David Barkin

SOCIAL PACTS, a Remedy but not a Cure

The Pact for Economic Stability and Growth, and its antecessor, the Economic Solidarity Pact, represent the compulsory response which the society has been obliged to give in the face of the current critical economic situation, which damages not only the nation's growth today, but that of the future as well. Protected by the world experience of similar concertations between social sectors traditionally opposed to each other, the pacts have constituted basic agreements between the business sector, workers and peasants. These pacts have served to control inflation, but in fact there never has been an agreement with the poorest sectors of the population, whose purchasing power has been drastically and systematically reduced over the last few years. Nor is there a firm control of price increases, in spite of the discipline exercised over salary rises, while conditions for workers have worsened as their contracts —results of years of trade union struggles— have been undermined. The effectiveness and pertinence of the pacts are still a motive for polemics and doubt in Mexican society.

The following article by researcher David Barkin examines the perspectives of the social pacts and evaluates their results.

How short are our collective memories! The recent (1987-1990) stabilization efforts are reminiscent of the Tripartite Pact between labor, business and government drawn up during World War II to restrain increases in wages and prices "so as not to damage wartime production". Rather than review the impressive array of statistical evidence that demonstrates the serious deterioration in living standards for the vast majority of Mexicans during the wartime "boom" years, suffice it to quote the U.S. Ambassador of the moment. In a private telegram to Washington, pleading for emergency shipments of corn to Mexico in 1944, he wrote that:

Research Director of the Economy Development Center.

(in spite of the boom in industrial production) I have not been so pessimistic with regard to the outlook here at any time since I came to Mexico as I am now. The cost of living has gone up tremendously. We are living really on a social volcano here now. The situation of the workers is intolerable for everything they eat has gone up enormously and wage increases do not seem to help for the price controls have been inadequate (as quoted in Niblo, p. 25).

Mexican collaboration with the war effort consisted of the wholesale acceptance of American dictates to reorient production to the needs of the U.S. economy, on terms established by the U.S. government. It provoked widespread opposition. Niblo summarized it succinctly: "Inflation, shortages, and opulence in the midst of poverty became the hallmark of the day". Even the head

Workers in the automobile industry — one of the industries most affected by the economic crisis. Photo by Marco Antonio Cruz/Imagenlatina.

of Mexico's Central Bank was moved to propose an alternative strategy: instead of outright collaboration, which provoked strong inflationary pressures and massive economic dislocations, he advocated a policy of neutrality in the economic sphere, which would have permitted Mexico to exchange its mineral and agricultural wealth for industrial equipment rather than foreign exchange which the Americans would not let the Mexicans spend because of wartime trade and production controls. He was not persuasive, and even before the end of the war it was clear that Mexico had paid dearly for increased economic activity: it had granted extraordinary influence to the U.S. in reshaping its economy and formulating future development policies. In the process, the distribution of income and wealth became much more regressive, setting a standard for the decades to come.

The Food Weapon

The lessons of that period have been lost on modern Mexico. Few remember the food emergency of 1943-1944: the country required more than 200,000 tons of maize imports because U.S. demands for "collaboration" were met by switching almost one quarter of Mexico's maize land to production of oil and edible seeds and natural fibers (e.g., cotton and jute) for the war effort. In the meantime, U.S. authorities who had provoked the shortfall in food production in Mexico, showed their gratitude by opposing exports of maize from the U.S. because of domestic needs and transport bottlenecks; during 1944 imports arrived in some areas where stocks were down to only a few days supply. Few even recalled the use of this "food weapon" when the issue of self-sufficiency was raised once again in the late 1970s.

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From this perspective, today's Pacto de Estabilidad y Crecimiento Económico (PECE) is old hat. Like its predecessor, the Pacto de Solidaridad Económica promulgated in November 1987, it promises to reverse the pattern of stagflation which plagued the country in the previous years. The government reassures us that Brazil's failed Cruzado Plan and Argentina's sorry experiences are irrelevant. Even without looking South, the austerity and wage freezes in Mexico's wartime atmosphere of inflation forty years ago should instill serious doubts about the contention that the nation can resume a process of more equitable growth without first reversing the recent increase in income concentration and decline in living standards. Based on a standard of (1938 = 100), wages fell to a low of 46.4 in 1947! In fact "not until 1971, did the purchasing power of real wages regain the 1938 level" (Bortz 1986).

The mainstays of the PECE are the control of wages and some prices with a drastic reduction in government spending, especially for social services: a wholesale internalization of the North American policy makers' model for secure capitalist development. The disproportionately heavy burden that this model places on Mexico's working classes is well understood in political circles in the U.S. and Mexico. After 5 years of drastic reductions in the purchasing power of wages had reduced labor's share in national income to 25 percent of the total in 1987 —down from a high of 36 percent in the mid 1970's— the present approach is a surefire formula to further polarize Mexican society. Formal unemployment is rising and production for the domestic market declining, as most people manifestly have less to spend. In 1989, real wages were below those prevailing for workers in the late 1930's! (See accompanying graph for a vivid display of this decline.)

The Problems and The Promises

The PECE identified inflation as the major economic problem facing Mexico and the rekindling of growth as its principal policy objective. The government accepts responsibility for a large part of recent inflation, contending that it results from sizable budgetary deficits. Policy makers fail to point out, however, that these deficits were occasioned by the government's inability to tax the incomes of a small but powerful group of rich Mexicans who control most of the country's wealth. As a result, the government had to finance massive investment programs and limited social welfare programs with inflationary measures, including foreign borrowing. In spite of the avarice of the wealthy, however, government programs continue to subsidize their investment programs in the hopes of spurring economic development, while allowing and even financing the massive flight of capital caused by these same people.

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Even when government revenues were raised, however, the inherited imbalances continued to make themselves felt. The value-added tax was increased from 10 to 15 percent, tax collection systems were improved, and some levies were imposed on profits. At the same time, the government increased the cost of many goods and services sold by public enterprises and discontinued others or sold them off to the private sector. In spite of this package, the service of the debt itself represents a continuing burden. The government must continue to borrow additional monies, increasingly from domestic lenders as foreign banks are trying to limit their exposure. Since 1980, the internal debt in pesos has mushroomed almost 350 times, to more than US$50 billion at the end of 1989, somewhat less than one-half of the foreign debt; but since domestic interest rates were three or four times international rates (down from a multiple of six to seven), the cost of servicing these peso obligations is double that of the foreign debt. Although the internal debt offers a juicy compensation for the continuing support of government policy by the wealthy, to an outside observer it seems an exorbitant price to pay for the inflow of foreign capital which is necessary for the viability of the rest of the economic stabilization package.

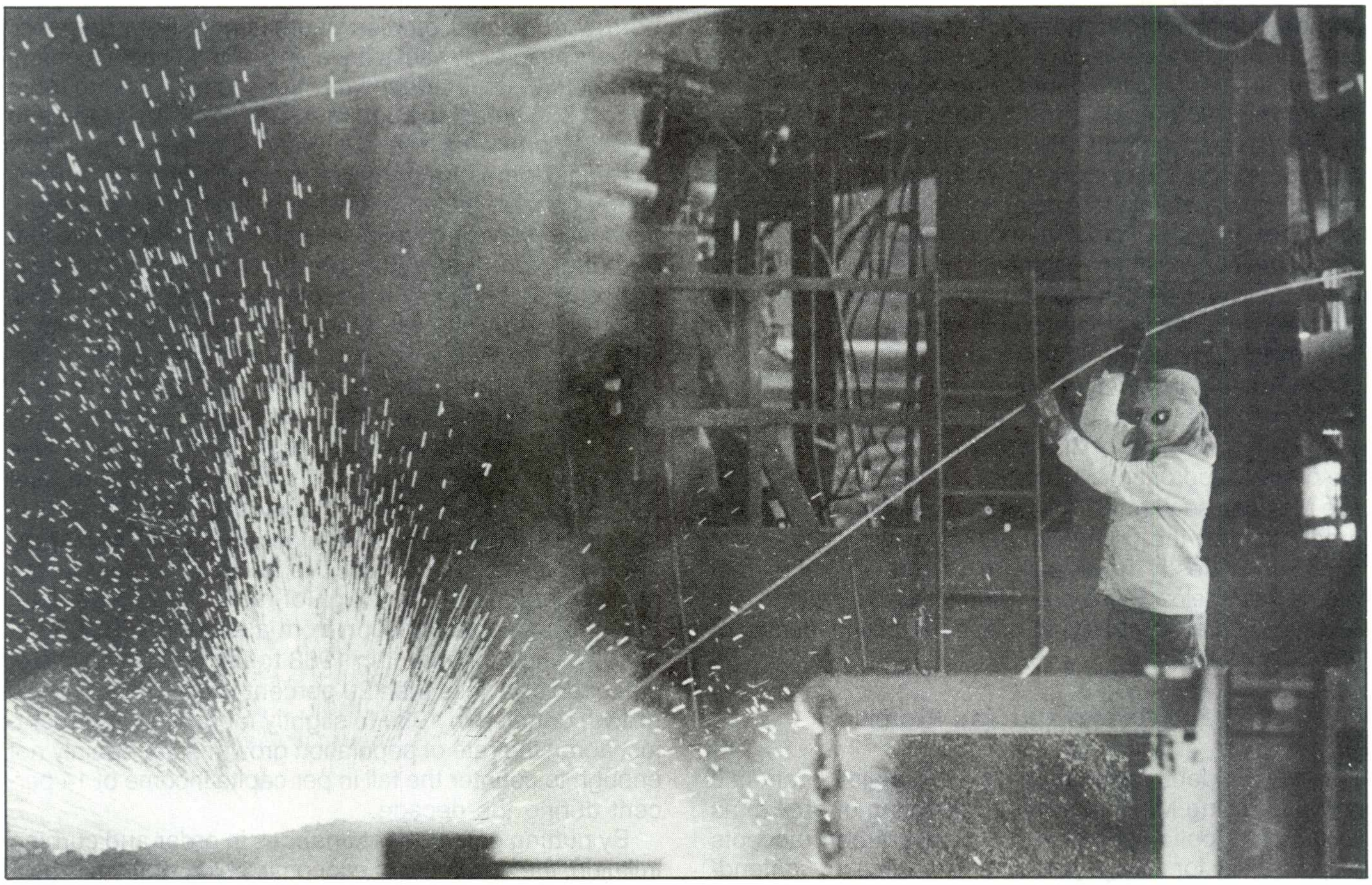
This package of measures by the government was necessary, we were assured, to curb inflation and set the path to recovery. On the face of it, recent history is proving the new team of technocrats correct. By reducing the government's deficit to about 6 percent of the national product, from a high of more than 15 percent, they have slashed inflation from a searing 160 percent in 1987 and 52 percent in 1988 to the tranquil levels of a decade ago: less than 20 percent for 1989. Economic growth doubled in 1989 to slightly more than 2 percent, just about the rate of population growth and certainly not enough to counter the fall in per capita income of 14 percent during the decade.

By putting government finances in order and curbing inflation, the new team of economic policy makers is convinced that it is setting the stage for economic recovery. Confidence in the government's ability to manage the economy will stimulate a new wave of private investment —both domestic and foreign— which, together with the opening up of the economy to the winds of international competition, they argue, will create a new, more efficient productive apparatus, capable of competing in international markets and providing better quality goods at more attractive prices to Mexican consumers.

The Stabilization Package

While raising its revenues and curbing social expenditures, the government asked the rest of society to collaborate in the stabilization effort with differing kinds of sacrifices. After a sharp devaluation (44%) in November 1987, it first offered to freeze the exchange rate and then restrain the slide against the dollar to one peso a day in 1989. Private producers were exhorted to participate by restraining their price increases, especially for those goods which were part of the shopping basket of basic food and household commodities. National trade union leaders acquiesced to demands that wages continue to increase by less than the rise in the consumer price level. The majority of dry-land farmers who traditionally produced basic food stuffs for internal consumption were informed by their representatives on the national coordinating committee that their contribution would take the form of price freezes for their crops.

These "price stabilization" measures were accompanied by a broad range of incentives to encourage foreign investment, expand the off-shore assembly (or maquila) operations, and stimulate exports. The private sector responded with alacrity, increasing non-traditional exports (especially automobiles and auto parts) and restricting its production of goods subject to price controls



The Pacts have demanded greater productivity of workers, while freezing their salary levels. Photo by Marco Antonio Cruz/Imagenlatina.

which are traditionally important generators of employment and basic supplies for the internal market. Small farmers sharply curbed their planting of basic farm commodities; food imports reached record levels and were a major claimant of foreign exchange. For those who still have money, the borders have been opened to a virtual flood of consumer durables as the government went far beyond its initial commitments to liberalize import restrictions in accordance with its 1986 decision to enter the General Agreement of Tariffs and Trade (GATT).

The Present Danger

But inflation is not the most serious of Mexico's ills nor the key to economic recovery. The decline of real purchasing power and the virtual drying up of domestic private and government investment have provoked a serious depression. In contrast, agricultural and industrial investments for export are booming. For the majority of Mexicans, however, the PECE is one more mechanism to drive yet another set of nails into their coffins.

The danger of ignoring the needs of the majority of Mexicans is a key lesson that should have been learned from history. During World War II, Mexican authorities and producers demonstrated their extraordinary ability to profoundly reshape the productive apparatus to meet the demands of the North American government in a very short period of time. Today, again, producers are demonstrating their zeal in responding to the changing signals and incentives offered by the authorities. Unlike the earlier epoch, domestic shortfalls in basic foods, raw materials, and industrial products can be readily supplemented by imports for those who can afford them. With the rapid opening of the country to freer trade, foreign consumer goods are crowding the shelves of the upscale markets.

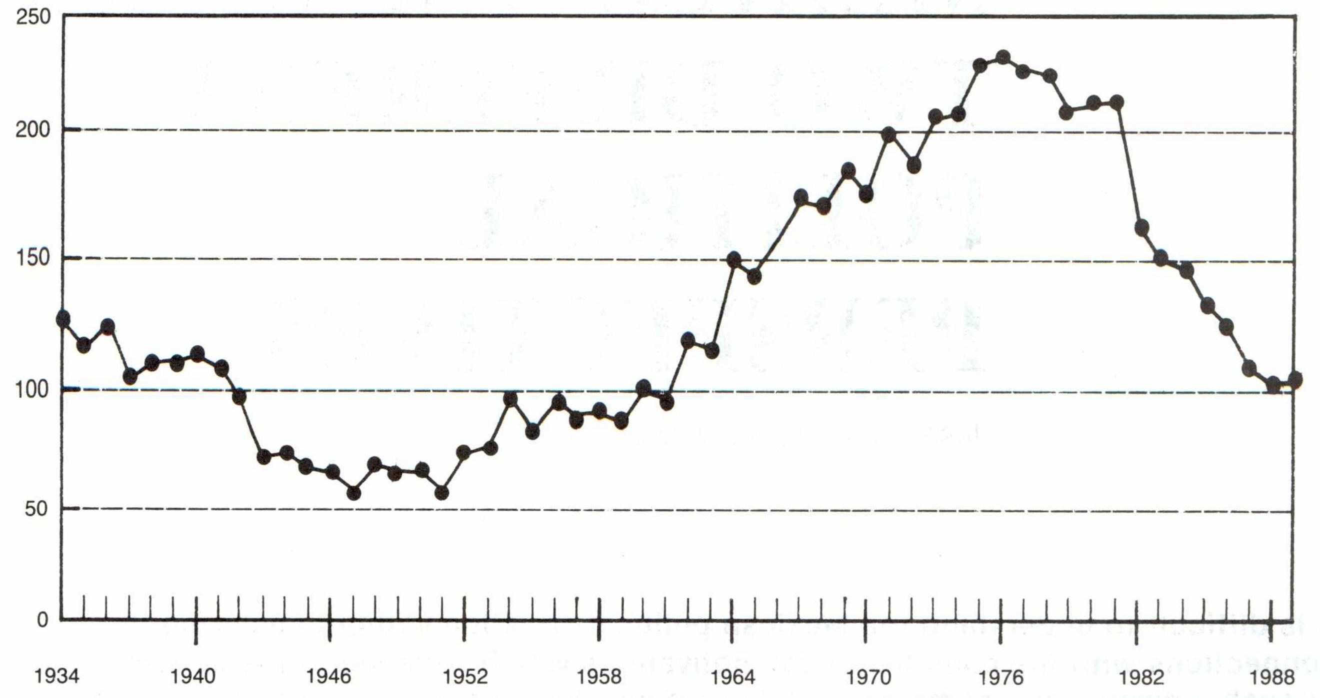
But the majority of Mexican producers and workers must continue to depend on the domestic market for their livelihood. This market has been rapidly eroded. With it, jobs have disappeared and families are developing new survival strategies. The informal service sector is burgeoning, as people attempt to find niches as itinerant merchants, while national chains counterattack with marketing strategies targeted at the shrinking middle and upper sectors. Personal services, too, are expanding. Those with savings are either placing them in the banking system at high interest rates, or in the stock market where annual returns have exceeded 100 percent, or in real construction in anticipation of finding some attractive mechanism for recuperation.

An Alternative Road

Ironically, Mexico need not be suffering in this manner. The fundamental obstable to prosperity is the official definition of the crisis as a financial problem. This vision of the problem leads the authorities to search for new ways to restructure the debt, generate foreign exchange which involves the mobilization of existing small-scale

Mexico: Real Minimum Salaries

1934-1989



SOURCE: National Minimum Salaries Commission. (1960 = 100)

Small farmers sharply curbed their planting of basic farm commodities; food imports reached record levels and were a major claimant of foreign exchange

producers; the policy makers favor export industries using the latest technologies.

They seem impervious to the claim that the country could also be enjoying a thriving internal market. Idle productive resources already in the hands of the producers would permit them to eliminate more than US$3.5 billion of food imports and create upwards of 2 million jobs in a very short time. Similarly, idle light industrial capacity could be mobilized to produce consumer goods, construction materials, and light machinery required to supply a newly invigorated domestic market and employ many additional workers.

Such an alternative appears unthinkable to many policy makers. It would require reintegrating the small-scale farmers onto the main stage of the national economy. By offering farmers remunerative prices for their labor to induce them to bring their lands back into commercial production, the country could regain food self-sufficiency. The demand from the rural areas would, in turn, stimulate demand for manufactured goods and services throughout the rest of the economy and benefit every social group in Mexico. The balance of payments would improve, as would the government budget. Even though it would raise consumer prices, the cost would be small indeed in comparison to the prosperity which such a program would generate; specific programs for the needy would be less costly than present commodity support programs.

The PECE does not presently permit even the consideration of such an alternative. It focuses our attention on the problem of inflation and deceives people into thinking that other ills can be corrected by reducing the rate of price increases. Reducing the rate of inflation by thrusting the country deeper into the throes of depression will only create further problems. A reorientation of our thinking about the crisis is needed. The crisis can be overcome only by mobilizing the productive potential of the country and its people —by permitting them to produce. Mexico has the ability to both continue exporting and reclaim the internal market. Why must the country's leaders continue to make the same mistakes of past decades? ☐

Bibliographic Note:

This article is based on the analysis presented in the latest book by the author, *Distorted Development*, published this year by Westview Press. The essay cited in the text by Stephen Niblo, *"The Impact of War: Mexico and World War II"*, was published as occasional Paper No. 10, by La Trobe University, Institute of Latin American Studies in Victoria Australia. Bortz' work on salaries was published by the Universidad Autónoma Metropolitana in Mexico in a collection he edited entitled, *La estructura de salarios en México*, (1986).