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STATE POLICY, DISTRIBUTION AND NEOLIBERAL REFORM IN MEXICO

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Introduction[*]

Arguments in favor of neoliberal reform have long held that an economic strategy based on liberalization, privatization and deregulation is the surest recipe for triggering higher levels of growth, productivity, and income equality.[1] However, despite the ambitious programs of economic adjustment and market restructuring undertaken in Latin America since the mid-to-late 1980s, annual growth rates averaged just 3.6% during the 1991-1994 period--well below the estimated 6% that would be required for a significant improvement in employment and social equity.[2] Indeed, only a handful of countries have seen an increase in per-capita gross national product (GDP) since 1991, and while total factor productivity has improved during the 1990s, Latin America has still not caught up to where it stood on this indicator in 1980.

In this article, we explore this gap between the expected gains from neoliberal reform and the lackluster results that have thus far been registered. Focusing on the case of Mexico--a country that first liberalized in 1985 and ranks second only to Chile in terms of the length of time that the reforms have been in place--we argue that these disappointing returns are more than just a longer-than-expected adjustment lag; rather, as policymakers have disproportionately harnessed their neoliberal reform program to the tasks of macroeconomic stabilization, the tendency has been to both over-emphasize

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[1]See, for example, B. Balassa et al., *Development Strategies in Semi-Industrial Economies* (Baltimore: Johns Hopkins University Press, 1982), and P. Bustelo, "Neoliberalismo y nuevos países industriales," *Revista de Economia* (Madrid) no. 727 (March 1994), pp. 77-93.

[2]These figures on growth, income shares, and productivity are cited from "Increased Productivity, Key to Development," *CEPAL News*, vol. 16, no. 6 (June 1996), pp. 1-3, and "Poverty in Latin America and the Caribbean is Greater Now Than in the 1980s," *CEPAL News*, vol. 16, no. 7 (July 1996), pp. 1-3.

the benefits from economic opening and to ignore the accompanying microeconomic stresses--all in the name of market management. Yet, as the Mexican economy moves firmly into its second decade of neoliberal reform, there is no clear sign that the prevailing market strategy will deliver on its original goals of sustainable growth and better equity. If anything, growth rates remain erratic, the domestic distribution of income has deteriorated, and the country's labor markets have tightly contracted.

This suggests the need for an explicit and innovative set of public policies to help bridge the gap between macroeconomic stabilization and microeconomic adjustment. In this regard, we emphasize that Chile, which posted the highest growth and productivity rates in the 1990s, did not realize such growth and productivity gains until neoliberal nostrums were set aside in favor of a more pragmatic set of market-supporting policies in the wake of the 1982 debt crisis.[3] Although Chile's long-standing authoritarian regime (1973-1990) was able to quell adjustment-related social protest until growth finally took root, Mexican policymakers do not enjoy this same "luxury": In the wake of the 1994 peso crisis, distributional conflicts have escalated to the extent that they now pose a serious threat to the reform process itself.[4] Thus, the problems of distribution, and a widening of the winner’s circle from reform, must assume a higher priority in the coming years.

These arguments are explored in the following manner. We begin with a brief overview of economic performance and household income trends since the implementation of Mexico's neoliberal model in the mid-1980s. We then examine neoliberal policy directives and accompanying distributional trends within the urban-

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[3]This is a main theme of the essays in B.P. Bosworth, R. Dornbusch, and R. Laban (eds.), *The Chilean Economy: Policy Lessons and Challenges* (Washington, DC: The Brookings Institution, 1994). Despite the Chilean record of impressive growth, there remain problems for income distribution. See D. Raczynski and P. Romaguera, "Chile: Poverty, Adjustment, and Social Policies in the 1980s," in N. Lustig (ed.), *Coping With Austerity* (Washington, DC: The Brookings Institution, 1995), pp. 286-90.
[4]D. Solis and C. Torres, "Libre mercado no garantiza nada," *Wall Street Journal Americas* (*El Mercurio*, Santiago, Chile), 17 June 1996, p. B8, and M. Fineman, "Zedillo Address Touts 'New Era,' Targets Rebels," *Los Angeles Times*, 2 September 1996, p. A1

industrial and rural-agricultural sectors of the economy, as well as the government's responses to resulting sectoral pressures. A final section reviews the country's general approach to social policy, taking into account the numerous new social demands that have arisen within the context of a market-based development model. We conclude by suggesting that, despite the claims of neoliberal theorists with regard to the growth and distributional gains that can be derived from a market-oriented development approach, such gains have thus far remained elusive. Finally, we suggest that the prospects for better income equality and stronger economic growth would be greatly enhanced through the implementation of a cohesive set of market-supporting policies that more explicitly address these goals.

An Overview of Recent Mexican Economic Performance and Household Income[5]

The Mexican debt crisis that began in 1982 marked the end of an era of state-led development based on import-substitution-industrialization (ISI). Since then, Mexico has embraced an approach generally oriented toward liberalization, privatization, and deregulation. Despite its basic thematic continuity, this "neoliberal" model has undergone several important variations. The initial adjustment package prescribed by the administration of President Miguel de la Madrid (1982-1988), for example, focused mainly on macroeconomic stabilization. The basic goal was to ameliorate the external debt problem through a reduction of government spending and a large one-time

[5]The macroeconomic history in this section draws from N. Lustig, *Mexico: The Remaking of an Economy* (Washington, DC: The Brookings Institution, 1992) and E. Buffie, "Mexico 1958-86: From Stabilizing Development to Debt Crisis," in J. Sachs (ed.), *Developing Country Debt and the Third World Economy* (Chicago: University of Chicago Press, 1989), pp. 141-68; analysis of the more recent period is drawn from M. Pastor and C. Wise, "The Origins and Sustainability of Mexico's Free Trade Policy," *International Organization*, vol. 48, no. 3 (1994), pp. 459-89, and R. Dornbush and A. Werner, "Mexico: Stabilization, Reform, and No Growth," *Brookings Papers on Economic Activity*, no. 1 (1994), pp. 253-315, as well as interviews with Mexican macroeconomic policymakers in 1992, 1993, and 1995.

devaluation of the peso. Unfortunately, the recessionary impact of this initial strategy was more severe than originally anticipated, and much of the task of economic adjustment was left to de la Madrid's successor.[6]

The revised neoliberal model adopted by President Carlos Salinas (1988-1994) was more far-reaching in its efforts to privatize state enterprises and the banks, and to liberalize domestic prices, foreign trade, and investment. Of most significance, however, was the decision to stabilize the macroeconomy by combining: (1) an incomes policy (i.e., wage and price guidelines), which was codified in a series of tripartite pacts including government, business, and labor;[7] (2) fiscal restraint, which removed the underlying inflationary impetus; and (3) a commitment to a stable peso with the further liberalization of imports, the rationale being that import competition would serve as an additional brake on inflation.

Despite some initial skepticism on the part of outside policymakers and domestic agents,[8] the strategy was successful in accomplishing its immediate goals of lowering inflation and resurrecting growth. However, as these returns began to diminish half way into the Salinas *sexenio*, policymakers were reluctant to shift tracks and abandon the pact. First, their credibility on both the domestic and the international fronts came to hinge on their ability to produce the most favorable indicators that the Mexican economy had seen in nearly a decade. Second, as the Salinas team began negotiations with the United States and Canada over Mexico's entry into the North American Free Trade Agreement (NAFTA) in late 1991, the series of tripartite pacts emerged as one important venue for organizing domestic support for NAFTA, particularly among those

[6]This first phase of adjustment failed partly because the government underestimated the extent of structural reform necessary to restore equilibrium and partly because external credit and assistance was so limited. For a more complete review of this period see Lustig, *Mexico: The Remaking of an Economy*, especially pp. 34-38.
[7]For more detail on these pacts, see R.R. Kaufman, C. Bazdresch, and B. Heredia, "Mexico: Radical Reform in a Dominant Party System," in S. Haggard and S. B. Webb (eds.), *Voting for Reform: Democracy, Political Liberalization and Economic Adjustment* (New York: Oxford University Press, 1994), pp. 361-410.
[8]*Ibid*., pp. 381-83.

members of the business community that still doubted the decision to quicken the pace of trade liberalization.[9]

The trends in Table 1 reflect the ways in which the pact both achieved its initial stabilization goals, and overstayed its welcome as an effective institutional mechanism for managing Mexico's rapidly changing position within foreign trade and financial markets. Economic growth during the Salinas years averaged 3.1%, and inflation dropped from 159.2% in 1987 to 7.1% in 1994. At the same time, one of the pact's main tenets--the use of a fixed exchange rate as a price "anchor"--led to an increasingly overvalued real peso. As a result, the trade balance turned from a surplus of $8.8 billion in 1987 to a deficit of $18.5 billion by 1994, with rising import demand driven in part by the government's decision to aggressively increase personal credit. To finance the trade imbalance, Mexico turned to foreign investment, the bulk of which consisted of highly mobile portfolio capital; in 1993, for example, portfolio capital accounted for 86.8% of total foreign investment flows to Mexico, compared to just 11.3% in 1989.

The flow of external finance began to dry up in 1994, for a number of complex economic and political reasons.[10] On the economic front, Mexico's huge current account deficit, slow growth, and declining private savings rate had begun to alarm investors by late 1993.[11] When U.S. interest rates rose in 1994, this gave investors a rationale for acting on their concerns. Politically, investor uneasiness had been fueled by the

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[9]Authors' confidential interviews conducted in Mexico City during 1991 and 1992 with a broad sample from within the Mexican business community concerning those factors which most influenced their support for NAFTA. As trade opening became positively linked with inflation reduction, those microeconomic losers from external competition were gradually persuaded of the merits of the overall program.

[10]These explanations are reviewed by J. Ros, "Mercados financieros, flujos de capital y tipo de cambio en México," *Economía Mexicana*, vol. 4, no. 1 (1995), pp. 5-67; F. Gil-Diaz and A. Carstens, "One Year of Solitude: Some Pilgrim Tales About Mexico's 1994-1995 Crisis," *American Economic Review*, vol. 86, no. 2 (1996), pp. 164-69; and, G.A. Calvo and E.G. Mendoza, "Petty Crime and Cruel Punishment: Lessons from the Mexican Debacle," *American Economic Review*, vol. 86, no. 2 (1996), pp. 170-75.

[11]Private savings, for example, had dropped from 13.7% of GDP in 1980 to just 5.0% by 1992. See J. Ros et al., "Prospects for Growth and the Environment in Mexico in the 1990s," *World Development*, vol. 24, no. 2 (1996), p. 315.

emergence of a guerrilla insurgency in the southern state of Chiapas in January 1994, the assassination of the ruling party's (Revolutionary Institutional Party, or "PRI") presidential candidate Luis Colosio just two months later, and the kidnapping of several prominent local industrialists. Domestic investors further exacerbated the mounting pressures on foreign exchange by indulging in their old habits of capital flight. With devaluation a real possibility, Mexican authorities sought to assuage foreign investors' concerns by converting much of the government's short-term peso-denominated *Cetes* debt to dollar-denominated *Tesobonos* in mid-1994. Whereas dollar-denominated *Tesobonos* constituted only 6% of the total foreign holdings of government securities in December 1993, a year later these new financial instruments accounted for 87% of the total.

Redenominating government debt, however, did not fully temper investor fears, nor did it reverse the burgeoning trade deficit. In December 1994, foreign reserves stood at $6.3 billion, down from a high of $29.6 billion in February 1994.[12] Seeking to better manage the pressures, the government announced a modest step devaluation. But this simply provoked more investor exodus, and authorities soon declared a free float, which, in hindsight, immediately developed into a free fall. With the overshooting of the exchange rate in late December, and the continued outflow of domestic capital, the business sector itself pronounced the notion of another anti-inflation tripartite pact as "dead."[13]

The resulting peso crisis has seemingly returned Mexican policy to the pre-Salinas era. With the government having lost the public's confidence, an incomes

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[12]See P. Leme, "Rebuilding Confidence in Mexico." A report of the Economic Research Division of Goldman Sachs, New York, February, 1995.

[13]For more analysis of the peso crash, see M. Pastor, "Pesos, Policies, and Predictions: Why the Crisis--and Why the Surprise?" in C. Wise (ed.), “The Post-NAFTA Political Economy: Mexico and the Western Hemisphere, “unpubl. manuscript, Washington, DC, 1996; N. Lustig, "The Mexican Peso Crisis: The Foreseeable and the Surprise," Brookings Discussion Paper No. 114, Washington, D.C., 1995; and J. Sachs, A. Tornell, and A. Velasco, "The Collapse of the Mexican Peso: What Have We Learned?," National Bureau of Economic Research Working Paper 5142, Cambridge, MA, 1995.

policy-*cum*-social pact approach to disinflation has been ruled out; instead, the government has, as reflected in the adjustment package unveiled in March 1995, fallen back on the traditional orthodox cure of severe cuts in public spending as well as a clearly regressive increase in the value-added tax. Accelerating unemployment and falling real wages have been accepted as the economic outcomes that will "signal" Mexico's seriousness about restoring stability.

Today's "seriousness" about adjustment, however, has been superimposed on a social landscape scarred by long-standing inequities and the more recent hardship wrought by the economic turmoil of the 1980s and the neoliberal restructuring of the Mexican economy. Between 1984 and 1994, for example, the wealthiest 10% of Mexicans saw their share of national income rise from around 34% to more than 41%, while every other income decile suffered a decline (see Table 2).[14] The pattern over various subperiods is quite revealing: note that while much of the regressive redistribution did occur during the initial shocks of macroeconomic adjustment (1984-89), the drift upward continued in a moderated but steady fashion over the Salinas period as well.

Such a deteriorating distribution of income does not preclude welfare improvements for the poor if overall levels of income for those individuals are rising. In Table 3, we look at the annual rate of growth of real monetary income for household deciles between 1984 and 1992. Note that while all income deciles saw some gain between 1984 and 1989, several deciles, including the two poorest, experienced a

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[14]Our figures on the distribution of household income are taken from the household surveys of income and spending undertaken by Mexico's National Institute of Statistics (INEGI). The national results are available for 1984, 1989, and 1992 as both raw data and a series of comparative tables on CD-ROM; the most recent survey (1994) has been in general release only as a "hard copy" book which includes summary, but not comparative (multi-year) tables. We readily acknowledge the difficulty with which reliable and comparable household income surveys are obtained; our hope is that the use of the same source at least allows for the over-time comparisons drawn in the text. For an analysis and critique of the INEGI household survey with specific regard to its measurement of poverty, see J. Boltvinik, "La pobreza en México 1984-1992 según INEGI-CEPAL," *Economía Informe,* no. 237 (1995).

decline over the period 1989-92.[15] Data problems preclude an exact estimate of the evolution over 1992-94, but our best guess is that real income held more or less steady for the lower deciles, declined slightly in the middle, and improved marginally in the top two deciles.[16]

The usual adverse political effects of such distributional deterioration appears to have been offset by the overvaluation of the Mexican currency. While real GNP per capita grew a modest average of 1.03% between 1988 and 1994, dollar GNP per capita increased at an average rate of 12.45% over the same time period (see Table 4). Such large annual increases in dollar GNP per capita encouraged a precarious pattern of overspending. This consumer binge was particularly sharp among those middle class Mexicans enjoying their first real access to personal credit, due largely to the government's explicit encouragement of this new form of financial intermediation (see Figure 1).[17] This overextension of short-term credit--which was facilitated by financial liberalization, massive capital inflows, and low nominal interest rates in the early 1990s--poses enormous problems now, as adjustment-related hikes in the interest rate have

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[15]If one focuses on the income earned solely by the head of household, the distributional picture under Salinas worsens; specifically, the four lowest deciles showed markedly negative growth from 1989-1992, suggesting that the more favorable picture reflected in the data may be largely due to the increased workforce participation of women, youths, and other non-traditional wage earners.

[16]The 1984-89 and 1989-92 growth figures are taken directly from the comparative tables offered in Instituto Nacional de Estadística, Geografía e Informatica (INEGI), *Encuesta Nacional de Ingresos y Gastos de los Hogares* (1994 CD-ROM). A similar figure for 1992-94 is not available directly and must be calculated by "splicing" two different samples. The use of the method suggested by INEGI, combining reported household income and the CPI, yielded an estimate but when we tried to check the calculation procedure against the directly reported INEGI figures for the earlier time period, there were significant dicrepancies. Our "best" alternative method of linking the time periods was via the growth in real per-capita GDP, which was 1.64 percent over 1989-92 as against a reported 1.7 percent increase in real monetary income for households over the same period. This standard gives the pattern reported in the text but does not use the same method and hence is not strictly comparable to the other growth figures; moreover, it may understate gains in consumer welfare since the concurrent overvaluation of the peso tended to enhance purchasing power at every level of income. Of course, as we stress below, this overvaluation prop is now gone and lower income groups are now experiencing the full pain of the earlier redistribution.

[17]These insights were confirmed in June 1995 during authors' fieldwork interviews with two professional members of Mexico City's banking community: Jorge Arreola, Banco Nacional de Obras y Servicios Públicos, and Gerardo Vargas, Banco Nacional de México.

made it virtually impossible for individual debtors to meet their servicing obligations on credit cards, mortgages, and car loans. The Salinas government's reprivatization of the domestic banking system has turned out to be another exacerbating factor, as it is now clear that the new owners of these banks were less than prudent in their lending decisions.

The Zedillo administration (1994-2000) thus faces the daunting task of implementing a strict austerity plan in the wake of what was, in fact, patently regressive growth. The current scenario is complicated politically by the fact that the pre-1995 expectations for prosperity had been so high, mainly because neoliberal reform had been oversold by the Salinas team as the route to sustained and rapid growth.

Distributional Stresses in Mexico: A Sectoral Analysis

The Urban Sector: Industrial Restructuring, Employment, and Informality[18]

With the advent of the Salinas administration in 1988, the overriding policy objective became the consolidation of an export-led industrial model, driven by private investment and cheap labor inputs, which would deliver the higher growth, productivity, and income gains that had eluded Mexico since 1980.[19] Thus, the urban-industrial strategy centered mainly on the modernization of the private manufacturing

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[18]This section is based on the following sources: C. Alba Vega, "La microindustria ante la liberalización económica y el Tratado de Libre Comercio," *Foro Internacional*, vol. 23, no. 3 (1993), pp. 453-83; Centro de Estudios Económicos del Sector Privado, "Evolución y problemática de las empresas en 1994," *Actividad Económica*, no. 183 (1995), pp. 1-23; C. Ruiz Duran, "México: Crecimiento e innovación en las micro y pequeñas empresas," *Comercio Exterior*, vol. 43, no. 6 (1993), pp. 525-29; F. Sanchez Ugarte, "Acciones en favor de las micro, pequenas, y medianas industrias en México," *Comercio Exterior*, vol. 43, no. 6 (1993), pp. 539-43; United Nations Industrial Development Organization (UNIDO), *Mexico: The Promise of NAFTA* (Vienna: UNIDO, 1994); E. Dussel Peters, "From Export-Oriented to Import-Oriented Industrialization: Changes in Mexico's Manufacturing Sector, 1988-1994," in G. Otero (ed.), *Neoliberalism Revisited* (Boulder, CO: Westview Press, 1996), pp. 63-83; and, on confidential fieldwork interviews conducted by the authors within Mexico's small enterprise sector from 1991 to1994.

[19]See J. Zabludovsky, "Trade and Industrial Policy for Structural Adjustment in Mexico," in T. Fukuchi and M. Kagami (eds.), *Perspectives on the Pacific Basin Economy* (Tokyo: The Asia Club Foundation, 1989), pp. 439-69.

sector; the Salinas team combined liberalization of trade with an aggressive privatization drive--phasing out most government supports for industry and selling off nearly $24 billion in state assets from 1989 to 1993--and a series of legal reforms that substantially deregulated Mexico's rules concerning foreign investment.

The extent to which Mexico was actually able to improve the export orientation of industry is shown in Table 5. As the data indicate, all but four subsectors of manufacturing (tobacco, leather and substitutes, miscellaneous petroleum and coal products, and basic non-ferrous metals) substantially increased their export ratios since the early 1980s. Overall, non-oil exports grew by 38% from 1989 to 1992 and now comprise about 80% of Mexico's total exports. The historical concentration of manufacturing activity in the country's old industrial heartland (Mexico City, Jalisco, and Nuevo Leon) has also given way to a more geographically dispersed pattern. Since the early 1980s, the central states of Guanajuato, Hidalgo, Michoacan, Oaxaca, Puebla and Tlaxcala have increased their industrial profile, as have the border states of Chihuahua, Coahuila, Sonora, and Tamaulipas (see Table 6). While incentives for industrial decentralization into the former group of states have been provided to help alleviate environmental and infrastructure stresses, particularly in Mexico City, the increasing industrialization of the latter group of border states is a reflection of the boom that has occurred in the *maquiladora* sector over the past decade.

From the standpoint of job creation, food processing, textiles, metals, machinery, equipment, and chemicals are now the most important industries in terms of labor absorption, accounting jointly for about 75% of total manufacturing employment. Unfortunately, the manufacturing sector as a whole accounts for just 22% of Mexican employment, and while the subsectors noted above have been high performers with regard to exports, their ability to generate new jobs has been lackluster. Indeed, overall manufacturing employment actually began to decline as of mid-1991, well before the recent recession took its toll (see Figure 2). Underpinning this trend were two factors.

The first was an impressive increase in manufacturing productivity, or output per labor unit, of 6.6% annually between 1988 and 1993;[20] while this is certainly positive, it does imply a reduction in labor demanded unless sales volumes are increasing at an equally rapid pace. The second trend was a drop in the number of small and medium-sized firms registered in the manufacturing sector, from 871 in 1988 to only 401 in 1993, since such firms are usually quite labor-intensive, this meant a loss of some 43,000 jobs over the same five-year period.[21] This combination of productivity gains in the manufacturing sector, on the one hand, and the "shake-out" of smaller firms, on the other hand, goes to the heart of Mexico's distributional challenge in the urban-industrial sector: there is no indication that the current model will generate badly needed employment opportunities any time soon.

Real wage trends since 1982 provide another angle on distributional stress within this sector. From 1982 to 1987, both the real minimum wage and the real industrial wage fell by more than 30%, reflecting the government's desire to leave wage-setting up to the market. By stabilizing prices and wages simultaneously, the incomes policy instituted in late 1987 helped to moderate the downward spiral of real wages. While the real minimum wage fell 18.5% between 1988 and 1991, average real wages began rising after 1988 and were within 10% of their pre-debt crisis levels by 1993 (see Figure 3). However, we should recall that manufacturing was steadily shrinking over this period, implying that the wage was accruing to a smaller group. Overall, there seems to have been growing discrepancies between the wages earned by skilled and unskilled workers, a phenomenon that has exacerbated inequality and which is consistent with recent theories about the differential effects of trade liberalization on skilled and

[20]The figures cited in this paragraph are based on J. Heath, "The Impact of Mexico's Trade Liberalization: Jobs, Productivity and Structural Change," in Wise (ed.), *The Post-NAFTA Political Economy*, pp. 15-16, and UNIDO, Mexico: The Promise of NAFTA.
[21]*Ibid*., pp. 19-20.

unskilled labor.[22] Meanwhile, the high levels of unemployment in the post-crash Mexican economy (see Figure 4) have negatively impacted all wages; as Figure 3 indicates, the 1995 recession forced real manufacturing wages back to their 1991 levels and data for the first seven months of 1996 point to a further fall down nearly to the depths of the mid-1980s.

One exception to this disappointing employment picture that emerged through the 1990s has been the *maquila* or in-bond industry.[23] Once restricted to the border states, foreign investors (80% of whom are U.S. majority holders) can now establish a *maquila* anywhere within Mexico, can own up to a 100% share, and under NAFTA will be able to sell a gradually increasing share of production to the local Mexican market.[24] Now comprising over 2,000 firms which account for about half a million manufacturing jobs in Mexico, the *maquila* sector has seen strong employment growth, while *maquila* exports accounted for more than 50% of the expansion of industrial exports which appears in Table 4.[25] At the same time, it is important not to exaggerate the potential of the *maquila* industries to resolve the distributional shortcomings identified here: the very logic of production in the key manufacturing subsectors (e.g., electronic components, transportation equipment, and electrical machinery) still hinges on combining foreign investment from capital abundant nations like the United States, with Mexico's abundant supply of cheap unskilled labor. Moreover, average real wages

[22]For a theoretical explanation of why liberalization might induce a widening of wage differentials within Mexico, see E. Leamer, "Wage Effects of a US-Mexican Free Trade Agreement," NBER Working Paper No. 3391, Cambridge, 1992. Indirect evidence for the wage dispersion effect also comes from comparing household distribution data with household income by sources; wages, salaries, and overtime actually rose slowly but steadily between 1984 and 1992 even as distribution by household decile worsened, a pattern which is consistent with rising inequality *within* labor markets.

[23]Originally launched in 1965, Mexico's *maquila* program allows duty-free imports of capital equipment for use in manufacturing and assembly, with the stipulation that investors pay duty only on the value-added within Mexico, and that 80% of a plant's output must be exported. For more detail on the maquila industry, see L. Sklair, *Assembling for Development: The* Maquila *Industry in Mexico and the United States* (La Jolla: Center for U.S.-Mexico Studies, University of California at San Diego, 1993).

[24] G. Hufbauer, *NAFTA: An Assessment* (Washington, DC: Institute for International Economics, 1993), p. 152.

[25]UNIDO, *Mexico: The Promise of NAFTA* (Vienna: UNIDO, 1994), p. 36.

and benefits in the *maquiladoras*, while holding their value better than the average wage/benefit package in manufacturing as a whole, still remain at only half of the manufacturing average; thus, a shift toward *maquila* production may be regressive, at least until employment in that sector finally drives wages upward.[26]

Another aspect of distribution in urban industry has to do with the concentration of assets in this sector. Despite the ambitious program of liberalization, privatization, and deregulation that has been implemented since the late 1980s, the traditionally oligopolistic ownership structure within Mexican industry has changed very little. By the end of the 1980s, the country's top ten industrial conglomerates still produced 20% of total manufacturing output, and the aforementioned export growth has been strongest in those tradable subsectors that are dominated by large-scale producers with strong ties to international markets (e.g., passenger vehicles and auto parts).[27] Although these large globally integrated companies (officially defined as having 250+ employees) constitute just 2% of all manufacturing establishments in Mexico, together they account for half of manufacturing production and employment. In the post-peso crisis era of even tighter credit and stiffer competition, just 2.8% of the 27,000 firms involved in exporting in 1995 accounted for 80% of all sales.[28]

The remaining 50% of manufacturing production and employment is accounted for by some 125,000 firms which have been categorized by the Mexican government

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[26]A comparison of the average values of the wage/benefit package in manufacturing with those of the *maquiladoras* is reported in F. Rosen, "Is Inflation the Enemy?" *El Financiero Internacional*, 4-10 March 1996, pp. 1, 8. The article is based on data supplied by the Ministry of Labor and the Instituto Nacional de Estadística, Geografía, e Informática; the manufacturing figures square with what we report in Figure 3.

[27]For example, Cementos Mexicanos (CEMEX) accounts for almost 70% of national cement production, and Vitro accounts for 90% of glass output; three companies still control 75% of the country's petrochemicals market, and Grupo Industrial Maseca controls over 70% of the maize flour market. See UNIDO, *Mexico: The Promise of NAFTA*, p. 67; M. de los Angeles Pozas, *Industrial Restructuring in Mexico* (La Jolla: Center for U.S.-Mexico Studies, University of California at San Diego, 1993); and Dussel Peters, "From Export-Oriented to Import-Oriented Industrialization," pp. 72-78.

[28]This information is paraphrased from Enrique Vilatela Riba, general director of the Foreign Commerce National Bank, as reported in "Export Earnings Up From Last Year," *El Financiero Internacional*, 8-14 July, 1996, and confirmed by authors' confidential interviews in Mexico's Ministry of Economics (*Hacienda*), October 1996.

according to size as micro (1-15 employees), small (16-100 employees) or medium (101-250). Although the number of these smaller (SME) firms has increased by approximately 60% since 1982, manufacturing output and wages within this sector have stagnated. There are various explanations for the SME sector's poor performance. First, the bulk of these enterprises (about 100,000) are micro firms clustered in low value-added manufacturing branches such as printing, clay products, metal tanks, dairy and tortilla production. These micro-level firms employed 21% of the workforce in 1993, up from 14% in 1988, but this increase seems to be partly due to stagnant productivity and hence a higher relative, albeit inefficient, absorption of labor within the country's nontradable sectors.[29] Second, privatization has eradicated the government contracts and support that had been so plentiful for these smaller companies during the ISI era. Third, trade liberalization has hurt certain sectors such as textiles; even in those SME industries that have been able to weather import competition, employment has stagnated as firms have been compelled to adopt labor-displacing production techniques.

While the combination of trade liberalization and increased access to the U.S. market under NAFTA should have provided some relief for SME producers on the export side, the latter report to be hampered by capacity limitations, the lack of affordable credit, poor marketing skills, and weak external demand for their products. Tellingly, less than 10% of small producers have taken advantage of the two government-sponsored export promotion initiatives offered during the Salinas years, whereas nearly 40% of the large enterprises have benefited from the remaining forms of state support for exporters. Since the implementation of the March 1995 adjustment package, the SME sector, with its weak access to cheaper foreign financing and international export markets, has been particularly hard hit.[30]

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[29]Heath, "The Impact of Mexico's Trade Liberalization," pp. 22-23.
[30]Those smaller firms which are part of "commodity chains"--i.e., linked to larger producers--will do

The inability to significantly expand urban employment, and the lack of any form of unemployment insurance, has led to a rapid increase in economic activity within the country's informal sector.[31] It is now estimated that between 25-40% of the country's 24.1 million economically active population has sought refuge in the informal economy. In the urban areas, the typical informal venture is a micro-level business operating in sectors where the entry barriers and infrastructure needs are low, such as commerce and services; not surprisingly, income and output are often as low as the barriers, and the informal sector has quickly become Mexico's workplace for the poor. As a result, over 50% of the country's most impoverished are now employed in the informal sector.

Government Policy Responses

Mexican neoliberal reform did succeed in fostering a somewhat more regionally decentralized export-led model which has thus far registered some impressive productivity gains within the tradables sector. But the social costs were mounting even prior to the December 1994 financial crisis, as manufacturing employment fell, informal activity rose, and assets became more concentrated. We have argued that these distributional stresses amount to more than just a longer-than-expected lag in the adjustment process; rather, they are directly related to the mix of policies that Mexico has embraced. Although the operative assumption of PRI technocrats since the mid-1980s has been that microeconomic innovation would follow naturally from

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better, but hard data on these linkages are scarce.

[31]This analysis is based on Centro de Estudios Económicos del Sector Privado (CEESP), *La economía subterránea en México* (México: CEESP, 1987); A.L. Ozorio, S. Graham, and L. Alves, "Poverty, Deregulation, and Informal Employment in Mexico," The World Bank, Washington, DC, July 1994, mimeo; and authors' interviews conducted in June 1995 with top policymakers at the Ministry of Social Development in Mexico City.

macroeconomic reform, in hindsight, the lack of consistency and coherence within the macroeconomic reform program, and between the chosen macro-and microeconomic policies, has stifled the potential gains from a more open economy.

Since 1982, there have been three main phases of government policy vis-à-vis the industrial sector. De la Madrid took the first step in dismantling the bulk of the country's old-fashioned sector-specific industrial programs in the mid-1980s;[32] by the early 1990s, Mexico's industrial policy had been drastically pared down to just two export incentive schemes and three sectoral programs in those industries dominated by large transnational firms (autos, computers, and pharmaceuticals).[33] In mid-1996, the Zedillo administration announced a new course involving an eight-point plan to promote industrial competitiveness.[34] Of special interest is the government's acknowledgment that more must be done to facilitate the process of microeconomic adjustment, and its stated intention to pursue a more flexible and active approach to industrial development: "competitiveness...cannot depend exclusively on the availability of low-cost production factors, the isolated efforts of firms and industries, or market forces alone. These and other factors must be coordinated and complemented through active government participation, in the form of highly effective public policies that promote industrial growth."[35]

Will this be a case of too little, too late? In the SME sector, despite strong evidence from the East Asian experience that effective competition requires a mix of

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[32]A second phase of horizontal industrial promotion, based on policy tools that benefitted the manufacturing sector as a whole and did not add to the central government's fiscal burden, was initiated by Salinas in 1989.

[33]This section draws on Lustig, *Mexico: The Remaking of an Economy*, pp. 120-5; Dussel Peters, "From Export-Oriented to Import-Oriented Industrialization," pp. 64-72; Ros et al., "Prospects for Growth and the Environment in Mexico," pp. 313-14; and F. Clavijo and S. Valdivieso, "La políica industrial de México, 1988-1994," in F. Clavijo and J. Casar (eds.), *La industria mexicana en el mercado mundial: Elementos para una poliíica industrial*, vol. I (México DF: Lecturas de El Trimestre Económico, FCE, 1994), pp. 27-92.

[34]Secretaria de Comercio y Fomento Industrial (SECOFI), "Mexico: Program of Industrial Policy and International Trade," Mimeo, Mexico City, May 1996.

[35]*Ibid*., p. 2.

large and small firms,[36] the general approach of the Salinas technocrats was to quietly condone the collapse of small firms as an example of a "survival-of-the-fittest" commitment to market discipline. As distributional stress mounted in the early 1990s, the government did attempt to help the SME sector via export promotion measures and indirect support programs for weaker industries, such as textiles. The former approach has consisted of duty-free entry of imports which are crucial for expanding export production; the latter has attempted to encourage "internationalization" of weaker industries through the dissemination of technology and information concerning new market opportunities. The government has also encouraged large-scale firms to enter into subcontracting and procurement agreements with their smaller counterparts and to form joint ventures with small firms in the securing of finance and technology. This program, however, seems to have had little impact or publicity: In a 1992 survey of Mexican producers, less than one-third of the SME respondents were aware that a comprehensive industrial support program had been established for them in 1991,[37] suggesting a failure to appropriately reach the target population.

As one symptom of the adjustment difficulties, by the early 1990s SME borrowers reported severe problems in obtaining credit, even when they were paying interest rates that were double the prevailing deposit rates in the Mexican banking system. In 1991, the government responded by directing the state development bank (NAFIN) to set up a credit card system to enable SME firms to finance their working capital and fixed asset needs. Unfortunately, this program quickly became a magnet for complaints over long delays and insufficient loan sizes, and could not begin to meet the needs of SME producers requesting support to cope with past due loans and the exorbitant costs of financial intermediation in the wake of the 1994 peso crisis.

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[36] A. Fishlow et al. (eds.), *Miracle or Design? Lessons From the East Asian Experience* (Washington, DC: Overseas Development Council, 1994).

[37] The general lack of awareness of government programs to assist smaller firms is indicated in our interviews with this sector between 1991 and 1994.

As for government policy responses to the severe decline in wages and jobs, labor market reform in the context of Mexico's neoliberal model has been slow and erratic. For more than a decade, the underlying structure has been one whereby wages are largely determined by the market, but entry barriers and job mobility are still highly distorted.[38] This combination has fostered an increasing trend toward wage dispersion and a widening duality between the formal and informal sectors of the economy. Meaningful labor market reform has been stunted by the PRI's reliance on nondemocratic official unions to guarantee an abundant supply of cheap labor power;[39] without a serious commitment to remove these structural distortions, the government's policy response to labor market stress has basically been one of chipping at the margins. For example, some assistance has been provided through two separate adult education programs, and through the Industrial Labor Force Training Program (CIMO) some 128,000 workers have upgraded their job skills to work in SME firms that are undergoing a process of modernization.[40] In the wake of the March 1995 stabilization program, the Mexican government finally stepped forward with a temporary emergency employment program (PEE) slated to provide 840,000 jobs through 1996 in the area of infrastructure projects to support private enterprise.[41]

In terms of rationalizing and legalizing the informal economy, government strategies to date have centered on the streamlining of procedures for obtaining legal status and the strengthening of informal microenterprises through financial support. In this regard, the government did open a "one-stop window" in 1991, designed to enable microenterprise owners to legalize their businesses in a single transaction. However,

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[38]S. Edwards, *Crisis and Reform in Latin America: From Despair to Hope* (New York: Oxford University Press, 1995), pp. 277-86.
[39]Dussel Peters, "From Export-Oriented to Import-Oriented Industrialization," p. 64.
[40]Economic Commission for Latin America and the Caribbean (ECLAC), *Strengthening Development: The Interplay of Macro- and Microeconomics* (Santiago, 1996), p. 80.
[41]Authors' interview with Alberto Montoya, director of the Special Employment Program at the Ministry of Social Development, June 1995, Mexico City.

the program is limited to microfirms in the manufacturing sector, and there is only one such "window" in all of Mexico City.[42] Not surprisingly, less than 1% of these manufacturing microentrepreneurs have taken advantage of this innovative regulatory reform. As for financial support, despite the opening of at least three special credit lines for microentrepreneurs at NAFIN, most of NAFIN's limited resources have been absorbed by small and medium-sized firms operating in the formal sector. Similarly, although Salinas's National Solidarity Program (PRONASOL) offered a very small percentage of its budget for microenterprise development, the urban portion of that program was canceled due to the inability to maintain ongoing contact with entrepreneurs operating at the micro-level within the informal economy.[43] And since the 1994 devaluation, and the rapid multiplication of those who have literally been ejected from formal labor markets, even the informal economy is now becoming saturated as the country's workplace for the poor.[44]

In what ways might the Zedillo administration's launching of a new "Program of Industrial Policy and International Trade" help to alleviate the microeconomic stresses reviewed here? As noted earlier in this section, the government is now getting back into the business of promoting industrial development--but in a markedly different manner.[45] With regard to the SME sector, apart from reiterating its commitment to broaden the access to financing schemes for smaller firms, the government will promote regional and sectoral business "clusters" that focus on strengthening SME enterprises. This is to be done, for example, through tax incentives, technology training, "efficient import-substitution," and more aggressive export promotion. The idea here is to restore the role of the SME's in national production, and to support them from the beginning to

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[42]Ozorio, Graham, and Alves, "Poverty, Deregulation, and Informal Employment in Mexico," p. 36.
[43]Authors' interview with Guillermo Bernal, General Director, "Empresas de Solidaridad," June 1995, Mexico City.
[44]Heath, "The Impact of Mexico's Trade Liberalization," p. 24.
[45]SECOFI, "Program of Industrial Policy and International Trade," pp. 1-26.

the end of the export chain. On the human resource side, the new industrial policy offers to strengthen basic training and specialized education, and to build closer ties between the educational system and industry. These are hopeful directions, but they are being undertaken within the context of acute adjustment fatigue and continued resource shortages; moreover, it remains to be seen whether this represents a long overdue shift in the country's development strategy, or yet another instance of the PRI's repackaging of itself in order to weather the current political storm.

The Rural Sector: Early Results of a Market-based Agricultural Policy[46]

When the Salinas team turned its attention to reform of the agricultural sector in 1990, the Mexican countryside had been struggling economically for at least three decades. The stagnation of agriculture was a consequence of a long-standing policy bias that favored industry in the ISI-era, and was compounded by a highly distorted set of ongoing government interventions. The 1980s saw a chaotic retrenchment of state participation in agriculture, exemplified by a 76% decline in public investment from 1982 to 1989.[47] By the early 1990s, agriculture's share of GDP had dropped below 5%, down from 20% in 1950, and the balance of trade in agricultural products was negative. However, some 26% of Mexico's economically active population remains in the rural

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[46]This section is based on the following background sources: M. Foley, "Privatizing the Countryside: The Mexican Peasant Movement and Neoliberal Reform," *Latin American Perspectives*, vol. 22, no. 1 (1995), pp. 59-76; J. Fox, "Political Change in Mexico's New Peasant Economy," in M. Cook, K. Middlebrook, and J. Molinar Horcasitas (eds.), *The Politics of Economic Restructuring: State-Society Relations and Regime Change in Mexico* (La Jolla: Center for U.S.-Mexico Studies, University of California at San Diego, 1994); J.R. Heath, "Evaluating the Impact of Mexico's Land Reform on Agricultural Productivity," *World Development*, vol. 20, no. 5 (1992), pp. 695-711; C. Hewitt de Alcantara (ed.), *Economic Restructuring and Rural Subsistence in Mexico: Corn and the Crisis of the 1980's* (La Jolla: Center for U.S.-Mexico Studies, University of California at San Diego, 1994); and G.D. Thompson and P.N. Wilson, "Ejido Reforms in Mexico: Conceptual Issues and Potential Outcomes," *Land Economics*, vol. 70, no. 4 (1994), pp. 448-65, as well as confidential interviews with Mexican policymakers in June 1995.

[47]A. de Janvry et al., "NAFTA and Mexico's Maize Producers," *World Development*, vol. 23, no. 8 (1995), p. 1350.

sector, as opposed to 13.7% in Argentina or 14.1% in Chile--countries with more successful track records of agricultural development.

The goals of neoliberal reformers centered on the promotion of productivity and profitability in the agricultural sector, mainly through recapitalization and the encouragement of private initiative. However, a larger challenge loomed for Salinas as he sought the country's entry into NAFTA and membership in the OECD bloc of industrialized countries: while Mexico had registered some impressive gains in launching an export-led industrial model in the early 1990s, economic history offers few examples of countries that have successfully joined the ranks of the developed world without modernizing their agricultural sector;[48] in other words, a market overhaul of the rural economy, and a policy approach that cultivated more coherent linkages between agriculture and industry, was essential for both sustaining an export-led strategy and for lending credibility to the NAFTA and OECD membership applications still pending for Mexico.

Beginning in 1990, the Salinas administration swept away a complicated web of price supports that had evolved since land reform was first initiated by constitutional decree in 1917. Tariffs on most agricultural products were abruptly lowered, as were subsidies on production; the guarantee price was eliminated for all crops but corn and beans. At the same time, the government canceled its crop insurance program, and the rural development bank (Banrural) announced that it would now target loans only to peasant growers whose operations were deemed profitable, and only at market rates. Under NAFTA, the agricultural sector's exposure to competition has been accelerated. Tariffs on 57% of the value of U.S.-Mexico agricultural trade were immediately eliminated in 1994, with 94% to be eliminated over the next 10 years. Tariffs on the

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[48]See K. Shwedel, "La competitividad del sector agroindustrial," in F. Clavijo and J. Casar (eds.), *La industria mexicana en el mercado mundial*, vol. II (México DF: Lecturas de El Trimestre Económico, FCE, 1994), pp. 7-13.

remaining 6% of "highly sensitive" products like corn and sugar will be done away with on a 15-year time frame.[49]

A second bolder aspect of agricultural liberalization has involved the reconfiguration of asset ownership. The 1917 land reform produced a dualistic rural structure, characterized on the one hand by a patchwork of small communal land holdings (*ejidos*) which suffer from poor infrastructure and irrigation and, on the other hand, by privately held large farms estimated to be 30-50% more productive than their *ejido* counterparts.[50] Comprehensive reform geared toward privatizing the nearly 50% of arable land which comprises the *ejido* sector was undertaken by constitutional amendment in early 1992. The most radical aspect of the reform--in the sense that the new law reverses the PRI's post-revolutionary commitment to communally held land--allows for the rental or sale of parcels of communal lands, including the sale of land to both domestic and foreign corporations.[51] Moreover, the individual or group holders can offer their land as collateral for loans from certified lenders, as opposed to the past practice of depending solely on Banrural or informal markets for credit.

Policymakers contend that this privatization of the *ejidos*, combined with low labor costs and a growing urban consumer market, will serve as a magnet for international investment in agriculture.[52] Thus, the scenario envisioned by the designers of the reform package is one in which agribusiness will be encouraged by the new opportunity to secure land tenure through joint ventures, leasing, or direct purchase. The tough competition from the liberalization of agricultural trade is

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[49] Hufbauer, *NAFTA: An Assessment*, p. 126.

[50] The estimate is cited in Thompson and Wilson, "Ejido Reforms in Mexico," p. 448; others, such as Heath, "Evaluating the Impact of Mexico's Land Reform on Agricultural Productivity," argue that there is little difference between productivity rates on *ejidos* versus small private farms.

[51] The new law did leave intact legal restrictions on the size of individual and group holdings. No one company can hold more land than the equivalent of the legal limit for individuals, multiplied by the number of members; the total land holding for any single corporation cannot exceed 25 times the individual limit. For more detail, see Foley, "Privatizing the Countryside," pp. 64-67.

[52] Confidential authors' interviews conducted with top PRI officials in Mexico City during August 1991.

expected to be offset by productivity gains and increasing economies of scale which, in turn, should help to reverse Mexico's status as a net importer of food. Critics are less sanguine.[53] The average size of small *ejido* holdings, only two-thirds of which have electricity, is just 9.5 hectares. The bulk of these lands are rainfed, and less than half have potable water or ready access to a paved road. While the exposure of this much weaker element of the rural sector to the new liberal policy regime offers, in principle, new opportunities to shift crops and / or form more productive alliances with other growers, the lack of infrastructure, affordable credit, crop insurance, and price supports has been a strong deterrent.

The scarcity of reliable microlevel data on the rural sector makes it difficult to specify the impact of 1980s austerity and the 1990 neoliberal reform measures on the Mexican countryside. The two main areas of distributional stress that stand out in recent studies suggest: (1) that greater asset concentration seems as real a possibility in agriculture as it has been in the industrial sector; and (2) equally likely is a rise in migration from the rural sector. Certainly some of the increased social protest in the regions--such as the *Zapatista* uprising in Chiapas in January 1994, and the emergence of the "*Barzon*" debtors' movement in early 1995 to protest the astronomical interest rates and bank repossessions of land and farming equipment in the wake of the peso crisis--is related to the dramatic adjustment process now underway.[54]

The most solid evidence on asset reallocation in Mexico's rural sector stems from a country-wide survey of 1,582 households encompassing 276 *ejidos* conducted in 1990, which was then compared against a 1994 survey of 1,523 households from the same sample.[55] Although the privatization of land tenure is still just getting underway, the

[53]This viewpoint is summarized in L. Stanford, "The 'Organization' of Mexican Agriculture: Conflicts and Compromises," *Latin American Research Review*, vol. 28, no. 1 (1993), pp. 188-201.
[54]This was the tone of a talk given by José María Imaz, Coordinator of Foreign Relations for the *El Barzon* movement, Latin American Studies Program, Johns Hopkins University, School of Advanced International Studies, Washington, DC, 18 April 1996.
[55]This paragraph and the two following it are based on the survey findings cited in A. de Janvry et al.,

early results suggest the gradual consolidation of a small landholder class (2-10 hectares of farmland) in Mexico's rural economy, which increased its percentage share of land held from 46.9% in 1990 to 54.7% in 1994; over the same time span the *minifundios* (0-2 hectares) decreased from 27.4% to 19.4%, while larger ventures (10 hectares or more) held steady at approximately 25% of land held from 1990-94. Underlying this reallocation of assets during the transition to a market economy is a highly differentiated pattern of adjustment, both by region and by farm size.

Within the North, Pacific North, and Center regions, where this emergence of a smallholder class has been most pronounced, there are some incipient signs of the modernization of production practices and the diversification to higher-yield crops. In the Gulf and Pacific South regions, the persistence of impoverished *minifundio* holdings, many with strong indigenous ties, has been more pronounced. In the former, the smallholder class has grown at the expense of the larger farms; but in the latter, the redistribution of land ownership toward larger holdings has outpaced the emergence of a potentially productive smallholder contingent. It comes as no surprise that Chiapas and Oaxaca, two of the most socially volatile states in the 1990s, are both located in the Pacific South region.[56]

This pattern, whereby a smallholder sector appears to be gradually overtaking the traditionally impoverished *minifundios*, holds some promise for the eventual modernization of Mexican agriculture. However, small producers have been faced with an overvalued peso, the further contraction of public support, and falling commodity prices--all of which worked against the widespread adaptation of commercial farming practices and diversification to higher-yield crops. Indeed, with 78% of Mexican farmers involved in corn production at the outset of the reforms, and NAFTA's 15-year

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"Ejido Sector Reforms: From Land Reform to Rural Development," in L. Randall (ed.), *Reforming Mexico's Agrarian Reform* (New York: Sharpe, 1996), pp. 71-106.

[56]Because of data collection problems, Chiapas was not included in the de Janvry et al. survey.

timeline on the liberalization of corn, the survival instincts of smaller producers has actually been to expand corn production for domestic and home consumption since 1990. In stark contrast, the larger farms, with ready access to credit, technology, and irrigation, are now leading Mexico's export boom in high-yield agricultural tradables (e.g., coffee, fruit, beverages, vegetables, sugar, livestock, and cut flowers) since the 1994 devaluation.[57]

A slow and painful adjustment in the rural sector has, indeed, provoked some out-migration, although recent research contradicts earlier predictions which focused on the economically devastated *minifundio* population as the most likely group to depart the countryside in the 1990s.[58] Rather, it is the smallholder class, from farms of 5-10 hectares in size, that is now the most likely to migrate. Survey data show, for example, that nearly 22% of adult family members have migrated from this smallholder sector, that these migrants have at least a medium-level education, and that around 64% of them head to the United States. For this group, many of whom are still trying to survive as farmers, remittances from the United States comprised up to 13% of household income.[59] In contrast, of the approximately 20% of the rural population that is still active in the *minifundio* sector, only 16% of family members have migrated, and of these, just 35% have gone to the United States.

One explanation for today's comparatively lower levels of migration amongst this poorest income group is that the ongoing adjustment crisis of the 1980s had already provoked a large exodus of *minifundio* dwellers into the country's urban informal economy.[60] For those remaining on rural plots of 0-2 hectares in size in the 1990s, the

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[57]See "Agriculture Leading NAFTA Trade Growth in 1996," *NAFTA Works* (SECOFI-NAFTA Office of the Mexican Embassy in Washington, DC), no. 6 (June 1996), p. 2.

[58]S. Robinson et al., "Agricultural Policies and Migration in a United States-Mexico Free Trade Area," Working Paper no. 617, Department of Agricultural and Resource Economics, University of California at Berkeley, 1991.

[59]de Janvry et al., "Ejido Sector Reforms," pp. 85-89.

[60]de Janvry et al., "NAFTA and Mexico's Maize Producers," pp. 1350-51.

recently acquired right to rent out *ejido* land has provided the option to engage more actively in off-farm work.[61] Still, there is a sizable segment within this sector that has neither the resources to migrate to the U.S., nor the ability to sufficiently defend its economic interests within local labor markets, be it rural or urban, formal or informal. Again, we argue that the alleviation of distributional stress for this particular group is more than just a matter of a longer-than-expected adjustment lag; particularly in the wake of the March 1995 austerity program, the proliferation of extreme poverty in such *minifundio* strongholds as Oaxaca and Chiapas suggests that a more targeted set of public policies will be necessary to support the adjustment of these struggling households to a market economy.

Government Policy Responses

To ameliorate the distributional pressures in agriculture and discourage the outflow of migrants from the rural sector, the government has offered support to rural producers through two main programs, PRONASOL and PROCAMPO. While PRONASOL offers many services that cut across the rural and urban sectors, such as infrastructure support for schools, electricity, and potable water, economically vulnerable segments of the rural sector have also received special attention. For example, PRONASOL has provided social services to Mexico's estimated 3.6 million impoverished agricultural day laborers, support for small coffee growers, and assistance in the creation of diversified microindustrial enterprises in the countryside.[62] Since defaults in the small farming sector can now result in loss of access to land, PRONASOL has also intervened in the restructuring or cancellation of Banrural's overdue loan portfolio for low income producers.

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[61] de Janvry et al., "Ejido Sector Reforms," p. 76.

[62] For a full description of PRONASOL activities see Secretaria de Desarrollo Social (SEDESOL), *Solidarity in National Development: New Relations Between Society and Government* (Mexico City: SEDESOL, 1993).

The PROCAMPO program was launched in October 1993 as a 15-year direct income subsidy for producers of corn and other basic crops (beans, rice, sorghum, soybeans, wheat, cotton, and rye) who are likely to suffer losses due to trade-related competition.[63] In its first full year of operation, the government allocated US$3.5 billion in income subsidies to some 3.3 million farmers through PROCAMPO--a significant welfare payment for low productivity farmers. In theory, the program is meant to support farm income during the transition to a market-based rural economy, thus enabling those producers subsisting on peasant staple production to modernize and diversify into more commercial lines of agricultural production.

Not surprisingly, in view of the continued adjustment stress in the rural sector, both of these programs have been the object of at least three kinds of criticism. First, and perhaps most important, is that the resources that have been made available fall far short of what would be needed to allow a potentially productive farmer to make the improvements necessary for successful operation at the internationally competitive price level for these basic crops.[64] Second, has been the misallocation of funds. In the case of PROCAMPO, for example, there is some evidence that these income payments ended up in the hands of larger producers, while smaller staple farmers with under 10 hectares received as little as US$0.50 per day.[65] Similarly, although PRONASOL credits were disbursed evenly across farm sizes, they amounted to less than 10% of the loans available through Banrural or the commercial banks, and just 10% of the loans utilized by large farms.[66] While PRONASOL has distributed resources to a larger number of households (representing 61% of the credit available to small farms), the total amount of

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[63]As an income subsidy rather than a price prop, PROCAMPO is compatible with the dictates of the GATT and NAFTA. See Banco de México, *The Mexican Economy, 1994* (Mexico City: Banco de México, 1995).

[64]K. Appendini, "Transforming Food Policy Over a Decade," in Hewitt de Alcantara, *Economic Restructuring and Rural Subsistence in Mexico*, pp. 155-56.

[65]M. Gates, "The Debt Crisis and Economic Restructuring: Prospects for Mexican Agriculture," in Otero (ed.), *Neoliberalism Revisited*, p. 54.

[66]de Janvry et al., "Ejido Sector Reforms," pp. 81-84.

credit available to the *ejido* sector has fallen by 19%. It is this broad but shallow spending pattern that has fueled the opposition's claim that PRONASOL has been primarily geared toward winning PRI votes and quelling political protest.[67]

Finally, in the sense that these programs do not begin to address long-term structural problems in the Mexican agricultural sector, they do not add up to a coherent strategy of rural integrated development. A main underlying problem is that trade liberalization has reduced the value of rain-fed land, since the goods produced on this land are mainly NAFTA's "losers”; conversely, the value of irrigated land, where more competitive agricultural goods such as fruits, vegetables, and flowers are grown, is increasing. Income subsidies only temporarily mask this shift in asset values and, hence, do little to prevent the likely concentration of more valuable land into fewer hands; what is needed is the implementation of a vigorous public infrastructure program geared toward major land improvements (e.g., irrigation, drainage) and technical assistance that would help smaller farmers reorient production to higher value crops.[68] If the government does not target state resources more strategically in this direction, the *ejido* reform will fail to attract the projected new investment and the current trends of asset concentration and regressive distribution will continue.

The Social Sector: Market Restructuring and New Demands for Human Capital

In the social sector, Mexico's market-based development model faces a serious disjuncture between the increasing demand for highly productive human capital which would render the country more competitive internationally, and the actual ability of the working population to rise to this occasion. The potential role of social policy for bridging this gap has not been well articulated in Mexico, or in the rest of the region for that matter. There have, of course, been some efforts to raise education levels, improve

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[67]*Ibid.*, pp. 81-84.
[68]S. Levy and S. van Wijnbergen, "Transition Problems in Economic Reform," Policy Research Working Papers, the World Bank, August 1992, pp. 17-19.

housing, and enhance health care during the 1980s and 1990s, including the development of PRONASOL, President Salinas's ambitious poverty reduction program which targeted resources toward economically vulnerable segments of the population.

Unfortunately, as Table 7 shows, although social spending rose as a percent of government expenditure during the late 1980s, it fell as a percent of GDP. While this rise in relative social spending reflects well on the government's priorities, it also suggests an increasing gap between social expenditures and the country's basic human needs. Because little progress has been made in raising the government's commitment to social spending as a percent of GDP during the 1990s, policymakers are hard-pressed to insure that social spending is better targeted to the truly needy, particularly since the steep recession of 1995.[69] Below, we review the two tracks that Mexican social policy has moved on since the mid-1980s, with an eye toward the ways in which social spending could better strengthen human capital and enhance income distribution. We begin with the traditional kinds of public goods that the state has always provided--education, housing, and health; we then evaluate the pros and cons of PRONASOL as a post-debt crisis attempt to redefine the state's role in the provision of public goods under a market-based economic model that still faces tight resource constraints.

Education

Investment in primary education has long been touted by Mexican policymakers for its contribution to overall worker productivity and, subsequently, to restored economic growth under Salinas. However, Mexico's investment in primary education

[69]Systematic and comparable World Bank data of the sort used in Table 7 are not available after 1990; analysis of social expenditure trends under the Salinas *sexenio* is further complicated by the considerable overlap between long-standing social spending categories and newer commitments under PRONASOL. Because of this, we base our assessment of the continued plateau in social spending as a share of GDP in the 1990s on authors' interviews at the Ministry of Social Development, Mexico City, June 1995.

still lags behind other Latin American countries, and this sector remains plagued by some of the following problems:[70]

* **Low educational achievement**. Mexican students consistently have performed below the average on standardized tests in Spanish, math, and science. The primary school repetition rate (the number of students who must repeat a grade as a percentage of the total) is 9.1% nationwide and has reached levels as high as 50% in some rural areas. Each year, 4.6% of enrolled students (some 700,000 students) drop out before they complete the third grade. At least half the attrition rate is due to poor nutrition, family economic hardship, and migration.

* **Poor teaching quality and teacher absenteeism**. These problems can be attributed to low salaries in the education field and to a backward incentive structure that encourages teachers to settle in teacher-rich urban areas and not in teacher-poor rural areas. Overall, teacher salaries fell 33% in real terms between 1983 and 1990; while teacher earnings have risen by 18% in real terms since 1990, they are still lower than pre-debt crisis levels. The fact that rural teachers receive even lower wages than their urban counterparts ensures that the rural areas remain short of teachers.

* **Shortages of teaching materials, outdated curriculum, and poor physical facilities**. Many school buildings in Mexico are in dire need of repair and almost all schools lack adequate library books and audiovisual aids--resource deficits that are considered to be a main cause of the country's low achievement test scores in Spanish and the sciences.

While educational spending has rebounded somewhat in the past three years, rising to 4.1% of GDP in 1993, the Mexican government still has done little to rectify the above problems. This situation has been exacerbated by the decentralization of primary and middle school management since mid-1992. Such decentralization, while perhaps a necessary step toward fiscal reform, has greatly increased the burden on state governments which, in turn, still sorely lack the required administrative and revenue-raising capacities. Meanwhile, although recent research has shown a strong

[70]See The World Bank, "Mexico: Second Primary Education Project," Staff Appraisal Report (Washington, DC: The World Bank, 1994).

relationship between increased investment in primary education and higher levels of employment and worker productivity,[71] the Mexican government continues to spend 41% of education expenditures on university subsidies, while primary education subsidies amount to just 12% of public expenditure on education. Although a university education is also crucial to the pursuit of an economic model that demands high skills, it is not nearly as important as training an entire workforce to read, write, and do simple math.

Housing

The availability of adequate housing facilities, like the provision of a higher quality education, has the potential for creating large socioeconomic benefits. Mexico is now experiencing a housing shortfall of at least three million units. The reasons include a growing urban population, inefficient housing regulation, poor infrastructure to support housing construction, and a general decrease in government spending on housing since the 1982 debt crisis. Moreover, the housing stock that is available to lower income groups often lacks proper sanitary and sewage facilities, and tends to be far from where jobs are located, making it geographically difficult for the poor to exploit available work opportunities. Thus, the connection between housing and productivity can be quite direct.

Both the federal and state governments have initiated serious changes in all facets of housing policy.[72] The regulation of housing construction, which in the past has added as much as 25% to the cost of a home, has been streamlined. The central government has also acted to increase the security of property rights by legalizing the ownership of 1.2 million properties that had been informally occupied, mostly by

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[71]G. Psacharopoulos, "Time Trends of the Returns to Education: Cross-National Evidence," *Economics of Education Review*, vol. 8, no. 3 (1989), pp. 225-31.
[72]See T. Zearley, "Creating an Enabling Environment for Housing: Recent Reforms in Mexico," *Housing Policy Debate*, vol. 4, no. 2 (1993), pp. 239-49.

families in the very lowest income deciles. In November 1992 a uniform set of building standards and codes was established, and Mexico has increased spending on infrastructure that will provide sanitary water and sewage treatment to more areas.

Other reforms include the professionalization of FOVI, a special housing subsidy fund within the central bank for families with a monthly income below $600, which has now moved from an application process riddled with patronage to a more neutral auction system. Finally, in order to reduce mortgage costs and increase competition in the housing finance industry, the central bank, the stock exchange commission, and several commercial banks are currently working to establish a secondary mortgage market. To its credit, in the wake of the peso crisis, the Zedillo administration also convinced the local private banks to collaborate with the government in rolling over the multitude of mortgages that have recently fallen into arrears. The distributional effects of this move are somewhat questionable--the bigger benefits go to middle-class homeowners--but the support of housing is welcome.

Health

In 1983, the Mexican Constitution was amended to include a guaranteed right to health care for every citizen. Despite this commendable goal, the imperatives of economic adjustment rendered the provision of universal health care impossible. By 1988, government spending on health care had increased by just 1.25% over the 1981 levels. Given this plateau in real public expenditure, policymakers were still able to deliver some important gains in the health arena: life expectancy increased from 67.1 years in 1982 to 70.3 years in 1991; infant mortality fell, from 49 per 1000 births in 1982 to 35 per 1000 in 1991; and by 1987, 91% of the Mexican people had health insurance, compared with only 81.2% in 1982.[73]

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[73]All trends cited here were drawn from the World Bank's "World Data" CD-ROM, 1994.

Apart from these advances, Mexico's health care system has yet to undergo some fundamental reforms. One obstacle to better service lies in the allocation of health funding, which is still heavily skewed toward administrative (13-32%) and curative activities (59-75%), but with very little resources left over for the crucial areas of training and research. Recent studies have also found serious inequities, in the sense that even though policymakers succeeded in improving some key social indicators since 1982, austerity budgets and the decentralization of health care services to the states have exacerbated the disparities in the quality of care received by rich and poor, urban sector and rural.[74] For example, an analysis of health care delivery in two of the country's poorest states, Oaxaca and Guerrero, found that decentralization had resulted in an overall decrease in the number of people receiving health care services (Oaxaca), and in reduced services to the poor (Guerrero), while the wealthier population in these states saw an increase in services.[75] It appears that attempts to improve and decentralize health care in order to make it more responsive to the needs of the local citizenry must also be combined with increased efforts by the federal government to ensure equity in funding across states, and across classes and sectors within states.

PRONASOL as a "New" Approach to Social Policy in Mexico

Faced with increasing distributional conflict, and with some encouragement from the multilateral lenders, countries such as Bolivia, Chile, and Mexico launched compensatory social programs in the 1980s. To varying degrees, all of these social programs have relied on a combination of traditional social welfare compensation and on new "demand-based" criteria requiring that communities generate specific proposals for assistance. In all of these programs, the funds have been primarily spent on

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[74]C. Cruz Rivera et al., "The Impact of Economic Crisis and Adjustment on Health Care in Mexico," Innocenti Occasional Papers, No. 13, February, 1991.

[75]R. Gonzalez-Block et al., "Health Services Decentralization in Mexico," *Health Policy and Planning,* vol. 4, no. 4 (1989), pp. 301-14.

infrastructure; other kinds of social assistance (education and school materials, vocational training, and vaccinations) and production support (credit access, technology training, and employment creation) have lagged far behind.[76]

Mexico's version of a social compensation program was PRONASOL, launched by President Salinas in 1988, and now reincarnated as the "Alliance for National Welfare" under the Zedillo administration. While all of these safety net programs are variations on a theme, PRONASOL is also very much a Mexican phenomenon in that it has involved fairly heavy-handed government participation at every level. For example, during his tenure, President Salinas himself assessed local needs in weekly visits to the countryside, after which community groups and government officials designed government-funded projects. As a result, critics suggest that the real purpose of PRONOSAL was to strengthen the PRI's control over local leaders and undermine the political opposition by handing out side payments to the loudest voices of potential protest. In this view, PRONOSAL was little more than a "social tranquilizer," that is, an instrument of state patronage that the governing party used to mitigate the harsher effects of its economic policies.[77]

In fact, PRONASOL has been *both* a patronage slush fund for the PRI and a creative social compensation scheme staffed with a cadre of highly competent policymakers.[78] As the latter, it has faced a problem typical of many compensation

[76]See C. Graham, *Safety Nets, Politics, and the Poor: Transitions to Market Economies (*Washington, DC: The Brookings Institution, 1994).
[77]See D. Dresser, *Neopopulist Solutions to Neoliberal Problems: Mexico's National Solidarity Program* (La Jolla: Center for U.S.-Mexico Studies, University of California at San Diego, 1991), p. 1. The structure of PRONASOL made it very open to characterization as a social tranquilizer: Since recipient communities were required to organize to articulate their demands, the most organized of the poor--i.e., those most likely to protest--were also the most likely to receive funds. At the same time, the demand-based nature of PRONASOL and its Latin American counterpart programs could be viewed as a positive in that they require grassroots mobilization to trigger funding.
[78]PRONASOL's mixed results and structure are discussed in the edited collection of essays on the program by W.A. Cornelius, A.L. Craig, and J. Fox, *Transforming State-Society Relations in Mexico: The National Solidarity Strategy* (La Jolla: Center for U.S.-Mexico Studies, University of California at San Diego, 1994).

programs: the mere introduction of a social safety net has inflated popular expectations and led some to mistake it as a successful answer to the long-term structural inequalities in Mexico's rural and urban sectors. However, PRONASOL's resources were never sufficient to accomplish such a daunting task. Although the program received an impressive-sounding $14 billion between 1988 and 1994, its annual budget never amounted to more than 1% of Mexico's GDP. As for triggering structural change in the long term, just 3% of the total PRONASOL budget went toward "Empresas de Solidaridad"--the main PRONASOL program that had been assigned the task of increasing productive opportunities for those on the economic margin.[79] In short, PRONASOL was similar to other compensation programs: while effective in securing political breathing space in the wake of harsh adjustment measures, the limited resources and demand-based nature of such programs means that they cannot be expected to do much more than that.

Conclusions: The Need for a "Second Phase" of Reform

Despite neoliberal claims that causally link economic opening with higher levels of growth, productivity, and income equality, the Mexican case suggests that the path toward achieving these goals may be more complex than originally envisioned. In Mexico there has been a lackluster pattern of growth, erratic productivity gains, and an increasing concentration of income held by the wealthiest groups between the mid-1980s and the early 1990s.[80] One reason for this poor performance is that Mexican policymakers focused on macroeconomic adjustment while leaving microeconomic

[79]Authors' interview with Guillermo Bernal, General Director of the "Empresas de Solidaridad" program, Mexico City, June 1995.

[80]Mexico, whose economy is the 16th largest in the world, now has the fifth largest collection of billionaires, outranking much larger economies such as Canada, Britain, France, and Italy on that indicator. See R. Willis, "Savings Incentives Become a Priority," *El Financiero Internacional*, 8-14 July 1996.

restructuring to the market; unfortunately, the collapse of the macroeconomy in late 1994 and the explosion of violence and social upheaval have now made evident the costs of ignoring these micro-level issues of distribution and sectoral performance.

Since the debacle of 1994-95, macroeconomic stability has gradually been restored.[81] As of mid-1996, for example, growth of GDP had already surpassed the 3% level that had been projected earlier, and the recovery has been led largely by exports. In the industrial sector, exports increased by some 20% between mid-1995 and mid-1996; in agriculture, exports increased by approximately 10.5% during this time frame. With these output gains, the trade balance has moved from a shocking US$18.5 billion deficit in 1994, to a $7.1 billion surplus in 1995 (see Table 1), with further improvement likely for 1996. This has enabled the Zedillo administration to quickly repay US$9 billion of the US$12.5 billion that it had borrowed from the U.S. government to help finance the March 1995 stabilization program.

Unfortunately, this impressive export-led recovery has also helped bring the underlying weaknesses and distributional stresses of the Mexican economy into stark relief. In particular, the structural heterogeneity that we described in our analysis of the urban-industrial and the rural-agricultural sectors has become even more apparent in the post-1994 period, as the top tier of tradables producers within each sector has rapidly recovered, but the ever-widening bottom tier continues to stagnate. For this latter group, operating within the nontradable service, agriculture and manufacturing sectors, the neoliberal goal of achieving greater efficiency in the allocation of productive factors, and hence a more solid base for income gains, remains elusive.

Apart from long-term structural weaknesses related to low savings, investment, and productivity rates, this more vulnerable segment of the domestic market has also had less insulation from the tight fiscal and monetary contraction that formed the

[81]These figures on the Mexican recovery are cited from various issues of *NAFTA Works*, the economic newsletter of the SECOFI-NAFTA Office of the Mexican Embassy in Washington, D.C.

cornerstone of the 1995 austerity plan. The post-1994 data point to a further shrinking of real wages and an absolute worsening of income shares for the country's poorest groups.[82] Meanwhile, the explosion of such social protest movements as the *Zapatistas*, *El Barzon*, and the more violent People's Revolutionary Army, suggest that an adjustment-weary populace is now much less inclined to tolerate the PRI's cynical corruption scandals and its hollow promises of future prosperity.[83]

What kinds of strategies could help broaden productivity gains and economic prosperity? In the urban-industrial sector, the fallout from the peso crisis appears to have shifted policy debate in favor of those within the president's technocratic ranks who have long argued for a more active, integrated approach to industrial policy.[84] The Zedillo administration now seems to recognize that such problems as asset concentration, the overall fragility of the small and medium firms, plummeting real wages, and the explosion of the informal economy, are both endogenous to Mexican-style neoliberal reform and serious barriers to future productivity growth.

In this light, the government has renewed a number of commitments concerning economic deregulation, the upgrading of technology and human resources, the strengthening of the SME sector, and stricter enforcement of anti-monopoly legislation. More importantly, Mexican industrial policy has taken a potentially innovative turn with its stated intention to promote productivity through regional business clusters.[85]

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[82]Based on authors' confidential interviews within Mexico's Ministry of Economics (*Hacienda*), October 1996.

[83]See A. Guillermoprieto, "Mexico: Murder Without Justice," *New York Review of Books*, 3 October 1996, pp. 31-36. With the launching of its "Alliance for the Recovery of Economic Growth" in October 1995, the Zedillo administration has made modest efforts to alleviate adjustment stress, including a plan to cap credit card rates and to purchase a share of troubled bank loan portfolios through the government's Deposit Insurance Fund.

[84]This view is expressed, for example, in the collection of edited essays by Clavijo and Casar, *La industria mexicana en el mercado mundial*.

[85]Recent industrial analysis suggests that businesses have increasingly grouped together into multisectoral clusters that share similar sorts of skilled labor and technology. For a view of this process in the U.S., see P. Doeringer and D. Terka, "Business Strategy and Cross-Industry Clusters," *Economic Development Quarterly*, vol. 9, no. 3 (1995), pp. 225-37.

Such industrial clusters tend to encompass both large firms capable of effectively competing in world markets, and smaller companion firms that provide supply flexibility and innovative backup. The government's decision to play a more active role in promoting horizontal and vertical ties between firms operating within this mode can create important multiplier effects, such as increased labor market mobility and new kinds of technological adaptation. When combined with crucial investments in education, job training, and the creation of business associations related to these regional clusters, the very logic of production can shift quickly from today's low-wage, low-skill, slow-growth dynamic to one in which growth and income gains are driven by productivity and innovation.

In the rural-agricultural sector, Mexico City technocrats have settled for programs like PROCAMPO, which maintain an increasingly miserable status quo in the countryside. A more dynamic approach to incorporating the emergent class of small landholding farmers into Mexico's rural economy would include the following: the creation of rural institutions to provide more equal access to credit and to promote modernization of farming techniques and diversification into high-yield crops; the implementation of a vigorous public infrastructure program geared toward expanding irrigation and transportation; and a more aggressive budgetary commitment to basic and technical education in the countryside.[86] The recent realignment of the peso has revealed Mexico's dynamic potential as an agricultural exporter under NAFTA; the buoyant recovery of agricultural exports suggests that there is both room and reason for more aggressively targeting programs like PROCAMPO toward those who most need it, as opposed to those who are already thriving in the rural economy.

[86]For an elaboration of these policies, see Levy and van Wijnbergen, "Transition Problems in Economic Reform," de Janvry et. al., "NAFTA and Mexico's Maize Producers," and de Janvry et. al., "Ejido Sector Reforms."

As for social policy, the period since 1988 has seen some creative innovations, albeit in an era of tighter budgets. However, the political baggage surrounding the PRONASOL safety net program, a haphazard decentralization of fiscal responsibilities, and the fact that social strategies to date have done little to promote long-term structural change have clearly been problems. Social policy, productivity, and potential income gains can be linked; in education, for example, a major reorientation of resources into basic and technical education could foster large human capital gains. Yet, despite widespread social discontent concerning the difficulties of securing stable formal employment within Mexico's radically restructured economy, policymakers have still not mustered the political will to shift social priorities in a manner that would more aggressively harness human resources to a neoliberal development model.

Policymakers, in short, have thus far delivered on just half of what the neoliberal equation has to offer: markets are more open, certain economic units are more efficient, and Mexico has adjusted to the "shock" of the peso crisis without resorting to populist strategies. Unfortunately, what's missing--wage and employment gains, improvements in income distribution, and sustainable growth--may never follow "naturally" from the new market model. The gravity of the gap between relative macroeconomic stability and absolute microeconomic stress demands an explicit set of public policies to boost along the adjustment process. Although political economy research since the debt crisis has identified an arsenal of policies that could readily jump-start the process of microeconomic adjustment in Mexico, PRI technocrats have apparently hedged their bets on a passive and downtrodden populace.

In opting for more of the same, the PRI has gambled incorrectly on two counts. First, "voice" (*Zapatistas, El Barzon*) and "exit" (migration to the United States, defection to opposition parties at the polls) have more aptly characterized civic behavior in the 1990s and this will ultimately diminish, not enhance, the stature of the PRI. Second, there is increasing evidence that sustainable growth may actually be induced by attention to improving distribution of income, not the reverse.[87] By overlooking these new dynamics, the Zedillo team could be condemning itself indefinitely to mediocre economic returns--not to mention a draining of scarce public resources into an expanding state security network as the social costs of neoliberalism in Mexico continue to accumulate.

[87] A. Alesina and D. Rodrik, "Distributive Policies and Economic Growth," *Quarterly Journal of Economics*, vol. CIX, no. 436 (1994), pp. 465-90.

** Tables 1, 5, 6 and Figures 1, 2, 3, 4 not available electronically.

Table 2

Distribution of Current Monetary Income by Household Deciles

Household Deciles *	*1984* Percent of Total Income to Household Decile	*1989* Percent of Total Income to Household Decile	*1992* Percent of Total Income to Household Decile	*1994* Percent of Total Income to Household Decile
Total	100.00	100.00	100.00	100.00
I	1.19	1.14	1.00	0.00
II	2.66	2.48	2.27	0.00
III	3.86	3.52	3.36	0.00
IV	5.01	4.56	4.38	0.00
V	6.26	5.76	5.45	0.00
VI	7.66	7.21	6.77	0.00
VII	9.68	9.02	8.62	0.00
VIII	12.42	11.42	11.22	0.00
IX	17.00	15.92	16.09	0.00
X	34.26	38.97	40.84	0.00
Gini Coefficient **	0.46	0.49	0.51	0.51

* Households are ordered in terms of income (the first decile includes the poorest, the last deciles the richest).
** The Gini coefficient is an aggregate measure of income inequality which ranges from zero in a completely equal society to one in a completely unequal society.

Source: INSTITUTO NACIONAL DE ESTADISTICA, GEOGRAFIA E INFORMATICA ENCUESTA NACIONAL DE INGRESOS Y GASTOS DE LOS HOGARES, Third Quarter, 1984, 1989 and1992 (CD-ROM); 1994 data from the hard copy version of the Encuesta.

Table 3

Annual Rate of Growth of Real Monetary Income for Household Deciles, 1984-89 and 1989-92

Household Deciles	1984-89	1989-92
Total	2.3	1.7
I	1.4	-2.6
II	0.9	-1.2
III	0.4	0.1
IV	0.4	0.4
V	0.6	-0.1
VI	1.1	-0.4
VII	0.9	0.2
VIII	0.6	1.2
IX	1.0	2.1
X	5.0	3.3

* Households are ordered in terms of income (the first decile includes the poorest, the last decile includes the richest).

Note: Real monetary income is calculated with the monthly average consumer price indices of the Bank of Mexico for the same period as the household income survey.

Source: INSTITUTO NACIONAL DE ESTADISTICA, GEOGRAFIA E INFORMATICA. ENCUESTA NACIONAL DE INGRESOS Y GASTOS DE LOS HOGARES, Third Quarter, 1984, 1989 and 1992 (CD-ROM).

Table 4
Comparison of Real GNP and Dollar Value GNP
1982 – 1994

Mexico	$GNP per capita	Real GNP PC index	Percent change $GNP per capita	Percent change Real GNP PC index
1982	2,840	100.0		
1983	2,280	94.6	-19.7%	-5.4%
1984	2,100	96.3	-7.9%	1.7%
1985	2,180	97.4	3.8%	1.1%
1986	1,980	90.5	-9.2%	-7.0%
1987	1,950	91.7	-1.5%	1.3%
1988	1,990	91.2	2.1%	-0.5%
1989	2,210	92.5	11.1%	1.4%
1990	2,570	94.3	16.3%	1.9%
1991	2,990	96.7	16.3%	2.6%
1992	3,440	97.3	15.1%	0.7%
1993	3,730	95.7	8.4%	-1.6%
1994	4,010	96.9	7.5%	1.2%

Source: World Bank, World Tables, 1995 (CD-ROM)

Table 7
Social Spending in Mexico, 1980-1990

	Education *(% of GDP)*	Health *(% of GDP)*	Housing, Social Security, & Welfare *(% of GDP)*	Total *(% of GDP)*
1980	3.02	0.40	2.68	6.10
1985	2.87	0.34	2.41	5.62
1990	2.41	0.33	2.15	4.89

	Education *(% of govt. spending)*	Health *(% of govt. spending)*	Housing, Social Security, & Welfare *(% of govt. spending)*	Total *(% of govt. spending)*
1980	18.0	2.4	16.0	36.4
1985	11.5	1.4	9.7	22.6
1990	13.9	1.9	12.4	28.2

Derived from data in the World Bank's WORLD TABLES, 1995 (CD-ROM).