Tragic Brilliance: Equilibrium Hegemony And Democratization in Mexico

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ABSTRACT

Why do citizens acquiesce in regimes of which they obviously disapprove? We provide a model that exhibits a general mechanism underlying the survival of one-party dominant, authoritarian regimes. The "tragic brilliance" of one-party dominant systems is that the party employs a complex system of rewards and punishments that lead citizens to actively support the party. We study the long-standing hegemonic dominance in Mexican politics by the PRI. We model the PRI's credible threat to punish localities electing the opposition. We also explore our model's implications for the Mexican transition to democracy. Our empirical evidence at the municipal level supports the model. Our conclusions relate to the comparative literature on one party systems, elections, democratization and the political economy of Mexico.

1. Introduction

Why do citizens acquiesce in regimes of which they obviously disapprove? Around the world, regimes survive despite rampant corruption, an absence of fundamental rights, harsh taxation, restrictive economic regulation, and the general failure to foster economic growth. This question represents a major puzzle for comparative politics.

One answer is that authoritarian regimes rely on coercion. As important and ubiquitous as this tool is, the exclusive reliance on force is insufficient to explain why authoritarian regimes

survive. The literature demonstrates that authoritarian regimes that suffer poor economic performance are much less likely to survive (see, e.g., Geddes 1999, Haggard and Kaufman 1995, Remmer, 1993). If force were the sole means of authoritarian survival, economic performance would not matter.

A second answer is that authoritarian regimes remain in power when they achieve legitimacy through economic performance. This approach is incomplete. Geddes (1999) shows that some types of authoritarian systems, namely one-party dominant regimes, are quite resilient to economic crisis and they live the longest.[1] Communist regimes, for example, remained in power long after the Soviet economic model failed. Since 1980, Mexico experienced two recessions, the debt crisis and the Peso Crisis, and the *Partido Revolucionario Institucional* (PRI) remained in power.[2] If economic performance alone explained the PRI's hegemony, the party should have lost power in the early 1980s, as most authoritarian governments in Latin America did.[3]

The mechanisms as to why autocratic regimes exhibit stability are still unclear. We provide a model that exhibits what we believe is a general mechanism underlying the survival of the most resilient form of authoritarianism, namely, one-party dominant regimes. Our account suggests that these regimes are at once tragic and brilliant: Tragic in that they force citizens to

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[1] A lively literature studies different types of authoritarian regimes; see, e.g., Geddes (1999), Huntington (1968), Przeworski et al. (2000), and Sartori (1976). Geddes's empirical work shows that one-party dominant systems survive on average for 24 years; military regimes for 8.5 years; and personal dictators for 15 years.

[2] The debt crisis triggered a dealignment process of loss of support, but it was extremely slow considering the depth and length of the recession, and only a handful of localities defected to the opposition. (Magaloni, 1997). The Peso crisis of 1994 did cause a more profound reaction among the electorate, as many localities elected opposition governments in the local elections taking place after 1994. The PRI was not defeated until 1997 in Congressional elections and 2000 in the presidential race.

[3] Together with Chile and Cuba, the Mexican PRI was the only authoritarian regime in Latin America that survived the so-called "lost decade."

accept corruption, low levels of government service, and inefficient policies; brilliant in that they induce citizens not only to accept these features, but to play their role in maintaining the system. The "tragic brilliance" of one-party dominant systems lies in that the party employs a complex system of rewards and punishments that lead citizens to actively support the party, even if reluctantly.

We address our fundamental question in the context of the six-decade dominance of Mexican politics by the PRI. We suggest that the PRI maintained its hegemonic position in part by creating a set of institutions that gave citizens incentives to support -- and, indeed, aid -- the party.

The theoretical model considers voters in a locality (e.g., a municipality) who prefer the opposition to the PRI. Voters face the choice of whom to elect as their local leader, either a PRI or an opposition candidate. The national PRI, in control of the federal government, then decides whether to punish the locality through the withdrawal of budgetary funds. We show that, in equilibrium, the threat to withdraw funds induces citizens to support the PRI candidate. This outcome reflects a centralized fiscal system where localities receive the lion's share of their funds from higher level (PRI-controlled) governments. The system is "incentive compatible": citizens did not like the system's corruption and inefficiency; and yet they faced powerful incentives to play their role in preserving it.[4]

To explain the PRI's loss of its hegemonic position in the 1990s, we derive a comparative statics results from our model showing the conditions under which voters in a locality will vote for the opposition candidates despite the PRI's punishment. The logic draws on the changes in

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[4] Our approach shares some insights with recent work on state building in Russia. For accounts of this process, see

the Mexican economy and politics. Three critical changes slowly altered the PRI's ability to maintain its system. First, the economic collapse of the 1980s and especially the Peso crisis of 1994 lowered the resources available to reward supporters. Second, economic "modernization" differentiated localities, making some more likely to defect from the PRI. Third, and perhaps most important for our argument, the growing internationalization of the Mexican economy gave the final blow to the system. Growing opportunities in the international market, particularly for localities seeking to integrate with the United States economy, raised the opportunity costs of voters in those localities of remaining under the inefficient PRI system. Greater trade of goods and services, and flows of factors of production – including, as we demonstrate, labor and remittances sent home by migrant workers in the US -- allowed voters in those localities to exploit international opportunities, giving them credible exit options to the PRI's centrally controlled spoils system.[5]

We provide a range of empirical evidence to support the model's principal assertions. First, we study the discretionary allocation of revenue sharing funds provided by the states to the municipalities. Holding constant for a variety of socio-economic indicators, opposition municipalities received systematically fewer funds. Second, we provide evidence in support of our comparative statics results, namely, that the municipalities most likely to defect to the opposition are those that experienced the greatest economic opportunity costs of remaining under the traditional, inefficient PRI system.

Solnick (1998), Treisman (1999), and Tsalik (2000).
[5] An analogous internationalization effect is discussed by Golden (2001) to explain the demise of the dominant Christian Democrats in Italy.

Our model is consistent with a range of results from the public opinion literature.[6] In comparison with the United States, retrospective economic evaluations play a small role in voting choices in Mexico, and voters are not very issue oriented. The now classic study of voting behavior in Mexico, Domínguez and McCann (1996), demonstrates that the overwhelming majority of the population had negative evaluations of economic performance, though they nonetheless voted for the PRI in the 1988 and 1991 elections. The same paradox appears in 1994 and 1997 (Magaloni, 1999). Support for the PRI is accounted for by prospective calculations – Mexican voters were afraid of what would happen with the economy if a party other than the PRI governed and supported the ruling party because they thought the opposition would do an even poorer job (Domínguez and McCann, 1995; Magaloni, 1997). Finally, PRI voters were risk-averse (Cinta, 1999; Buendía, 1996; Morgenstern and Zechmeister, 2001).

Our model yields predictions about voting outcomes consonant with the public opinion findings: First, the PRI's credible punishment regime implies that voters support the PRI regardless of bad economic conditions: the punishment regime implies that they have as much to lose by switching to the opposition during bad times as during good ones. Second, the punishment regime makes voters' prospective evaluations about the opposition's relative incompetence quite reasonable. In our view, voters evaluate opposition parties as less competent for two reasons. First, because these parties have no record in the national government, their promises lack credibility (Magaloni, 1997). Second, the punishment regime implies that the opposition appears less capable because it has substantially fewer funds than the PRI to provide what citizens want most from their local governments, namely, repaired roads, electricity,

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[6] Although existing literature on voting behavior in Mexico is mostly about national elections, we believe that many of its finding can be useful for understanding voting choices at the local level as well.

sewage, water, among other public goods. Finally, the public opinion literature demonstrates that PRI voters were risk-adverse. Our approach yields this result: because defecting involves risks of punishment, opposition supporting voters must be more risk-acceptant than PRI supporters.

We develop our argument as follows. Section 2 presents the model of the PRI's credible threat to punish localities electing the opposition. Section 3 studies the breakdown of the PRI's hegemony and with it, the rise of local democracy in Mexico. Section 4 provides evidence supporting our approach. Section 5 presents some extensions of our model for national elections. Our conclusions follow.

2. Equilibrium Hegemony

Although accounts of Mexican politics often emphasize the president and his cabinet, rather than the PRI, as the prime political players in the system, one should recall that the president is also the leader of the party and that all cabinet members pursued their careers as party members.[8] At the local level, governors and municipal presidents reproduce the national system, since they also lead the local party organizations. In short, the historic power of the president is intimately related to the PRI's ability to maintain its hegemonic control of Mexican politics.[9] Throughout, we will use the convention that the PRI refers to the national party

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[8] On the Mexican political system, see, among many others, Smith (1979); Camp (1995); the articles in the edited volume by Cornelius, Gentleman and Smith (1989); Weldon (1997); and González Casanova (1965).

[9] For early accounts stressing the role of state and municipal politics, see Scott (1959); and Brandenburg (1955 and 1964).

organization, holding power in the central government; and the local PRI as the politicians affiliated to the hegemonic party in the particular locality under study.

Explaining hegemony in a place where voters prefer the PRI to the opposition is not puzzling. Yet students of Mexican public opinion have found it difficult to assess how prevalent such voters are. We define "sincere" PRI supporters as those who prefer the PRI to the opposition. A sincere vote for the PRI might stem from three sources. First, voters might support the PRI because they approve of the economy. As mentioned above, there is slim evidence of support for the PRI based on good governance: in the post-1982 era, PRI supporters tended to have highly negative assessments of the party's economic performance. Second, a sincere vote for the PRI might stem from ideological affinity. Yet, the public opinion literature demonstrates that Mexican voters are not very issue oriented (Domínguez and McCann, 1996; Domínguez and Poiré, 1999; Domínguez and Lawson, forthcoming). Third, voters might sincerely opt for the PRI due to strong partisan attachments. There is little research on the meaning of party identification in Mexico. Poiré and Magaloni (forthcoming) argue that party identification is highly endogenous to electoral choice. We thus suggest that it is hard to disentangle true partisanship form the actual strategic calculation embedded in the vote choice we are modeling.

Findings in the public opinion literature therefore cast doubt on the notion that voters support the PRI sincerely based on variables such as economic performance or issue positions. This is not to say that partisan loyalty to the PRI does not exist – voters, in fact, supported the PRI election after election. Yet, supporting the PRI does not imply an absence of strategic considerations in such choice (e.g., voters in localities sticking with the PRI might do so because of the anticipated costs of defecting). Consistent with the implications of Mexican survey

research, we assume that the majority of voters disliked the PRI, and explain why they nonetheless supported it.

The Model

We begin modeling the pivotal voter in each locality, who has the first move (see figure 1). The pivotal voter may choose the local PRI or the opposition to govern locally. The PRI moves second and may decide to punish the locality. For simplicity, we think of the punishment as a decision by the federal government to withhold funds necessary to run the government from the locality.[10] The game results in four possible outcomes, which we label A - D.

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[10] Given the centralization of tax authority in the hands of the national government, local sources of funds are more expensive to collect than federal handouts, so withheld federal funds cannot be fully substituted with own sources, such as local taxation.
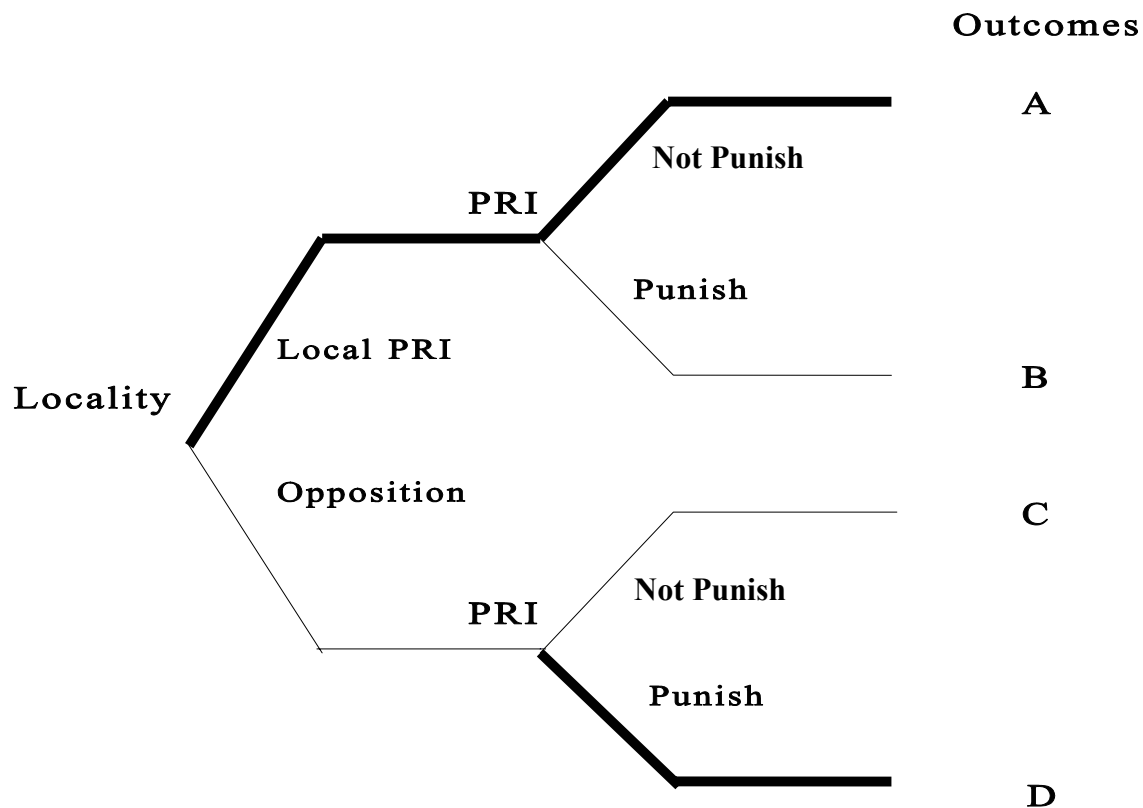
Outcomes

Figure 1

Consider the preferences of local voters who, *ceteris paribus*, prefer to get rid of the PRI, but who also want to receive federal funding. These voters most prefer to be governed by the opposition and not to be punished by the PRI with fewer funds (C) (see Table 1). Second they prefer to be governed by the local PRI without punishment (A). Third, they next prefer to be governed by the opposition without funds (D). Finally, they least prefer to be governed by the local PRI and being punished with less funds (B). This preference ordering implies that an opposition government without funds is not as valuable as a PRI government with funds.

Table 1. Preferences in the hegemonic game.

PRI's preferences	Locality's preferences
A	C
B	A
D	D
C	B

The PRI, in contrast, first prefers that the locality be governed by the local PRI and not punish it with less funds. The local PRI might use the funds to help the national party at election time (A).[11] It next prefers that the local PRI govern without funds (B). Thus, we assume that the PRI prefers to finance its supporters than to punish them. Implicit in this assumption is the notion that, lacking strong ideological attachments to the ruling party, voter support for the PRI is conditional on receiving some form of reward, even if small. At election time the PRI always distributed money, even in the era of non- competitive elections, and that funds were distributed to loyal followers (Magaloni, 2000; Diaz-Cayeros, *et al*, 2001)[12]. Third, the PRI prefers the opposition to govern without funds (D). And last on the PRI's list is that the opposition govern the locality with funds, which it uses against the PRI (C).

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[11] We argue that the PRI prefers to reward its supporters than not to reward them. Implicit in this argument is the notion that the PRI is an electoral machine composed of a multiplicity of politicians. For the coalition to hold together, the national PRI needs to provide its local politicians with some resources. Also implicit in this argument is the notion that voters need to receive some benefits to continue to support the PRI.

[12] We assume that either party, when elected, uses the funds in part for partisan purposes to reward local party constituents and help solidify their support for the party at the national level. Parties may well provide constituency benefits in different ways, including at one extreme the provision of socially desirable public goods all the way to outright appropriation of rents.

We solve the game by working backward through the tree:[13] Given its preferences, the PRI provides fund to localities that elect the local PRI and punishes those that elect the opposition. Working back a step and taking the subsequent PRI's behavior as known and given, we have the locality's choice: because it prefers A to D, it will choose to elect the local PRI. We represent the equilibrium path by the heavy line in figure 1 from the first node on the center left: The locality chooses to elect the local PRI representatives and the center rewards it with funds.

The model shows that the hegemon's credible threat of punishment makes it too costly for the locality to elect the opposition. Because the PRI punishes localities by withdrawing funds, it forces the locality to choose between electing the opposition without funds and the local PRI with funds. Given this choice, the pivotal voter in the locality prefers the local PRI.

The implications for government spending of our deterrence game differ from models of vote buying such as Dixit and Londregan (1996) and Lindbeck and Weibull (1987). Formulated for competitive elections, these models hold that incumbents should not waste resources in core constituencies, since these voters will support the regime regardless of the transfer. Nor should incumbents invest in opposition supporters who are not likely to change their minds. Incumbents should rather focus on "swing" constituencies, namely, opposition voters who can be bought off with transfers.

In our game, the hegemonic PRI seeks to maintain its long-term position, and to do this, it focuses on *deterring localities from defecting* to the opposition. Our empirical predictions are, first, that the PRI should punish localities that defect, even those that do so by small margins; doing otherwise would create perverse incentives, namely to reward defection. Second, since the

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[13] The equilibrium concept is subgame perfection. We suppress the details of this concept in part for purposes of exposition and in part because the game is so simple.

PRI wants to deter exit, we expect it to reward more its own municipalities that can more credibly threat to exit, namely those won by narrower margins. In contrast to the swing voter models of vote-buying cited above, we predict a differential impact for vote margins depending on which party wins the election.[14]

Implications for Mexico

For the model's payoff structure to make sense, three conditions must be met: 1) localities should be highly dependent on federal transfers; 2) information about the game structure should be common knowledge; and 3) ideological attachments to the opposition should be weak.

Municipalities in Mexico depend heavily on transfers. The lion's share of municipal revenue comes from federal transfers, so that by financing local PRI governments and punishing opposition ones, the PRI can seriously disrupt a local opposition's government's ability to govern and provide basic services. Overall, the average dependence of municipalities on federal revenue sharing transfers was 70% in 1995.[16] The difference in dependence from the center by the partisan identity is, however, quite striking: while PRI and the opposition *Partido de la Revolución Democrática* (PRD) municipal governments depended on around 71 percent,

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[14] We conceive this "optimal PRI strategy" under the assumption that the incumbent is still hegemonic.[14] We note, however, that this behavior is no longer an optimal strategy when the PRI anticipates losing, which in our game is accounted for by a tipping phenomenon (see section 5).

[16] Calculated with data from INEGI, Sistema Nacional de Información Municipal, Bases de Datos (SIMBAD) at www.inegi.gov.mx. Our calculations correct for double accounting of transfers for third parties and do not include debt finance.

municipalities governed by the *Partido Acción Nacional* (PAN) received only 58.6% of their budget from revenue sharing. This difference of means is statistically significant.

PAN municipalities depended less on the center because they were able to collect more taxes. We do not investigate revenue collection effort here. We note, however, that success in collecting local taxes is only partly correlated with income. Our data show that the PAN is significantly more effective collecting taxes *at all* levels of development, while the opposite is true for the PRI. This observation reflects the fact that tax collection effort is implicitly endogenous to the political game that we study: if opposition governments want to be effective so they can survive, the punishment regime compels them to collect more taxes.

Second, the game assumes that voters understand the game. In reality, we do not need voters to know the whole mechanics of the punishment regime -although many might, because opposition parties, and particularly the PAN, bitterly complained about punishment.[17] For the purposes of the model, all that we require is that voters observe that when the opposition wins, it does a poor job at handling key issues that are relevant to voters in local elections;[18] namely, that the streets are in worse shape; garbage is no longer collected; the local government imposes new taxes –and less patronage is distributed by the municipality. The PRI's system forces the opposition to govern with less money and to collect more taxes, an unpopular combination. Indeed, local opposition governments had much lower reelection rates than the PRI. Between 1993 and 1995 the PRI won the election of municipalities it previously governed 75% of the

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[17] For example, on taking office in 1989, the first demand of the first opposition governor in Mexico, Ernesto Ruffo of Baja California, was to obtain transparent information concerning the revenue sharing funds allocated to his state, and upon assuming office, he compelled the president not to punish his state with fewer funds (Campuzano, 1995).

[18] To our knowledge, there are almost no surveys of municipal elections. *Reforma* newspaper has recently begun to collect surveys for municipal races. In their latest survey of municipal elections in the Estado de México, voters selected public services as the most important problem of the municipality, above employment, inflation and even

time; the PAN reelection rate was 35%, while the PRD's was 41% (both are significantly different from the PRI in a test of means).[19]

The conventional explanation to the opposition's failure to get reelected was incompetence due to lack of experience.[20] Our approach suggests a different interpretation: by design, the punishment regime implies that voters judging local governments on the basis of delivered services and patronage will view the opposition as less competent. But our model shows that this conclusion is a consequence of the PRI's punishment regime and the opposition's lack of budgetary resources to deliver services.

Third, our model presupposes that partisan preferences for the opposition are not intense enough among local voters so as to outweigh the cost of punishment. This assumption is consistent with findings in the public opinion literature that show, on the one hand, that Mexican voters are not very issue or ideologically oriented, and on the other, that partisan loyalties to the opposition were relatively weak (Poiré, 1999). To see how ideological orientations and partisan loyalties enter into our model, consider the conditions that might lead voters in a given locality to prefer D over A -- that is, when localities are likely to embrace the opposition despite the PRI's punishment. We do so in a very simplified utility framework. The crucial comparison is between the values of being governed by the opposition despite the punishment, $U_i(O) - \beta t$, to being governed by the ruling party , $U_i(PRI)$, where $U_i(.)$ is the pivotal voter's utility function over the parties, t is the federal transfer, and β is a tradeoff between partisan preferences and money. A

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crime.
[19] Own calculations based on data from CIDAC, Centro de Investigación para el Desarrollo, A.C., www.cidac.org.

[20] See, for example, essays in Cabrero (1998); Ward (1995); Rodriguez (1995); and Rodriguez and Ward (1998).

voter will be more predisposed to switch support to the opposition as the difference between O and PRI increases, and as the punishment and the weight attached to transfers decrease. A voter will thus support the opposition only if $U_i(O) - U_i(PRI) > \beta t$; that is, if the utility differential between the parties outweighs the punishment of foregone financial resources. This discussion has two important implications for the Mexican case of divided opposition. First, it implies that voters who are ideologically farthest from the PRI will be most tempted to defect. Historically in Mexico, the PAN was farthest from the PRI, although that distance might have been reduced as the PRI became more associated with neoliberal reforms during the 1990s.[21] The PRD, in contrast, emerged from a party split of leaders ideologically committed to the PRI's original social agenda. In our approach, the larger ideological distance of the PAN from the PRI than the PRD from the PRI implies that the penalty required to prevent PAN voters from defecting is larger than the one necessary for PRD voters.

We depart from the public opinion literature, however, in stressing the risks of withdrawal of funds more than risks stemming from voter uncertainty about the opposition. The argument stressing uncertainty as the main source of risk can only distinguish among voter types by looking at idiosyncratic propensities toward risk: PRI supporters do not like uncertainty, whereas opposition voters mind it less. Our approach instead derives propensities toward risk from objective socioeconomic conditions. We expect poorer voters to be more risk adverse, and

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[21] Although in the nineties, the president and the PAN grew increasingly less distant on policy positions, the president's policy positions did not match the policy positions of the overwhelming majority of local PRI politicians who remained on the left of the ideological spectrum (Diaz-Cayeros, 1997). Thus, the assumption that PAN is farther from the PRI than PRD seems appropriate for most local elections.

thus remain loyal to the PRI because, when threatened to be withdrawn from the party's spoils system, they stand more to lose and possess no other exist options (see below).

A second implication is that the PRI will find it easier to deter poorer localities from defecting. It is standard in the literature on distributive politics to assume that the weight attached to government transfers is a monotonically decreasing function of income (Dixit and Londregan, 1996). This means that, *ceteris paribus*, poorer voters will require a smaller punishment to be deterred from defecting. This assumption implies that the PRD, which is strongest in poorer localities, will have a harder time convincing voters to defect; even a small punishment can deter them. Below we discuss the unraveling of the hegemonic equilibrium or how socioeconomic changes and the internationalization of the economy shapes valuations of D and A.

3. Democratization: Comparative Statics, the Political Effects of the Dynamic Mexican Economy, and the Demise of PRI Hegemony.

We now discuss the model's implications for how the long-standing PRI lost its hegemony. While we rely on an equilibrium story to model the PRI's hegemony from 1930 through the early 1980s, we turn to a comparative statics argument to discuss the breakdown of this equilibrium into another, more competitive one.

Political implications of economic integration with the United States

We begin with three dynamic aspects of Mexico. First, over the past two decades, Mexico's economy has become increasingly integrated with that of the United States. A host of localities in Northern Mexico and the Bajío region now have vibrant economies with deep connections with the U.S. Other poorer localities in the South have also developed strong

connections to the U.S., mainly through intensive labor migration and the cash remittances migrant workers send back home. Over time, the economic incentives pushing toward integration have grown.

Second, governments provide necessary inputs to economic growth (Barro 1997, Knack and Keefer 1995, North 1981). In local communities throughout Mexico, the PRI's system too often implied inefficient production of local goods and services. Pervasive corruption implied that many local officials used their position to extract resources from citizens and firms rather than provide services. Infrastructure complementary to growth was hard to provide, in part because financing it depended on obtaining funds from a remote national government that distributed funds according to electoral criteria, rather than their productivity.[22]

Third, Mexico's dismantling of Import Substitution Industrialization (ISI) policies meant that the remote central government increasingly lost control over the local economies. With ISI policies, local economies were geared toward the center. Policies such as multiple exchange rates, tariffs, permits, subsidized credit, strict regulations on foreign direct investment and the transfer of technology, all meant that producers had no chance unless they courted the central government.

The liberalization of trade gave localities a credible exit option. Economic integration with the United States and international markets, rather than the central government, became the new engine of economic development. In less than fifteen years, Mexico's economy experienced a dramatic transformation, and today it is the largest exporter of manufacturing goods in Latin America. Why did the PRI adopt a policy, trade liberalization, that eventually

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[22] See, e.g., Diaz-Cayeros (forthcoming) on education, Morgenstern (1997) on federal public investment, and Weldon and Molinar (1994) and Magaloni *et al* (2000) on solidarity funds.

contributed to its ultimate demise? As in other developing countries, trade liberalization came about because the old development model failed. During the decade of the 1970s, intensive international borrowing, soft budget constraints, and oil exports allowed the government to sustain these policies for over a decade, despite huge inefficiencies. The debt crisis of the 1980s forced governments to alter existing polices. As there was little room for maneuver, the real question for all developing countries became not whether to liberalize trade, but how to do it.

The Model's Comparative Statics

As we noted in section 2, our model is too simple to capture the complex process of democratization in Mexico. Nonetheless, we believe it captures a central feature of the breakdown of the PRI's hegemonic position.

Having provided a discussion of how a pivotal voter evaluates whether to support one party over another, we turn to a discussion of how the economic changes in Mexico noted above affect voter preferences. An obvious observation is that these changes imply that the locality's preferences evolve over time. Importantly for our purposes, five separate effects work together to alter voter evaluation of the opposition relative to the PRI in areas seeking to integrate with the U.S. economy. First, as the opportunity costs of the PRI's system rise, the value of A relative to D in the locality declines. We can think of these opportunity costs as the costs of living under a corrupt patronage system. Second, integration of the local economy with that of the U.S. implies that the value of government public goods and services complementary to the market rises. This rise, in turn, raises the value of D. This is particularly important for localities with intensive trade of goods and services. Third, as the local government provides valued goods and services,

citizens' willingness to pay (e.g., user fees) increases, generating more local revenue.[23] This, in turn, also raises the value of D. Fourth, as the local economy finds ways to develop through international economic integration, the significance of central government transfers relative to the value of the local economy declines. Here the remittances of migrant workers might prove central. This decreases the costs of D. Fifth, the economic crisis limited the central government's resources and hence its ability to reward supporters, decreasing the value of A.

We model these changes in a simple way. We let the value of D to the locality rise relative to A. To do this, we write D as a function of an exogenous shift parameter, $D(\alpha)$, where α represents the underlying economic shifts just discussed. As α rises, so too does the locality's value of D relative to A. During the years of PRI hegemony, $\alpha = \alpha_0$ was low so that, as in section 2, the locality preferred A to $D(\alpha_0)$. As α grew, the locality's relative value of D rose. Eventually, α became large enough so that, at $\alpha = \alpha_1$, the locality valued $D(\alpha_1)$ above A.

The locality's expanded preference order is given in table 2. As before, the locality prefers A to $D(\alpha_0)$, but with α sufficiently large, the locality prefers $D(\alpha_1)$ to A. Notice also that changing α also affects the PRI's preference order. The reason is that the PRI does not want a successful local opposition anywhere. Although it has no control over α, the PRI prefers $D(\alpha_0)$ to $D(\alpha_1)$.

Table 2: The Locality's Evolving Preferences.

PRI's preferences	Locality's preferences
A	C
B	$D(\alpha_1)$

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[23] Rodriquez (1995), Ward (1995), and Rodriguez and Ward (1995), e.g., provide evidence for this claim.

$D(\alpha_0)$	A
$D(\alpha_1)$	$D(\alpha_0)$
C	B

Of course, other elements affect voter preferences between A and D, including ideology and the particular weight given to transfers. We explored some of these elements in the previous section and derived some predictions as to how the punishment regime is expected to affect differently PAN and PRD localities. This section holds constant for those factors and traces how the exogenous shocks, particularly the internationalization of the Mexican economy, affected localities defecting to both major opposition parties in similar ways.

4. Evidence

We provide empirical evidence for the two major implications of our model. First, we show that the PRI punished defecting localities by withdrawing funds. Second, the model predicts that localities that vote in the opposition should have a higher opportunity cost of living under the economically inefficient PRI-controlled spoils system. We show that defecting localities disproportionately arise among the richer faster growing states, and are increasingly integrated with the U.S. and other international markets.

A. Punishment and Withdrawal of funds

To test our model's conclusions about the PRI's punishment regime, we investigate the PRI's use of discretionary funds, that is, those funds most easily withdrawn from defecting localities. Given the centralization of taxation, revenue sharing funds allocated to states and

municipalities are the most important source of funds for these subnational governments. Although revenue sharing from the federal to the state level follows relatively strict formulas, state governors exercise great discretion in the allocation of funds to their municipalities. Revenue sharing funds received by municipalities are thus particularly attractive for testing our model.

We model the determinants of the allocation of 1995 revenue sharing funds among 1840 of the 2417 municipalities in Mexico.[24] The analysis excludes 429 municipalities in Oaxaca: most municipalities in that state elect their governments without political parties, selecting representative for the municipalities following traditional method of community norms ("usos y costumbres"). We also excluded 170 municipalities for which data on the dependent variable was unavailable.[25] Revenue sharing is measured in per capita terms as the natural logarithm, in order to obtain a better fit of the model.

As independent variables, we use dummy variables for whether the municipality is governed by the PAN (gopan), the PRD (goprd) or the PRI (gopri).[26] The central implication of our model is that gobpan and gobprd should have a negative coefficient

Our deterrence game differs from swing voter models in two fundamental ways: first, our theory predicts that the PRI should allocate more resources to its own municipalities, while swing voter models predict no resources to core constituencies. Second, swing voter models

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[24] We have also tested our model with Federal Public Investment data at the state level. The overwhelming majority of the public works in the country are financed by those funds. We demonstrate a systematic withdrawal of funds for states governed by the opposition in 1995. The results of that estimate are available from the authors upon request.

[25] Data was obtained from INEGI's Sistema de Información Municipal, Bases de Datos (SIMBAD). The missing data on the dependent variable is biased towards poorer municipalities. It includes the cases where INEGI does report information, but the information is all zeros, which suggests this is really missing data.

[26] Coded from the CIDAC dataset, see footnote 19.

predict more resources allocated to localities won by narrower margins regardless of which party wins. Our theory instead predicts a differential impact for vote margins depending on which party wins the municipality.

To test between the hypothesis that the PRI allocates resources to swing voters and our theory, we include opposition margins of victory (opomargin) which are margins of victory when either the PAN or the PRD wins the municipality. Since our model implies that the PRI should punish opposition municipalities regardless of its margin of victory, we do not expect to find a statistically significant coefficient for this variable. We also include the PRI's margin of victory (PRImargin), and expect to find a negative and statistically significant coefficient, meaning that the PRI should allocate more resources to its own municipalities won by narrow margins since they can more credibly threat to exit. To avoid endogeneity problems, we employ margins of victory in the preceding municipal election.

We also include a dummy variable for the states in which the PAN controlled the state government (pan governor). Although formulas determine the allocation of funds to the states, the PAN has argued since 1989 that the formulas are biased against the states it governs. Hence, if the PAN claims are correct, we expect a negative sign on this variable. Since we do not expect politicians to differ in their motivations by partisanship, we expect PAN governors to *reward* with more funds municipalities controlled by their own party. To test for this hypothesis, we interact pan governor with gobpan, expecting a positive coefficient.

We also expect to find more funds allocated to richer states. This expectation is grounded on the origin of the revenue sharing system formulas, that were meant to compensate states for their tax collection capacity on a derivation based principle (Diaz-Cayeros, 1997). Richer

localities collect more taxes and should receive more funds. We thus control for levels of development through the Conapo marginality index, which derives from a factor analysis of a series of municipal level socioeconomic indicators as reported by INEGI in its 1995 vote count.[27] Higher values for the Conapo index indicate greater poverty in the municipality. We expect to find a negative coefficient, meaning that more funds should be allocated to richer municipalities (negative because Conapo is coded as a marginality, not a level of development index). Because we include a state-level variable, pan governor, we also control for the per capita income of states (we use log per capita state GDP in 1995 pesos, as reported by INEGI).[28] Funds are distributed in two stages, with federal formulas allocating funds to states, and then governors allocating funds to municipalities. We therefore expect this variable to have a positive sign, reflecting that first stage allocation.

Table 3. Determinants of Revenue Sharing Allocation, Municipalities 1995
Dependent Variable: lparpc (robust standard errors)

Independent variables	MODEL I	MODEL II
State lpib	1.057***	0.987**
	(0.072)	(0.065)
Conapo 95	-0.076***	-0.108**
	(.021)	(0.001)
Gopan	-0.329***	
	(0.079)	
Gobprd	-0.226***	
	(0.091)	
pan governor	-0.119*	
	(0.085)	
Pan gov * gopan	0.368***	

[27] Sociological variables include: illiteracy, the percentage of the population receiving less than two minimum wages, percentage of households without basic services such as water, electricity and sewage. The *Conteo de Poblacion y Vivienda* is not a census, but a fairly small questionnaire carried out by INEGI in mid decade.

[28] Banco de Información Económica (BIE) at www. inegi.gob.mx.

	(0.135)	
Gopri		0.026
		(0.049)
Margin of	0.209	
opposition victory	(0.379)	
Margin of		-0.002**
PRI victory		(0.0005)
Constant	-3.21***	-2.70**
	(0.528)	(0.465)
	N = 1835	N = 1835
	F= (7, 1829)=58.22	F= (4,1830)=57.73
	R-squared=0.22	R-squared =0.24

** significant at the 99 percent level
* significant at the 95 percent level

We report OLS estimates with heteroskedastic consistent errors in Table 3. The results show strong evidence for our model, and also allow us to reject the alternative hypotheses, namely, that the PRI employs revenue sharing to attract the support of swing opposition voters; and that allocations are purely driven by economic factors reflected in the federal formulas. The signs of all the coefficients are in the right direction.

Per our model's hypothesis that the PRI punishes localities that elect the opposition, municipalities governed by the opposition receive less revenue sharing. Both gopan and goprd are negative and statistically significant, with PAN being slightly more punished than the PRD. The amount of resources withdrawn from a municipality that defects to the PAN or the PRD is substantial. Our estimates indicate that, on average, municipalities choosing the PRI receive $132 pesos in per capita terms. Municipalities electing the PAN or the PRD would have $95 and $106, respectively. Given the wide variation in municipal finances across municipalities, could this difference lie within the range of error of the estimates? We answer no, based on a simulation of the predicted effects of the regression, using the statistical software CLARIFY

(Tomz, *et. al*., 2001). This software computes Monte Carlo simulations for the coefficients, providing confidence intervals for the point estimates predicted by a linear regression. When we calculate 95% confidence interval for the estimates of the predicted funds transferred to PRI municipalities, as compared to those governed by the opposition, there is no overlap between those intervals. This method implies that, even allowing for statistical error in the estimates, we can be quite confident of the differential amounts of funds distributed to PRI and opposition. In sum, a punishment regime exists, and its order of magnitude is of around one fourth less resources to defecting municipalities. Such difference can have substantial effects on the capacity of mayors to govern, particularly in medium or large cities with mounting demands for public service provision.

Our model also predicts punishment based on losing regardless of the vote margin of opposition victories. Consistent with our expectations, opposition margin is not statistically significant. This result allows us to reject the alternative hypothesis that the PRI manipulates revenue sharing to attract the support of swing opposition voters. We also find evidence that the PRI rewards its own loyal municipalities in a different manner; namely, giving more funds to those won by narrower margins. The results support the logic of a repeated game in which the PRI rewards with more funds localities that can more credibly threaten to exit.

The political manipulation of revenue sharing is also clear when the PAN controls the governorship: PAN governors systematically reward PAN municipalities with more funds (they receive on average $122 pesos, similar to PRI municipalities). This result suggests that there is a

big value for the opposition in capturing a state governorship, since it can use the discretionary allocation of revenue shares to reward its own municipalities.[29]

Richer states and municipalities also receive more funds, which is consistent with the notion that formulas compensate revenue collection, more effective among richer localities.[30] The PAN tends to win more often in these types of localities and yet, *ceteris paribus*, it receives fewer funds: after controlling for state per capita income, we find that states governed by the PAN are punished.

B. Opposition Localities Possess a Different α

We have hypothesized that localities are more likely to opt for the opposition despite the risks when they possess credible "exit" options, either because they are richer or, more significantly, because their economies are more highly integrated with the U.S. and international markets. In the eighties, only a handful of municipalities defected to the PAN. The PAN was strong in the North and the historically anti-PRI Bajio region. The PRD emerged after 1988 as a result of a PRI splinter, and it consistently grew through the years with mild setbacks in 1993-94. This party is stronger in the state of Michoacán (situated in the Bajío region), and in the South. PAN and PRD have different regional strongholds, the PAN in the wealthier and urban localities,

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[29] An implication of this result for the post-PRI era is that the PRI has plenty of resources at its disposal to defend its electoral coalition in municipal elections because it still controls the overwhelming majority of governorships.

[30] We ran an unreported model with the "dependency ratio", indicating the extent to which the municipality depended on federal transfers. Those models did not modify our basic findings. The dependency ratio model slightly increased the R2 in the models. However, as we have noted, the variable is clearly endogenous to the political game we have described, in that PRI governments are less successful at collecting taxes than PAN governments *at all* levels of development. Since we lack appropriate instrumental variables to model tax collection effort, we do not run a two-stage model to correct for such endogeneity. Results of the regression with the dependency ration are available upon request.

and the PRD in the poorer and more rural ones. To test these hypotheses, we estimate the determinants of the party governing in the Mexican municipalities in 1995. We focus on municipalities in 1995 for two reasons. First, it is the only year for which data on subnational international trade, one of our key independent variables, is available. Second, we are interested in explaining the propensity of localities to defect the PRI as a function of their different structural characteristics, and hence a cross-section analysis is appropriate.

We carry out the analysis through a multinomial logit estimation. The dependent variable takes three values, depending on whether a municipality is governed by the PRI (base category), the PAN, or the PRD.[31]

Our independent variables include three municipal-level socioeconomic indicators, three state-level variables, plus some regional and municipal dummy variables. To measure internationalization, we rely on two indicators. The first is the degree of global integration of the state, as measured by the share of imports plus exports in state GDP (trade).[32] A comparable municipal-level indicator does not exist. Internationalization of the state should nonetheless have strong spillover effects, shaping the dynamics of the whole local economy. The second indicator of internationalization is a municipal level indicator of the percentage of people in the municipality residing in the U.S. (international migration), according to the 1990 census by INEGI. This is a good indicator of trade in factors of production, including labor, but is also correlated with capital flows in the form of remittances sent by migrant workers back home. The magnitude of these remittances is estimated to be around 3.8 billion dollars in 2000, a major

[31] 40 municipalities governed by other minor parties were excluded from the analysis, as well as those electing authorities through traditional community norms or "usos y costumbres". The PRI governs in 80% of the municipalities in our sample; the PAN in 11% and the PRD in 9%.
[32] This data is not public information. It was calculated by the Mexican Trade Ministry, SECOFI, and made

infusion of cash in these relatively poor areas.[33] We expect both of these variables to have a positive coefficient for PAN and PRD.

Our argument also stresses economic development as an additional factor enabling localities to exit the PRI's centrally controlled spoils system. We have two measures for development: state-level GDP and two components of the CONAPO index discussed above, the municipal percentage illiterate among those over 15 years old (analf); and the degree of rurality, as measured by the percentage of the municipal population living in localities with less than 2,500 inhabitants.[34] Development, as noted above, impacts areas that lean to the PAN and to the PRD in different manners. We expect the PAN to win in richer states and in more urban, literate municipalities; the opposite pattern should hold for the PRD.

The only other structural variable for which we do not have municipal level information is economic growth. However, we believe that using the state-level growth data does not present a major problem because increasing returns provide an important basis for economic growth (Krugman, 1991). In other words, growth is a regional phenomenon, with strong externalities and spillover effects. Our argument is that economic growth should liberate localities from the PRI grip. Thus, we expect a positive coefficient for both PAN and PRD.

Finally, we include dummy variables for regions: South, Border and Northern states not situated in the U.S.-Mexico border. We control for border because the PRI tends to be

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available to the authors by a journalist who must remain anonymous.

[33] Estimates on the size of remittances vary. This estimate comes from the Interamerican Development Bank (2001).

[34] These are both components of the Conapo index exhibiting a correlation of 0.8479 and 0.5523 for illiteracy and rurality respectively. Below we report results with illiteracy and rurality, instead of the Conapo index (results with the Conapo index are available upon request).

particularly strong in some Border states such as Tamaulipas, Coahuila, and Sonora, yet the PAN

is strong in the North. Results are reported in table 4.

Table 4. Determinants of Municipal Victories
(Multinomial logit, base category is PRI)

	PAN/PRI		PRD/PRI	
	Coef.	Std. Error	Coef.	Std. Error
Income	1.164***	0.354	-3.700***	0.723
Illiteracy	-1.573	1.193	2.168***	0.813
Rurality	-2.104***	0.305	-0.948***	0.311
Trade	0.402***	0.156	-0.093	0.293
Int'l Migration	43.865***	12.154	53.911***	15.002
Growth	0.098***	0.029	0.227***	0.043
Border	-2.003***	0.468	0.935	0.936
North	0.616***	0.240	-1.685***	0.515
South	-1.199***	0.324	-1.206***	0.296
Constant	-9.328***	2.721	26.802***	5.372

N = 1909
LR chi2(18) = 389.11
Prob > chi2 = 0.0000

Pseudo R2 = 0.16

*** Significant at the 99% level
** Significant at the 95% level
* significant at the 90% level

The results support our interpretation of the parameter α in the model and are novel in

several respects. As with the modernization accounts of Mexican politics (Ames, 1970; Molinar,

1991; Klesner, 1996), we show that the PRI performs better in rural, more sparsely populated

areas, and the opposition in urban municipalities. In addition – and per our theory -- we show

that integration of the state economy with international markets, higher international flows of

factors of production as captured by the variable international migration, and higher growth rates

in the local economy, all significantly increase the likelihood of defecting to the opposition.

Moreover, our results suggest significant differences among opposition supporters. To get a sense of the effects implied by the coefficients, in figure 2 we report the simulated change in probabilities for electing PAN and PRD using CLARIFY. The figure suggests powerful effects for each of the variables that we have identified as relevant. Each point in the graph is the predicted change in probability of an opposition victory from a change in the range of each relevant independent variable. The bands give the relevant 95 percent confidence interval.

Simulated Effect of Independent Variables on Probability of Victory
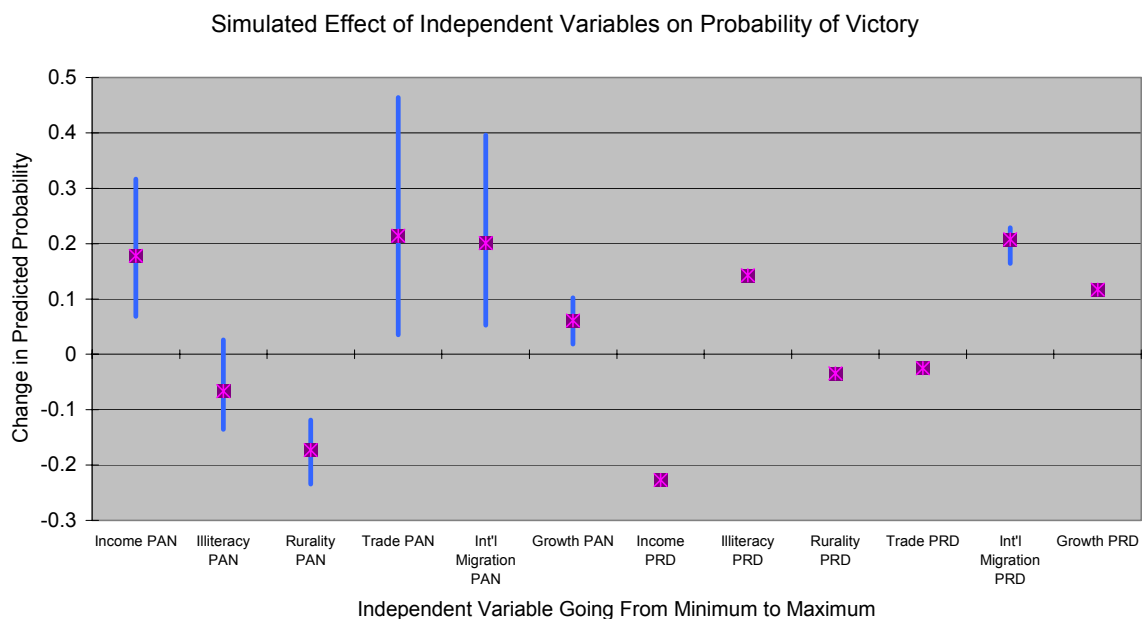
In the case of the PAN, the most powerful positive effects on the probability of defection are trade, international migration, state's GDP, and level of development of the municipality as measured by rurality. In the case of the PRD, the most powerful positive effect is international flows of factors of production as measured by migration. These are precisely the variables that we hypothesized should enable voters to defect from the PRI. The conventional wisdom about a dichotomy between an inward-looking South and an outward-looking North should be tempered

in the light of these results. The North is indeed more internationally oriented in the sense that it has a higher level of trade of goods and services (imports plus exports over GDP in the South average 12 percent, while in the North they average 177 percent). However, Southern states have a much higher level of labor migration, and thus mobility of factors of production, across the border. This has been reflected in the inroads made by the opposition, particularly the PRD.

5. Extensions to national elections

The model developed in section 2 does not explain how the PRI retains power at the *national* level. The limits of our model arise because it considers a single locality in isolation. If all opposition-preferring localities elected the opposition, the opposition would control the national government and thus eliminate the PRI's punishment regime. What prevents these localities from doing so? To address this question, we draw on Fiorina and Noll's (1978) insights in the American context to explain how the PRI maintains control of national office.[36]

We extend the model in section 2 in a natural way. First, N localities, representing electoral districts, make their decisions simultaneously. Nothing assures that they will coordinate on their decision. Second, the aggregate decisions of these districts determine whether the PRI or the opposition controls the national government. If the number of districts supporting the PRI exceeds a majority, the PRI wins control of the national government; if not, then the opposition wins control. The payoffs in this game parallel those in the earlier model. The Opposition's preferences over outcomes are the mirror image of the PRI's. The challenge for explaining hegemony is to examine the game when that the number opposition-preferring localities exceeds

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[36] Although our argument can be generalized to multiple opposition groups, for now, we ignore this problem.

the number of the PRI-preferring localities, that is, a majority of localities are opposition-preferring.

This defines a coordination game. In coordination games, an equilibrium can switch rapidly from PRI-hegemony to one in which a very large group of districts support the opposition, implying that the PRI's threat of punishment would no longer be credible. The key to the switch in equilibrium, as in all tipping games, is that something alters voter expectations.[37]

Is it possible for the opposition to succeed, given the PRI's long-standing hold on the central government? We argue that the most natural equilibrium in this setting was coordination failure.[38] Opposition-preferring localities faced a collective action problem. Unless voters in these districts could somehow be assured that most other localities would vote for the opposition, they are likely to fail and be punished. Without the assurance that many other localities will support the opposition, voters play it safe and support the PRI.[39]

An important difference between the coordination problem and the previous model is that decisions focus on whether to support the PRI or the opposition at the national level. An extensive literature exists on the determinants on voting choices at the national level in Mexico. Many variables matter: including prospective evaluations about the parties' competence in handling the economy, presidential approval, and in concurrent elections, voters' assessments of

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[37] Schelling 1980; Kuran, 1991.

[38] Coordination failure is likely for the following reason. Recall that the PRI holds a large number, although not a majority, of districts by virtue of preference. This implies that, for the opposition to succeed, most of its districts must vote for support it. In particular, success requires that at least $p = [(N+1)/2]/g$ opposition districts vote for the opposition. For example, if the number of opposition-preferring districts g is 60 percent, then the proportion of opposition districts needed to win a national majority is more than 83 percent.

[39] These games also exhibit tipping points that shift among equilibria if enough localities defect simultaneously from the hegemonic equilibrium. Those localities would be providing a collective good for all opposition localities since they would vote against the PRI even without any clear notion of success.

the presidential candidates (see Domínguez and McCann, 1995; Domínguez and Poiré, 1999). The national election extension of our model underscores an additional but as yet unexplored mechanism of the vote choice; namely, the centrality of coordination, information dissemination, and tipping effects in the defeat of the PRI in the national race.

An empirical evaluation of a tipping model is beyond the scope of this paper. Here we note that some of the results of the existing survey research support our claim that voters take the mechanics of a coordination game into account when deciding to support or oppose the PRI. First, there is evidence that perceptions about the strength of the PRI reinforce voters' support for the ruling party. Domínguez and McCann (1995) find that voters who thought that the ruling party was getting stronger supported the PRI, and those who deserted had opposite expectations. Their result can be interpreted in light of the coordination dilemmas we highlight: in the face of a seemingly undefeatable hegemon, it is better to rally in its support than to defect in isolation and stand punishment.

Second, common knowledge about the strength of the PAN's opposition candidate in 2000, Vicente Fox, was key in facilitating voter coordination (Magaloni and Poiré, forthcoming). Magaloni and Poiré model strategic voting among voters who were already predisposed to vote for the opposition, yet they abandon the PRD because they saw it had no real chance. An important piece of evidence coming from their analysis of panel data is that the PAN received more defections from PRI voters than from PRD's. Those who defected were convinced that Vicente Fox had a real chance of victory, which is consistent with the implications of our model: voters defect when they perceive the PRI can be effectively defeated.

Third, the 1996 campaign finance and media access reform had powerful effects against the PRI (Lawson, 1999). In our view, control of the media before 1996 helped the PRI by hindering voter coordination. Mexico is a very large country. Without a free media, voters in one locality cannot tell if those in other localities were also considering defecting from the PRI .[40] This suggests that the PRI's control of the media mattered, not because it brainwashed voters, but because it portrayed a strong PRI and a weak opposition, hence increasing coordination costs and reinforcing the punishment regime.

6. Conclusions

The survival of large numbers of authoritarian regimes raises the question of why citizens support a system in which they disapprove. We argued that coercion alone is insufficient to ensure authoritarian survival. Instead, we propose that hegemony is sustained by a credible local punishment regime that withdraws financial resources from defectors. We investigated this answer in the context of how Mexico's hegemonic party, the PRI, retained and eventually lost power. Our conclusions relate to the comparative literature on one party systems and the political economy of Mexico.

We sought to sharpen our understanding of why some authoritarian systems seem to be so resilient to economic change. As an empirical matter, Geddes (1999,11) shows that one-party dominant regimes tend to be resilient to change because they are less vulnerable to elite splitting when challenged. While our approach builds on Geddes's work, in our view elites in one-party dominant regimes face such strong incentives to remain united only so long as the party

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[40] Kuran (1991) provides a model of this mechanism.

monopolizes political support. When electoral support withers, the elite-level cooperative equilibrium Geddes identifies unravels. As the Mexican case makes explicit, PRI politicians began to exit the party when they calculated that they could compete for power through other party vehicles and in doing so have positive prospects of attaining office (see also Cox, 1997). A major party split occurred in the 1988 national elections when Cuauhtémoc Cárdenas and his allies exited the PRI, leading to the creation of the PRD. This party has continued to absorb PRI defectors.

In our argument, self-enforcing hegemony crucially depends on the construction of citizen support. In the hegemonic equilibrium, opposition-preferring voters nonetheless support the PRI. Acting alone, voters in one locality can only make themselves worse off by defecting to the opposition (Fiorina and Noll 1978). The tipping model extension implies that, once the opposition becomes a serious challenger, opposition-preferring voters will defect, thus unraveling the hegemonic equilibrium. In this account, hegemony crucially depends on the interaction between elites and citizens: party hegemony requires that citizens choose, if reluctantly, to support the party.

Our account also identifies the reasons why one-party dominant regimes are relatively resilient to poor economic conditions. As long as localities calculate that there is a significant probability that the incumbent will retain power, they have strong incentives to refrain from defecting. A tipping point occurs only when the overwhelming majority of opposition-leaning localities can coordinate.

We also address two pivotal questions about one-party dominant regimes: why do elections matter despite being relatively uncontested; and why do hegemonic parties devote a major portion of social resources to organizing and managing frequent elections? We show that

elections, in combination with control of state resources, are central to maintaining hegemony. By providing a clear-cut mechanism for screening supporters and opponents, elections allow party officials to exercise a credible threat over those who might exit. The credible threat, in turn, gives each locality an incentive to remain within the system. Despite being lopsided, elections are critical for the hegemonic equilibrium.

Our model indicates that one-party dominant regimes can remain in office for a long time without relying solely on fraud or force. The use of fiscal resources to force electoral allegiance appears to be sufficient to prevent the opposition from winning.

Central to hegemony is the control of the central government's fiscal system for partisan electoral purposes. It is thus applicable to a wide-range of countries. As van de Walle (2001) notes for the African region, "the dominant modal party system that is emerging across much of the region" (p. 6). Our model provides the mechanism that accounts for concentration of political power in a single party despite competitive, multiparty elections. It is potentially applicable to more democratic dominant party systems such as the LDP in Japan, the Christian Democrats in Italy, and the Congress Party in India.

We reveal one set of circumstances that facilitates the unraveling of the self-enforcing hegemonic equilibrium -- when the preferences of some localities change. In the Mexican case, the economic collapse of the 1980s meant declining resources for patronage and rewarding supporters, restricting the PRI's ability to reward supporters and punish defectors. Second, growing opportunities for global integration raised the opportunity cost for many localities of remaining within the traditional PRI system. Third, trade liberalization made it easier for localities to pursue international options, in turn making their economies less dependent on the national government. Further tests of our argument should focus on the effects of these structural

variables for the collapse of other one-party dominant regimes.

Our model of the PRI's equilibrium hegemony also suggests a new approach to Mexican political economy, particularly the role of the Mexican state in hindering economic development. We identify three factors explaining why the Mexican state, qua organ of the PRI, failed to promote development. First, the PRI's political strongholds have always been in the poor, rural areas. Growing markets both raise people into the middle class and raise the economic expectations of many others. Because middle class voters are among those most likely to defect to the opposition, modernization undermines the PRI's core support. As growth harms their interests, PRI officials have no incentive to promote it. Second, because the PRI has been most likely to lose support in the economically advanced areas, high growth areas are precisely the ones likely to be punished during the transition to democracy. Withdrawal of fiscal resources handicaps state and municipal governments from providing local public goods and services that complement market development (such as reliable electric power). Third, the PRI harnessed the central government's fiscal system for partisan electoral purposes. The PRI's imperative to retain power implies that expenditure allocation emphasizes short-term electoral goals at the expense of providing public goods. The PRI's focus on elections also led during the 1980s to significant economic macroeconomic imbalances in order to maintain the flow of funds winning elections (Magaloni 2000).

In short, the PRI's principal goal of party maintenance leads it to harness the resources of the Mexican state for partisan, electoral purposes. Economic development conflicted with this goal. The model provides insights into why, during the period of hegemony, the richer areas could not develop, why the poor stayed poor, and why the country wasted a large portion of its resources, allocating much of the social surplus for pure political reasons.

The political economy arguments return full circle to democratization. In contrast to the elite-driven democratization elsewhere, democratization in Mexico is from below: it begins with individual localities defecting to the opposition. We argue that the first unilateral defectors were those localities that had the highest opportunity costs of remaining under the PRI system. Defecting to the opposition allowed many of these localities the political freedom to provide some public goods to help propel them into global integration. In other words, democratization began as the rising economic costs of the PRI system propelled some to defect to the opposition.

In closing, we return to the meaning of party hegemony. In his typology of party systems, Giovanni Sartori argues that an "hegemonic party neither allows for a formal, nor a de facto competition for power" (1976:230). Sartori stresses coercion in the maintenance of hegemony. In his view, "the implication is that the hegemonic party will remain in power whether it is liked or not" (p.230). Our account stresses, instead, that because the opposition could win, at least in some localities, the PRI has been forced to invest a great amount of resources in elections and in rewarding supporters. The PRI's control of the state allowed the party to reward supporters and to punish defectors. Our view of hegemony, then, accords with Gramsci. Hegemony is not a coercive submission based on force, but the capacity by one class or group to obtain consent, or the passive approval, by the majority of the goals that minority has imprinted into the social and political life of a country (see Przeworski, 1985). In our model, voters in the localities comply with the PRI even if it goes against their preferences; but their decision involves a rational calculation, in the context of a free -- although constrained -- choice.

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