Stabilization Policy Rocks the Boat

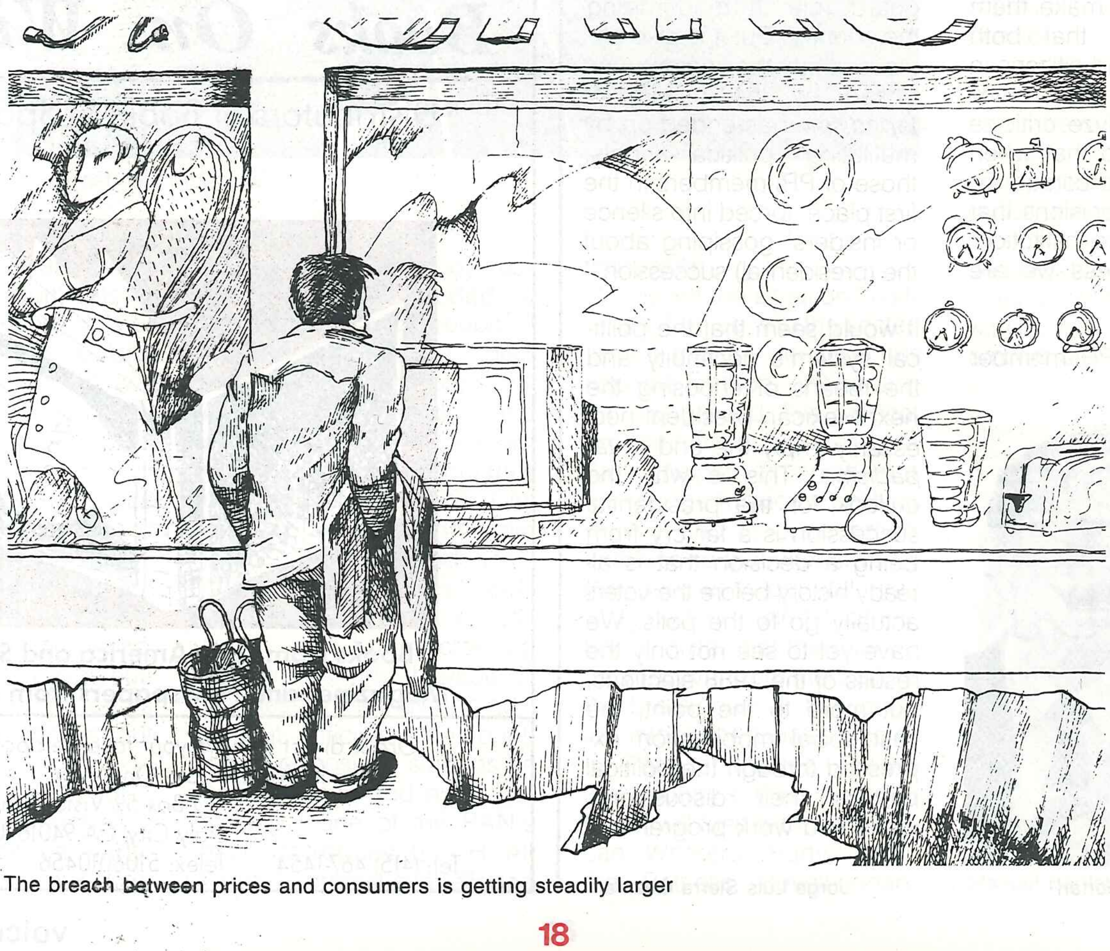
Economist demands a new approach to solve the crisis.

Mexico's economic policies have accelerated the country's integration into the international community. At home, however, stabilization policies have led to inflation and greater social inequality. Economist David Barkin argues that the country's present economic strategies are unsustainable and proposes new alternatives. A professor of the Autonomous Metropolitan University, Xochimilco campus, Barkin is also research director of the Ecology Development Center, an independent institution in Mexico City. His views:

Mexico is opening its economy to the world and the government is reducing its participation in the management of affairs and production of goods. However orthodox these goals might appear in international financial circles, the steps being taken to implement them are exacerbating the profound structural imbalances which are the root causes of the present crisis. If the strategy is not modified, the country will become increasingly less well prepared to meet its international obligations and to face the internal demands of its population in the coming years.

THE IMPACT OF STABILIZATION

Stabilization programs are an important part of this approach. They propose to control inflation by restraining wage demands, reducing government spending, and raising prices for public sector goods and services.



El Fisgón

The breach between prices and consumers is getting steadily larger

Policy makers also intervene to guide the peso's decline against the dollar and the interest rate. These measures are expected to strengthen investor confidence in the government's capacity to manage the economy and provide greater scope for private investment activity.

The lower and middle income groups are the main victims. Wage policies have substantially reduced labor's purchasing power in Mexico. Even the dramatic fall in the real value of the minimum wage (Figure 1) understates the real deterioration in wage earners' incomes: by focusing only on the periods when wages increased, the table shows the high points of this pattern and, more significantly, most organized workers received even smaller proportionate increases than these minima. Real wages fell dramatically (40%) during the 1982-1987 period to a level approaching that of 1965!

Similar or even greater declines occured in the real earning po.ver of the majority of peasants. Mexico's growing food deficit is a reflection of discriminatory policies making it unprofitable for millions of smallholders to farm their own lands: billions of dollars have been spent on imports in spite of the availability of vast areas of idle land already opened to cultivation and severe un- and underemployment among growers. When maize prices were raised in 1981, production increased 19%, providing vivid testimony of their willingness to work when there are adequate incentives; in spite of its unprofitability, many still sow maize for their own use because they do not have the cash to purchase grains.

Finally, the stabilization policies have led to an important increase in unemployment. One respected study (Boltvinik and Torres 1986) calculated that open unemployment increased from 5.3% in 1981 to 14% in 1985, on the basis of Labor Department data. At the same time, other indicators of underemployment like the massive abandonment of cultivation of peasant lands, declines in construction activity, and increases in the number of formerly employed people who are now no longer looking for work (discouraged workers) —suggest that the hardship imposed by a decline in earnings is compounded by fewer members in each family having a productive source of income.

Photo by Sergio Dorantes

Workers' real wages have fallen, and so has industry's competitive edge

FIGURE 1:

FEDERAL DISTRICT
(MEXICO CITY)
Index of the Variation in Real Wages

1960	0.43	
1961	0.42	
1962	0.51	
1963	0.51	
1964	0.63	
1965	0.61	
1966	0.69	
1967	0.66	
1968	0.73	
1969	0.72	
1970	0.77	
1971	0.74	
1972	0.83	
1973	0.79	
1973	0.97	IX
1974	0.90	
1974	0.97	X
1975	0.91	
1976	0.99	
1977	1.08	
1978	1.02	
1979	1.01	
1980	1.00	
1981	1.00	
1982	1.02	
1982	0.79	IX
1983	0.85	
1983	0.71	VI
1984	0.71	
1984	0.68	VI
1985	0.71	
1985	0.68	VI
1986	0.67	
1986	0.64	XI
1986	0.57	X
1987	0.61	

Note: Wages are those in effect on Jan. 1 and price indices are for the end of the preceding year (both for Mexico City); 1980 = 100.
Sources: Comisión Nacional de Salarios Mínimos
Banco de México, *Carpeta de Indicadores Económicos*. 1986.

There are several indirect indicators of the unequal impact of these policies on the nation's welfare. At the lowest end of the income spectrum are the substantial declines in per capita consumption of milk and other dairy products, meat, eggs, and even beans, as real incomes declined. As regards the middle strata, the production of many consumer durables declined precipitously while automobile production for the rich rose (Table 1); but the rich could not sustain this demand and auto sales also declined sharply in 1986. Capital flight increased dramatically from an average of about US$1.5 billion during the 1973-1979 period to more than US$10.2 billion a year in the 1980-1984 period (Ros 1986). Aggregate data show that from 1981 to 1985 workers were stripped of one-quarter of their share of national product (which fell from 35.4 to 28.3%) by government (30%) and capital (70%); in 1985 capital captured 46.5% of the total! (Boltvinik and Torres 1986). In conclusion, then, the prosperity of a small group of industrialists, commercial farmers, and rentiers has come at the expense of the poor and middle income groups.

THE ORIGINS OF THE CRISIS

The seeds of the present crisis were sown during the heady years of rapid industrialization of the early post-war period. The growth strategy of the period was based on several fundamental (but erroneous) assumptions about the nature of the development process. First, the import substituting industrialization scheme presupposed the desirability of the market driven demand structure reflected in the income distribution and the derived consumption and production patterns for industrial products at the time. Second, it assumed that once given control of some land, the peasants would somehow transform themselves into passive producers of the nation's food supply and would not be profoundly transformed by the market economy into rational decision makers. Third, investors' demands for protection and subsidies which would guarantee them high rates of profitability for their new ventures were met; the public sector produced those basic goods and services which required large or risky investments. Finally, international capital and transnational firms were accepted as essential ingredients in the development process.

THE NATURE OF STABILIZATION POLICIES

Until recently Mexico attempted to accommodate itself to the demands of the International Monetary Fund and the world banking community. In the 1983-1984 period Mexico was hailed by these groups as the example of a responsible and well-behaved participant in the international community. It refused to be part of the regional efforts to create a debtors club and it rushed to Argentina's rescue to ease pressure on both that nation and many private American banks during particularly difficult negotiations. It was well rewarded for these efforts on several occasions with attractive packages for restructuring its own international debt to a longer payment profile with lower interest payments; the banks also accepted foregoing their normal commissions, which amounted to a savings of several hundreds of millions of dollars. With the precipitous decline in petroleum prices, a new form of accommodation for the outstanding debt is still being defined.

The liberalization program and austerity measures which produced the elitist redistribution of income and economic activity prompted this favorable international response. By slashing the public sector deficit (from 17.6% of national product in 1982 to 8.9% in 1983 and 5.7% in 1984), reducing real wages substantially, and curtailing bank credit, inflation was drastically reduced from almost 100% in 1982, to 81% in 1983, and 59% in 1984; when the deficit rose to 9.5% in 1985 inflation only climbed to 64%, but it took off again in

Photo by Rafael Bonilla

A magician on a city street; unemployment leads to all sorts of occupations

1986 to exceed 100% when government spending could not be cut further as oil revenues shriveled. While the internal market eroded and the peso repeatedly devalued, the balance of trade was also transformed from a deficit of almost US$6 billion in 1982 to a surplus of $5.3, $4.0, and $0.5 billion in the following three years. Economic growth, which had been —0.5% in 1982 and —5.3% in 1983 rose to 3.7% in 1984 and 2.7% in 1985, occasioning fears that the country's public managers had in fact once again lost control of the situation, this time by permitting things to become too exuberant! These were quickly dissipated by the events in 1986 which once again occasioned negative growth.

Policy makers have long been convinced that the solution to the country's problems lay in the hands of the international market. They believe that the country needs more credit and easier terms, foreign investment, and better access to international markets. The obvious prescription for resolving these problems was the neo-liberal approach to policy formulation which would open the national economy further: accession to the GATT; better terms for the debt; new international credits and foreign investment; diversification of oil exports and a reduction of prices below prevailing levels posted officially by OPEC.

Little attention was directed towards production for internal markets. Bank credit was severely restricted, more so in the rural areas where only the most affluent of the commercial farmers were able to obtain needed financial resources. Credit restrictions and the contraction of the domestic market caused a sharp fall in manufacturing output during 1982-1983 and a slight recuperation in 1984-1985, led by special incentives which singled out automobile production as a unique beneficiary. Mass consumption production for workers and smallholders stagnated while export oriented agriculture and industry thrived.

Perhaps the most important impact of the stabilization policies, in the final analysis, was their inability to instill a measure of confidence in the regime's capacity to manage the economy. Its outward orientation and the very favorable international press about the Mexican stabilization program did not carry forward into the domestic arena. Pressures from workers and peasants were to be expected, but throughout the whole period the government was unsuccessful in evoking a positive response from Mexican entrepreneurs.

The lack of cooperation from the wealthier groups was quite significant. It extended far beyond the simple explanations of a poor investment environment mentioned in short-term evaluations of economic policy. By the 1980s, the upper crust of Mexican society was making a massive assault on Mexico, demonstrating with transfers of wealth its lack of confidence in the government's capacity to effectively manage the crisis; from 1983 to 1985 the *whole* of net private savings was being invested abroad, and it is probable that there was a real drawing down of previously accumulated domestic assets for expatriation (Ross 1986). The *Wall Street Journal* reported an international banker's estimate "that Mexican businesses squirreled away as much as $5 billion during the first six-months of (1984) alone by this method" (October 11, 1985). If this capital flight had been available for domestic investment during the period in question, it would have been possible to more than double the historically recorded rates of capital formation while also reducing net foreign indebtedness; instead capital formation fell while the country's foreign debt rose!

THE DESIGN OF THE NEW ECONOMY

The liberalization policies of the past several years have accelerated Mexico's integration into the international economy. The country has moved beyond the narrow confines of past development strategies which promoted import substituting industrialization and job creation via the *maquila* (draw-back) program: dynamic industries are reshaping production, with more automation and fewer workers in production. New consumption patterns include more animal proteins and processed foods, but these are out of the reach of the majority.

The Mexican government hoped to resolve some of its profound social and economic problems with oil. It set out to use the newly potential. But in the process, we can see with the benefit of hindsight, it over-invested in infrastructure for this industry and selected a poor mix of complementary industries on which to construct a basis for future growth. Of course, it also misjudged the impact of international competition on prices. The heritage of debt, inflation, and greater social inequality resulting from misguided petroleum industry plans weighs heavily on the country. Official attempts to adjust to the strains of past growth have further heightened the contradictions. As a strategy for overcoming the crisis, the goverment chose to emphasize the international, and to respond to the consumption demands of the rich. Most Mexicans have less real income and there are fewer jobs and opportunities than five years ago. The economy is less capable of producing the basic goods and services required even at its presently depressed levels. Stabilization has not even achieved its short-term objetives, while it has moved the society further away from dealing with the fundamental necessity of attending to the country's basic social needs. The polarization of Mexican society, reflected in the various indicators reviewed in this essay, only portends a further heightening of social struggle, which up to now has been held in check by the creative mobilization of the entire panoply of policy tools available to the government. In this sense, stabilization is destabilizing.

The present strategy of development is unsustainable. It creates disequilibria which must be corrected. The country is not capable of simply opening itself to a world economy in which Mexican workers must compete directly with the lowest paid workers in the Third World and the subsidized industries of the rich countries. Austerity programs and debt crises are ubiquitous; the Mexican workers have a long history of real gains in their living standards, obtained after long struggles; regardless of the success of the attempts to roll back some of these achievements, it seems difficult to believe that other governments in the Third World cannot be more successful in extracting greater productivity at a lower cost than is possible in the Mexican setting. The tradition of active reaction to repression since the Mexican Revolution and years of highly organized labor activity is much more developed in Mexico than elsewhere.

A new orientation towards a viable economic development strategy must be based on mobilizing the country's own resources and its labor force. The only meaningful way to conceive stabilization in the present world scene is to design a development program that offers the possibility of further development. Given Mexico's relative affluence, its abundant natural resources, and its diversified economy, it is not necessary to limit current activities in order to promote new ones. What the present regime is doing by accelerating the move towards Mexico's integration into the world economy is eroding the possibility of using the country's inherited productive potential for resolving the most immediate productive and employment needs. New programs for 'modern' economic development will not create sufficient employment or generate sufficient demand to affect the depressed consumer sector.

Photo by Sergio Dorantes

Current economic policy has led to a steady increase in food prices

An alternative approach based on revitalizing Mexico's smallholder economy could create about 3 million direct jobs with sufficient levels of income to permit these producers to become consumers.The induced demand in light industry, construction, and services would create additional jobs in industry and services while further strengthening a different development strategy based on the massive mobilization of the country's working population. The resources needed for such an approach are presently available. They could come from a redistribution of existing subsidies, and from the use of resources now used to import the goods which would no longer be needed because of greater domestic production. Such an approach would also give the peasants much greater visibility and importance in the Mexican political scene. It would require bold new leadership and broad participation. Perhaps this is why the approach is not yet on the agenda, but given the present unraveling of the Mexican economy it is essential to continue to air alternative strategies for their public consideration and evaluation.

David Barkin