ Thus, structural, long-term reforms were used as instruments in supporting the short-term stabilisation process.

As expected, these policies had dissimilar effects on the various social and productive sectors. A dichotomy of winners and losers would put Mexican big business, the upper and middle classes and non tradable sectors within the first category, and producers of the tradable sectors, and especially small and medium enterprises, and the urban and rural poor as well, within the second. Mexican big business has clearly been the major beneficiary of structural reforms. It has been favoured by the privatisation process, which strengthened it greatly while reinforcing its ties with the ruling party as well as its capacity to influence economic decision making. Moreover, financial liberalisation, which facilitated its access to foreign markets, combined with the currency appreciation, enabled it to finance its modernisation in a cheaper way.

As a matter of fact, industrial sectors that succeeded in adapting to the new environment,

⁷ In fact, Carlos Salinas was the last Mexican president to enjoy such autonomy.

⁸ However, since mid-1992, real domestic interest rates had to be increased in order to keep funds flowing in.

keeping their domestic markets and expanding their exports, were the more highly concentrated, capital-intensive and well-connected abroad, such as chemistry, plastics, electric appliances, cars and car parts. Together with the in-bond industries, they now explain a major part of Mexican manufactured exports. Part of this success stems from an increased proportion of imported intermediate goods, which doubled in a few years; the main exporters like car and electric appliances producers had already reached 40 per cent and 58 per cent respectively in 1990.⁹

Consumers, and particularly the upper and middle classes, also benefited from the results of the structural adjustment package. Mexico registered a consumption boom between 1988 and 1994. Consumers enjoyed a greater variety of cheaper imported goods, which compensated for the painful austerity of the De la Madrid *sexenio* (six-year rule). Upper and middle classes consumers were also granted access to domestic credit: since fiscal balance coupled with deregulation freed massive resources, the banks looked for new ways of allocating their funds. As a result, consumer credit and mortgages soared, further stimulating demand for imported durable goods and the domestic construction industry. Together, these changes led to a reduced household saving rate: in 1990, it was estimated to be 6.5 per cent of GDP, compared with a 12.2 per cent level in 1985 (Dubcovsky 1994). However, as we shall see, credit was extremely expensive, and its expansion would prove unsustainable, leading to the incorporation of urban consumers in the debtors' movements.

Tradable labour-intensive sectors where small and medium enterprises predominate were clearly the losers of the adjustment process. When trade began, they were already at a disadvantage, since inefficiencies and obsolescence were widespread in the heavily protected Mexican industry and in the undercapitalized rural sector as well. In these conditions, they were exposed simultaneously to trade liberalisation, whose effects were compounded by the currency real appreciation, and to the withdrawal of state support—subsidies and industrial policy programs were removed early. Moreover, access to credit was restricted to a small fraction of these enterprises, presumably the more formalised and competitive, and for those who qualified, interest rates were high. As a result, productivity

⁹ This section draws on Marchini 1997.

improvements were rather low in those sectors, and some of them, such as the apparel and garment industry and shoe producers, contracted in absolute terms. At a political level, these producers did not succeed in articulating their demands. Their old corporatist body, the *Cámara Nacional de la Industria de la Transformación* (CANACINTRA, National Chamber of Manufacturing Industries), still heavily controlled by the ruling party, prevented it, and, contrary to the case of big business, no other representation was available or created.

As for the urban and rural poor, reforms did little to enhance their situation directly. On one hand, employment in the formal sector could not increase in the proportion required to absorb the supply of labour, leaving the so-called informal economy or the rural subsistence sector as the only alternatives. In fact lay-offs increased as several labour-intensive tradable sectors were struggling to adapt to the new environment. On the other hand, nominal increases of the minimal wage rate negotiated in the *Pactos* were consistently lower than the consumer price index (CPI) inflation rate. Although the average real industrial wage regained almost all the purchasing power it had lost since 1982, the lower-end wages, which affected a significant part of the workforce, kept losing real value.¹⁰ However, some segments of these social sectors benefited from the reforms in an indirect way, as they were the recipients of a patronage-type redistribution of revenues. The privatisation of big SOEs, and particularly banks sales, reported important one-time revenues to the central government. These windfalls seem to have been used with two purposes: to reduce the debt service and enhance the relationship of the ruling party with the popular sectors, through new politically oriented income-redistributing programs, like *Solidaridad*.

In sum, the special features of the stabilisation and structural reforms package produced short-term results that were highly praised abroad, such as an apparently successful stabilisation process, a more market-oriented economy, and a new trade pattern that transformed Mexico into an exporter of manufactured goods. At the political level, these results were instrumental in enabling the victory of the ruling party in the 1994 general

¹⁰ The index of industrial real wage (1982 = 100) reached its lower level in 1988, with 66 points. In 1994, it increased to 96.8 points. By contrast, the minimal real wage established itself at 59.2 points in 1987, and at 42.3 points in 1992. See Marchini 1997, 154.

elections. However, the longer-term costs of this strategy were extremely high, since the goals of modernisation and enhanced competitiveness of a wider range of domestic enterprises were neglected, leading to the dismantlement of whole sectors. Moreover, the deeply rooted problems of poverty, unequal distribution of personal income and wide regional differences worsened. As a result, growth, which had picked up swiftly in 1989-90, became sluggish after 1991, while the current account deficit kept growing and external finance came in an increasingly risky way, as foreign direct investment was replaced by portfolio investment as the first source of funds. This clearly unsustainable path was broken soon after the new government of Ernesto Zedillo took office, in December 1994. The results I have just mentioned were compounded by the dynamics of bank liberalisation. Combined with the devaluation of the currency, they set off an already menacing banking crisis.

Financial reforms, credit boom and non-performing loans

Conditions in which bank liberalisation and privatisation occurred were designed to make them a highly profitable investment in the short-term so as to maximise the amount of revenues the government could get from this operation. The main features were as follows:

- Banks were liberalized first, between 1988 and 1991, and only then privatised, when they were already profitable institutions.
- Liberalisation included a thorough reform of bank operations, since directed credit and legal reserve requirements were completely suppressed (in 1989 and 1991),¹¹ and interest rates were freed (1988-89). Furthermore, universal banking was reestablished and financial holdings were authorised.¹² Privatisation also led to the reconstitution of financial-industrial groups.
- Barriers to entry in the sector were not lowered, and they effectively prevented the incorporation of new competitors until 1994, when the new NAFTA rules allowed the participation of new domestic and foreign actors. The choice of a lesser level of

¹¹ In 1989, legal reserve requirements were replaced by a 30 per cent liquidity coefficient, to be invested in short-term government securities. In turn, this coefficient was suppressed in August 1991 and the transitory mechanism that replaced it only lasted a few months more.

¹² Financial groups were introduced at the beginning of the 1970s, and universal banking in 1976. In 1982, bank nationalisation reversed these reforms.

competition can be explained on economic grounds: on one hand, it would allow the creation of stronger institutions, able to compete internationally, and on the other, it could also help to scale down systemic risk. However, political explanations are perhaps more likely: first, protection would enable the government to strengthen its alliance with financial big business, and second, as it implied future economic rents, protection would raise the expected revenues of the privatisation process, which could later be used to regain support from the poor (Kessler 1999, 94).

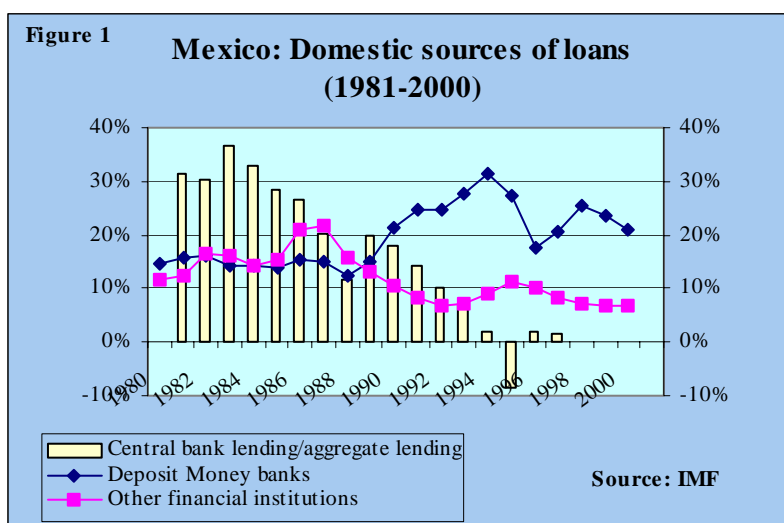
- Privatisation affected 18 banks; concentration, which has traditionally been high in the Mexican banking sector, allowed the sector to behave like an oligopoly. Concentration measures reflected the powers of the three bigger intermediaries; together they controlled more than 50 per cent of assets in 1994.
- The public development banking network was extensively restructured. The main reforms consisted in merging and closing down institutions, and in reducing the scope of their activities, which were refocused towards compensating market failures, i.e. financing viable SMEs that were not granted access to commercial bank credit. In the rural sector, for example, the biggest producers were directed to commercial banks while profitable small and medium farmers qualified for loans of the development bank, Banrural.¹³ Direct lending was also scaled down. Funds were to be allocated by commercial banks and development banks would discount these loans. Moreover, interest rates subsidies were suppressed and, since 1988, market rates have been applied.

As a result of the reforms, banks appeared to be a highly productive investment. At the beginning of the 1990s, Mexico was clearly under-banked, and within the context of structural reforms, the growth prospects of the sector seemed excellent. The banks, which had concentrated on government finance throughout the recession, were financially sound. Furthermore, they had been granted a protected environment with few competitors within the financial system, since non-bank intermediaries had a limited scale and the scope of public development banks had already been reduced during the first years of the reforms. Banks shares were consequently priced very highly during the privatisation process: on

¹³ The poorest peasants were to be attended by social programs.

average, they were sold at 2.8 times their book value, well above the 2.2 average international relativity (Aspe Armella 1993, 181).¹⁴

In the overall context of stabilisation and structural reforms, bank deregulation and privatisation led to a private sector credit boom. Two factors combined to stimulate a high rate of growth of private loans. First, stabilisation, which removed the budget deficit, freed large amounts of funds, which were allocated to new private borrowers. Second, deregulation, which lifted legal reserve requirements, intensified this upward trend. The last measures taken during the privatisation process—which eliminated the so-called liquidity coefficient, and any remaining compulsory investment in public securities, respectively in September 1991 and in April 1992—further accelerated it, at a time when non-performing loans (NPLs) were already soaring.



Meanwhile, credit allocation had changed dramatically. Selective credit policies had traditionally concentrated allocation of funds in industry and agriculture, and in popular housing as well. When these restrictions were lifted, banks allocated funds to new sectors, like trade and services, upper and middle-class mortgages and consumer credit, all of them

¹⁴ The privatisation process, which had been publicised by the government as a transparent and objective operation, was exposed during the banking crisis as a very political project, as close connections between buyers and ruling party officials were revealed.

expected to return higher yields. Although credit expanded in absolute terms and as a percentage of agricultural and industrial GDP, funds allocated to the other sectors grew at a faster pace, and they gained relative importance: between 1988 and 1993, the stock of credit expanded to 123.7 per cent for the industrial sector, while it grew almost 300 per cent for trade and service activities and 472 per cent in the case of housing and construction. As a result, industrial activities, which used to receive 42 per cent of total private credit in 1982-87, only got 19 per cent in 1993, while construction and housing activities almost doubled the proportion they received, from 14 per cent to 27 per cent.¹⁵ Consumer credit peaked in 1991 with 16.5 per cent of aggregate private credit, from an average level that remained stable around 6 per cent of this total between 1970 and 1987.



Although credit flowed, it remained expensive. Moreover, loans were mostly allocated on flexible terms; borrowers were bearing the risk of future higher rates. During the first years of stabilisation, real rates were very high, a common pitfall of financial liberalisation when it is launched without fiscal balance being attained. Later, the need to attract foreign funding kept the base rate—the Certificado de la Tesorería (CETE, Treasury Certificate) rate—high. The wide intermediation margin requested by the banks compounded the effects of high base rates for the borrowers; privatised banks increased this margin from 4.9 per cent in 1991 to 7.1 per cent in 1993 (Gavito, Silva Nava and Zamarripa 1998, 96). As a

¹⁵ Development banks followed a somewhat different pattern: loans allocated to industrial and agricultural activities kept a higher proportion of the overall credit, while trade and services activities increased their relative part. Housing and construction picked up later. However it should be pointed out that real credit allocation from these banks contracted severely during the period.

result, average real base lending rates rounded 40 per cent in 1988 and 1989, and after falling to 11.5 per cent in 1991, they started increasing again to reach 17 per cent in 1993. This evolution may be explained, on one hand, by the uncompetitive oligopoly structure of the banking sphere, promoted by the authorities, which enabled the banks to lower the interest on deposits while increasing lending rates. In fact, with the exception of instruments available to corporations and wealthy individuals, rates paid on a wide range of deposits have consistently produced negative real yields. On the other hand, the tight credit market, associated with a high demand for loans from households and businesses that had been credit-constrained for more than a decade, put the banks in a strong position in relation to potential borrowers.

Given the high level of nominal and real interest rates, the result of a tight monetary policy combined with the wider intermediation margin, a high portion of loans were very risky investments. For example, most mortgage loans were allocated on the basis of over-optimistic expectations: they were a gamble on the expectation of future lower interest rates as during the first years, capital due increased as part of the interest was capitalized, as they exceeded the payment capability of the borrower. In short, these loans could have been repaid only in a much better 'state-of-the-world', with declining real interest rates and an improving macroeconomic background.

High credit rates in conjunction with a deteriorating record of growth on one hand,¹⁶ deficient allocation of funds by the banks on the other, accounted for rapidly increasing non-performing loans.¹⁷ Problems first emerged in the agricultural sector. Almost immediately after the deregulation of interest rates, NPLs jumped to 30 per cent of aggregate loans to the sector for development banks, and increased, although much more slowly, in the case of commercial banks, reaching 10.6 per cent in 1993. As for the other activities, a clear deterioration in the quality of loans occurred after 1992, soon after the completion of the privatisation process, while real interest rates started climbing again.

¹⁶ Unfavourable weather conditions also affected the rural sector by causing crop failure.

¹⁷ In its 1992 and 1993 annual reports, the central bank, Banco de México, remarked that banks had an underdeveloped screening system, and that loans had been allocated on the grounds of over-optimistic evaluations of debtors' repayment capacity. Banco de México, *Informe anual*, México, 1993, 62; Banco de México, *Informe anual*, México, 1992, 51.

The emergence of the debtors' movement: 1993-94

Not surprisingly, the debtors' movement was born in the rural sector. In this highly fragmented and differentiated sector, trade liberalisation and the withdrawal of the state came after decades of erratic public policies and under-investment, worsening already acute problems and widening inequalities between farmers. As a consequence, two of the most important social movements of the 1990s in Mexico, the *Zapatista* (EZLN, Ejército Zapatista de Liberación Nacional, Zapatista Army of National Liberation) rebellion and the Barzón debtors' movement, emerged from this sector within a short time span.¹⁸ However, while the *Zapatista* rebellion represented the poorer levels of the rural population, the *Barzón* movement expressed in its origins the 'rebellion of large portions of medium and small rural producers who suddenly found themselves insolvent and unable to serve their debts, on the verge of losing their properties through lawsuits' (Castro Castro 2000, 118). Since they belonged to the upper group of producers who had qualified to receive credit, its members were not marginal peasants but small, medium and sometimes big landowners who had tried to modernize their farm and produce for the market.

The movement's name, the *Barzón*, which translates as 'the yoke,' alludes to a popular *corrido* (ballad) of the Mexican revolution, which referred to the painful existence of *peones* (farm hands or labourers) on extensive *haciendas* (rural properties) in the nineteenth century. Those *peones* lived in bondage, with debts being transferred from parents to children (Torres 1997a, 268; Torres 1997b). Although debtors' movements proliferated after the December 1994 crisis and expanded into the urban areas, these rural roots still appear in their generic name, the *Barzón*, which the movements kept, and in the rural emblem—a green tractor—they continued to use. The motto of the movement, 'Debo no niego, pago lo justo' (I don't deny what I owe, but I'll pay what's fair), also derives from the same founding movement (Kessler 1999, 122).

¹⁸ The EZLN rebellion broke out in January 1994, while the Barzón's first important moves took place in September 1993.

Although similar initiatives were launched almost simultaneously in the northern state of Chihuahua, and in Zacatecas, the movement seems to have had its roots in the western Jalisco state. Harmed by bad weather conditions and a drop in export and domestic prices for their products, a group of farmers sought the president's mediation in order to solve their overdue loans problems. The old corporatist organisations, the local affiliate to the *Confederación Nacional Campesina* (CNC, National Peasants Confederation), and the *Federación Estatal de Propietarios Rurales* (FEPR, State Federation of Rural Landowners), were kept out of the movement (del Castillo 2000, 94). From the mid eighties, they had been losing their efficiency as bargaining channels between producers and the authorities.

Who were the debtors at the very beginning of the movement? Cartón de Grammont stresses they included medium and big rural producers over indebted with commercial banks, as well as small farmers who couldn't repay their loans to Banrural (Cartón de Grammont 1997). The average value of the debts of the former was higher. Consequently, in 1993, the overdue loans of the rural sector could be split as follows: 62 per cent of the aggregate bad debts were due to commercial banks (by 27 per cent of the producers), while Banrural concentrated 38 per cent of the value of NPLs (and 73 per cent of debtors). Accordingly, some indicators suggest that the size of the debtors' properties was greater than the average (Cartón de Grammont 1997, 1-3). Their demands already included debt rescheduling, interest discounts, and new loans to finance working capital. From the beginning they had asked for 'a tripartite dialogue between debtors, bankers and the federal government' (Castro Castro 2000, 131).¹⁹ When the ensuing negotiations with the banks failed in mid 1993, demonstrators arrived on their tractors and took over downtown Guadalajara for 52 days. Other demonstrations included the blocking of the international bridge in Ciudad Juárez (Chihuahua), and a protest walk towards Mexico City, during

¹⁹ Cartón de Grammont stresses that the Barzón movement tried to rebuild bargaining channels between producers and the authorities, especially with the Secretaría de Agricultura (SAHR), which used to be the negotiator in the old corporatist system. He argues that these efforts failed because the government refused to intervene in the conflict between producers and the banks. Moreover, the SAHR had been transformed into a technical body, with the balance of power shifting in favour of the Secretaría de Hacienda y Crédito Público (SHCP, secretary of Economy), much more orthodox in matters of economic policy (Cartón de Grammont 1997, 12.)

which the leaders were jailed. The official birth of the movement took place on November 7, when the National Confederation of Rural Producers, 'El Barzón,' was created, with the participation of delegates representing eight states (Castro Castro 2000, 99). During this first phase, membership was estimated at 10,000 participants, almost exclusively of farmers (Torres 1997a, 268). At that time, demonstrating with tractors, threatening the banks with a moratorium on their debts, and seeking the presidents' intervention, were the movement's main tactics.

In agreement with Torres (1997a), my analysis identifies 1994 as the beginning of a distinct second phase in the early life of the *Barzón*. Debtors were by then well aware that the authorities and the banks would not accept negotiations or accommodate their demands readily. As a consequence, they needed to organize new and stronger protests. Moreover the macroeconomic slowdown accelerated the evolution of the *Barzón*. Indeed, the movement expanded greatly its membership while its composition underwent a deep transformation, rather unexpectedly for its leaders. At the same time, the *Barzón* broke up into two organisations. Although it inproclaimed its independence from parties, the movement split over the political preferences of its leaders—PRI or PRD oriented—as well as on regional lines. The *Barzón Unión* (BU), also called the *New Barzón*, which was close to the PRD, had a higher participation in the state of Zacatecas, in the Federal District, and in the South East of the country, while the *Barzón Confederación* or *Old Barzón* (BC), itself close to the PRI, had deep roots in Jalisco and El Bajío region (Mestries). The two organisations were still establishing goals exclusively related with the rural sectors,²⁰ but the deterioration of the macroeconomic background was already leading new, more urban borrowers to enter the movements.

In March 1994, the assassination of the PRI presidential candidate prompted the Mexican authorities to increase domestic interest rates as part of an emergency package aimed at preventing financial outflows.²¹ This measure worsened the already fragile situation of

²⁰ The B.U. planned to create a genuine agrarian party, while the B.C. preferred promoting non-political rural associations.

²¹ The analysis of inflows and interest rates shows that the Chiapas uprising had little effect on investor's moods.

numerous debtors, and NPLs increased. Gavito et al provide evidence of over-indebtedness in the Mexican private sector (Gavito, Silva Nava and Zamarripa 1998). As for families, income-expenditure surveys indicate that debt service as a percentage of higher deciles household expenditures increased from 3.6 per cent in 1989 to 5.7 per cent in 1994, while ‘the real growth of housing and credit card debt service expenditures increas[ed] more than eight times that of real income from 1992 to year-end 1994.’ (94). Regarding the firms, additional evidence tends to corroborate the high indebtedness of ‘sectors that comprise mostly small and medium firms,’ while sectors where firms were ‘large, capital-intensive, and frequently, related to foreign trade,’ had low ratios of domestic debt to GDP (94). Consequently, the domestic private sector as a whole became a net debtor of the financial system.

As a result, the BU expanded in an uncontrolled way, becoming a predominantly urban movement with a support base spread across the entire country. In December 1994, 80 per cent of its members were small urban entrepreneurs, mortgage and credit card borrowers, with a high proportion of women (Torres 1997b). By contrast, in 1994 the BC remained a more regional and rural movement, and engaged intensively in local politics. The tactics employed by the two movements increasingly reflecting their different membership, but they coincided in creating civil resistance committees to prevent banks from acquiring legal possession of debtor’s properties.

Crisis, over-indebtedness and the debtors’ movement: 1995-2000

The December 1994 *peso* devaluation and the ensuing financial crisis initiated an open banking crisis. While the international rescue package enabled Mexico to solve rapidly its external financial problems,²² easing its return to international financial markets in September 1995, recession spread in the domestic markets and interest rates sky-rocketed. Indeed, Mexico experienced its worst recession in decades, with GDP dropping 7 per cent in 1995, real wages falling 15 per cent and unemployment reaching its highest historical

²² In March 1995, Mexico received a US\$50 billion credit line offered by several international institutions, with the U.S. Treasury Department, the I.M.F., the World Bank and the B.I.S. being the main contributors. Finally, Mexico only used half of these funds, since during the 4th quarter of 1995, it was able to come back to voluntary financing in the international capital markets.

level. As average interest rates rose from 18 per cent to around 120 per cent (Kessler 1999, 122) debt service and repayment became impossible for a majority of borrowers. NPLs also soared, putting the whole banking system on the verge of a systemic crisis.²³

The first moves of the authorities were intended to help the banks. These were the institutions that suffered from the worst financial situation. Those where fraudulent activities had been detected were subject to intervention,²⁴ and two capitalisation schemes were launched in order to assist the banks in meeting new, tougher capitalisation requirements. The major plan concerned all the institutions of the system, and it consisted of an exchange of loans for government guaranteed non-negotiable zero-coupon bonds.²⁵ Loans were sold at 75 per cent of their value to the *Fondo Bancario de Protección al Ahorro* (FOBAPROA, the Bank Deposit Protection Fund), the agency in charge of the program, but the banks remained responsible for their own administration. As part of the deal, the owners of the banks agreed to inject more capital in their institutions, with a 2:1 *peso* ratio. After the 1997 polls, when the PRI lost its majority in the Congress, the analysis of these operations showed that mismanagement, discretionary operations and favouritism had been the rule, and these issues became a political bomb. It also appeared that wealthy individuals and big firms benefited from the rescue package, as their loans were transferred to FOBAPROA and they were not being served.

In this context the debtors' movements exploded onto the national stage and collectively became an active and resourceful actor that confronted successfully the authorities and bankers, securing better repayment conditions for borrowers. In August 1995, estimates of the universe of debtors gave an aggregate number of 7,885,217 borrowers, 6,033,955 of whom were credit card holders, 866,218 mortgage borrowers,²⁶ and 504,927 firms. 75 per cent were small borrowers, with debts lower than 200,000 *pesos* for mortgages and firms,

²³ Default rates jumped and affected about one third of outstanding loans.

²⁴ In 1995, authorities intervened in 8 banks, and the number rose to 13 in 1997, including 3 institutions that had begun operations in 1994. Three more banks were targeted in 1998, and one in 1999, at that time the third bank of the system.

²⁵ The program did not specify the quality of the loan, but only that it should have been qualified and duly provisioned. So, at a theoretical level, performing and non-performing loans as well could have been sold to FOBAPROA.

²⁶ In May 1996, the Mexican Bankers Association estimated the number of mortgage debtors at 911,000. (Torres 1997a, 268).

and lower than 5,000 pesos for credit cards (Calva 1997, 31). As for the debtors' movements, the BU estimated its members at 1 million in May 1996, while the total membership of all movements reached 2 million. We can thus calculate that roughly a quarter of the borrowers belonged to a debtors' organisation.

After 1995, the movement underwent new transformations. First of all, debtors' organisations mushroomed. The *Asociación Nacional de Deudores de la Banca* (National Association of Bank Borrowers), the *Asociación Nacional de Tarjeta-Habientes* (National Association of Credit Card Holders), the *Alianza para la Defensa del Patrimonio Familiar* (Alliance for the Defence of Family Patrimony) and the *Movimiento Ciudadano 'Salvemos nuestra casa'* (Citizen Movement, 'Let's save our home'), were some of the new organisations that appeared on the stage. Although they kept their atomistic nature, the 18 different movements succeeded in creating a united national coalition, gathered in a newly created front called *Alianza Nacional 'El Barzón,'* which was born at Congress in December 1995 (Mestries, 9). The movement also reorganised on sectoral bases and in a decentralized way, creating the *Agrobarzón* and the *Barzón Empresarial*, and later incorporating strong groups such as *Transbarzón* (transport), *Tortibarzón* (mills and *tortilla* producers), *Barzón Metropolitano*, and the *Barzón del Agave*. Finally, in April 1999, the *Asociación Ciudadana 'Movimiento Mexicano El Barzón'* (Citizen Association 'Mexican Movement El Barzón') was registered as a national political grouping by the *Instituto Federal Electoral* (1999).

As the debtors' movement ceased to represent the rural sectors exclusively and began to attract other interests, it established a wide front. It was proclaimed to be a 'patriotic, nationalist, genuinely plural, multisectoral and polyclassist movement,'²⁷ aimed at 'promoting the organization of agriculture, trade, industrial and services producers, and credit users, to defend their common interests and improve their standards of living.'²⁸ In its statements, the BU stressed the importance of human dignity and the need to restore it: as

²⁷ Boletín el Barzón, cited in (Mestries, 6.)

²⁸ Barzón Union web site, available: <http://www.elbarzón.org>

they said, 'we fight to defend outraged dignity.'²⁹ This is also emphasised in the common statement signed by the Barzón and the EZLN movements: '*Tenemos vergüenza, tenemos dignidad, tenemos valentía y saldremos adelante*' ('We have shame, we have dignity, we have courage and we will go ahead').³⁰ As neo-liberal policies were considered to be the main cause for the economic debacle suffered by the country and by the debtors, 'defending the family patrimony, the domestic productive plants, employment and the country's sovereignty' was regarded as a duty. This last assertion reflects the efforts made by the debtors to broaden the scope of their interventions, from purely defensive actions to more proactive and political activities, in which the new economic model was criticised and proposals were made to build an alternative one.

The activities carried out by the different movements diversified and embraced 'active' civil resistance actions, legal defence, negotiation and political action.³¹ They also sought to form alliances with a great variety of other social actors, from the EZLN movement to the Catholic Church and business corporatist organisations. As for civil resistance, the movement experimented with other, sometimes innovative forms of protest, which earned them notoriety and popularity among the Mexican population. Torres stresses that rural habits and urban practices merge to form these manifestations (Torres 1997a), which 'ranged from funny and smart to aggressive and semi-violent' (Torres 1997b, 337). Among many other activities,³² perhaps the more significant and publicised actions were, on one side, the numerous operations against the repossession of the debtor's properties by the banks, and, on the other side, the capture and holding of bank branches, law-courts, and highly symbolic places and institutions, like the Secretary of Domestic Affairs offices, the Central Bank and the Congress. Massive mobilisations were also designed to support negotiation activities, which developed at the local level to solve specific cases, and on the

²⁹ Some testimonies of the members of the *Barzón* have been published recently. See *Barzonistas: el palpitar de un corazón colectivo*, programa de Apoyo a Culturas Municipales y Comunitarias, Consejo Nacional para la Cultura y las Artes, México, 2002, in <http://www.conaculta.gob.mx/saladeprensa/2002/05jun/barzonis.htm>. See also *La Gota 21*, December 24, 2001, <http://us.geocities.com/antiteo/gota21.html>, for the testimony of *Barzón* leader Lucha Castro.

³⁰ *Barzón* Union web site.

³¹ *Barzón* Union web site.

³² Examples of these actions included dumping vegetables at bank branches, multiple cashing of one peso checks, backwards demonstrations, public nakedness, lip and eyelid sewing, burning credit cards, and use of tractors.

national stage as well. After 1995, the *Barzón* released several statements and lobbied for proposals aimed at finding a suitable solution to the bad debts problems of its members. The main proposals were the Moratorium Bill of December 6, 1994, the Concord Trust project of May 1996, the Rescue Program for Small Mortgage, Agriculture and Business Debtors bill of December 5, 1997, and finally, the Jubilee project of 2000. Other statements and proposals had broader goals, as they demanded changes in economic policies, external debt management, NAFTA rules, and so on.³³

Legal defence actions were undertaken at several levels. At the local and individual levels, the different movements began hiring lawyers and offering legal assistance to their affiliates from 1994. As a consequence, thousands of lawsuits were instituted against banks. The movements also supported voluntary payments of interests and principals of loans, deposited at law courts or at the *Nacional Financiera* public development bank, in order to signal the disposition to pay out the borrowers. Furthermore, at a nationwide level, the *Barzón* engaged in a legal controversy, questioning the lawful character of *anatocismo* (interest capitalisation), which reached the Supreme Court of the nation.

Finally, concerning political action, the *Barzón* abandoned efforts oriented at getting a presidential mediation and switched its attention towards Congress. Before the 1997 polls, political engagement of the debtors increased, as various leaders stood as candidates, mainly on the PRD lists. As representatives, they defended several bills and tried to stop others that would have strengthened the powers of banks. However, it should be pointed out that the political engagement of its leaders were not always accepted by the local bases, leading them to leave the movement on several occasions. Initiatives in the political sphere were not only oriented towards the national level, but concerned also the states.

In sum, the debtors' movements adopted different and innovative tactics in order to attain their goals. They were especially active between 1994 and 1997, when 'the *Barzón*

³³ The main examples of these sorts of statements are the Guadalajara Statement, of August 1995, the Agreement for Economic Recovery, Productive Plant Strengthening and Employment, of March 1996, and with more political goals, the common pact '*Pacto de Intocabilidad*,' signed with the EZLN movement in July 1996.

captured social grievances in such a way that it is best described as a clearinghouse of complaints for producers and consumers negatively affected by the 1994 devaluation and the economic adjustment that preceded it (Williams 2001, 30-51). Since 1998, the movement has decayed, although in recent months it has developed several new activities.

The results: what did the movements achieve?

In this final section, I will analyse the successes and failures of the *Barzón*. For that purpose, I will review the various initiatives launched by the movement, ordered as they have been addressed in the previous section. Although the balance is mixed, successes have been attained in almost all the type of actions undertaken.

Inasmuch as they impeded the banks' ability to repossess properties, protests and demonstrations certainly succeeded in protecting the assets of many debtors. However, the major successes of the movement were attained in an indirect way. Although the *Barzón* was not officially acknowledged as a partner by the Zedillo Government,³⁴ and its proposals in favour of collective negotiation, rescheduling, and interest discounts were dismissed, its protests prompted the authorities to create a series of debt relief schemes. Pressures generated by the movement, by means such as encouraging the spread of loan defaulting also translated into increased concessions made to the borrowers, especially to the small and medium ones, and in decreased legal actions against them. However, all the deals were made on an individual level, as claimed by the government and the banks.

The first program concerned exclusively the rural sector, and it was launched in March 1994, one month after an important demonstration from the *Barzón* had taken place. The SIRECA programs (1 and 2) offered rescheduling and interest discounts, but these benefits were considered insufficient by the borrowers, and did not moderate the NPLs problems of the sector. Moreover, the Salinas government also introduced a patronage-type program, PROCAMPO, to regain support in the rural sector.

After the December 1994 crisis, the authorities' first moves consisted of creating a new

³⁴ However, Congress received the *Barzón* in several opportunities.

Investment Unit, the (UDI, *Unidad de Inversión*), indexed on CPI inflation, converting longer-term debts, especially mortgages, from pesos to UDIs. The program included rescheduling and sought to avoid anticipated amortisation of capital due to high inflation. The borrowers would pay real interest rates, with a theoretical top set at 12 per cent. The program failed in attracting a majority of the borrowers, and for those who entered it, it rapidly proved insufficient: deteriorating revenues and high inflation rates combined to make payments unsustainable. As a result, the government introduced a new scheme, the ADE (Relief Agreement for Bank Debtors), oriented towards small and medium borrowers in agriculture or industrial activities, and towards consumer and mortgage debtors. The scope of this program was nevertheless limited, since it only included rescheduling and a one-year subsidy on interest rates.

The following years, 1996 and 1997, which were those during which the debtors' movements were most active, coincided with the main relief schemes, which granted more benefits to the debtors and ultimately proved more costly for the authorities. The Additional Relief Scheme for Mortgage Debtors (May, 1996), the FINAPE program (Support Program for Agriculture, Husbandry and Fishing), and the FOPYME program (Support Program for Micro, Small and Medium Entreprises) considered massive subsidies on payments, applicable in a decreasing percentage over a ten-year period (Banco de México, 1997).³⁵ These last three programs were a success for the authorities, as the percentage of debtors who choose to participate was high: 84 per cent for the mortgage borrowers' scheme, 75 per cent for the FINAPE and 63 per cent for the FOPYME (Banco de México 1997). Finally, in January 1999, a 'Punto Final' program was launched by the banks in order to clean their balances. As the last programs, this relief scheme included important discounts on debt service (estimated between 45 and 60 per cent) and was directed towards SMEs, the rural sector and mortgage debtors. Although these programs did not entirely resolve the NPLs problems of the banks—almost seven years later, bad debts still represent a high percentage of aggregate credit—they did resolve the financial troubles of many borrowers. As a consequence, they clearly contributed in releasing the pressure maintained since 1994

³⁵ Discounts varied from 30 to 40 per cent of debt service. The costs of subsidizing interest rates were shared by the government and the banks in the cases of FOPYME and FINAPE; but the costs of the mortgage scheme were supported exclusively by the authorities.

by the debtors' movement on the authorities and on the banks.

Concerning the legal aspects of the *Barzón*'s activities, some successes and a big setback need to be reported. Their legal representatives argued successfully that interest had been computed illegally and erroneously, and that lenders had not seriously evaluated the capacity of borrowers to service loan repayments. However, the major legal battle over 'anatocismo' or interest capitalisation was lost, as on October 7, 1998, the Supreme Court declared it legal, as expected.³⁶ After that decision was made it became considerably more difficult for a borrower to win a lawsuit, although victories occurred in several cases (*El Fianciere*, 1999). Nevertheless, legal defence did not stop. In March 2002, the organisation announced it had defended 99,730 debtors over the previous two years.³⁷

If we consider next the political sphere, some additional successes must be attributed to the debtors' movements. First, some 15 states enacted new laws protecting households' patrimony, declaring minimum intangible assets, and lessening legal pressures on defaulting borrowers. In some cases, the local government mediated between the banks and the debtors' movements and/or declared a legal truce.³⁸ Second, at the national level, the debtors' representatives could not win the approval of their own bills, most notably their Rescue Program for Small Mortgage, Agriculture and Business Debtors of December 5, 1997, supported by the PRD. But, in April 1996, they partially succeeded in convincing the representatives not to approve some points of a reform package that would have made the debtors more vulnerable, strengthening the position of the banks. However, changes introduced in the bill did not prevent a differentiation from being established between 'old' and 'new' debtors, effectively curtailing the growth of these organisations (Torres 1997a). As for their broader propositions, very little results are acknowledged, as the economic model has not yet been discussed or modified.

Finally, social and political analysts have identified some broader effects of the debtors'

³⁶ This legal battle created a hot debate in Mexico, which can be retraced in the numerous newspapers articles published on this particular topic.

³⁷ <http://www.cimacnoticias.com/noticias/02mar/s02030501.html>.

³⁸ These measures created a conflict between the federal government, and the Mexican Bankers Association on one side, and the local congresses and authorities on the other.

movements. Mestries mentions their democratising impact, especially in the countryside, where they introduced more democratic practices, competing with, or changing from within, the corporatist structures (Mestries). Cartón de Grammont concentrates on two genuine contributions of the Barzón: the creation of a new citizenry, more participative and conscious of its own rights, and its fighting for the rule of the law and for a new and more inclusive national project (1997).³⁹ Although the authorities tried to dismiss it as ‘non-payment culture,’ ‘*barzonismo*... became a term that connoted a sort of civic-minded attitude of resistance. It called up images of peaceful groups of neighbors and townspeople encircling properties in defense against moneylenders and police who would come to repossess properties’ (Williams 2001, 39-40).

Conclusions

In Mexico, the way in which structural reforms and economic opening were introduced prioritized short-term economic adjustment and its associated political benefits, and harmed small and medium producers, particularly those belonging to tradable sectors. The problems experienced by these sectors were compounded by the dynamics of bank deregulation and privatisation. In 1993, the *Barzón* debtors’ movement began in the rural sector, and spread in the cities after the December 1994 devaluation, when urban borrowers were hit by interest rates increases. SMEs debtors, who had not been able to articulate their opposition to liberalisation policies, and the middle classes, who had benefited from the same reforms, then gathered and joined the rural protesters to defend their properties against banks, emphasising their right to human dignity and security, seeking ‘protection from sudden and harmful disruptions in the patterns of daily life’ (United Nations Commission on Global Governance 1995, 80). The shock created by the debt problem has pushed thousands of individuals and small economic and social actors to gather in the *Barzón* movement and temporarily leave behind their collective action problems.

Membership of the movements was dispersed over the whole national territory. Members belonged to different parties or were politically indifferent. Some had previous experience

³⁹ The author stresses that small and medium producers, who had been losing their privileged position as modernizing agents since the introduction of the new economic model, were looking for a new identity and a new role in Mexican society.

of protest, others none. The movement reflected this diversity, being itself a coalition of different organisations. Indeed, the movement became an important actor on the national stage, and it contributed to improvements in the rescheduling and interests discounts schemes, and the defence of debtors' properties and rights. It also expressing broader protest against the neoliberal economic model sponsored by Mexican governments since 1982. Although the movement lost momentum at the end of the 1990s, seven years after its eruption on the social and political scene, the *Barzón* was still active. In March 2002 it organized meetings to prepare the civil society *forum* that paralleled the Monterrey International Conference on Development Finance, and it also tried to create links with Argentinean debtors. In June and July of the same year, new demonstrations enabled *Barzón* to negotiate with the authorities on behalf of indebted farmers. More recently however, some local debtor movements decided to dissolve into rural organizations aimed at defending broader interests of farmers. In sum, the very success of the movement in winning better conditions of loan repayment dispersed its membership and reduced its role, yet in 2004 *Barzón* remains a factor in Mexican politics. During its few years of intense activity, it certainly made a relevant contribution to the democratization of Mexico's political life.

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