

Free Trade and Inequality in Mexico

State Tasks in the Early Twenty-First Century

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One of the central questions on the Mexican agenda at the outset of the twenty-first century is whether the trade opening begun in the second half of the 1980s—the most important result of which was the North American Free Trade Agreement—has contributed or will contribute to lessening the poverty and inequality afflicting more than 50 percent of Mexico’s population. This question is not easy to answer. In the

first place, there is no consensus about the definition of poverty and inequality, despite the broad debate that has unfolded over recent years. In the second place, poverty and inequality in Mexico cannot be attributed only to the economic opening to the world market. Inequality in this country has historic, structural roots and efforts to overcome it have been the product of economic and political factors. Inequality has decreased in Mexico when periods of economic growth have coincided with specific policies designed to combat and curtail it in income distribution.

In this article, I propose to pinpoint the characteristics of inequality in Mexico and its evolution during the last decade, as well as the new function of policies to reduce the country’s economic polarization. To deal with this important topic, we must begin by defining it.

Social inequality is the situation whereby social groups are differentiated by a disparity in their access to goods—whether public or private—generated in a particular territory. This can lead to poverty, if poverty is understood as the lack of those goods needed to sustain life at socially accepted levels.

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TABLE 1
CURRENT MONETARY HOUSEHOLD INCOME BY DECILES
(PERCENT OF PARTICIPATION)

Deciles of Households	Years		
	1992	1994	1996
I	1.04	1.01	1.23
II	2.27	2.26	2.55
III	3.35	3.26	3.55
IV	4.38	4.26	4.59
V	5.45	5.34	5.66
VI	6.76	6.67	6.98
VII	8.61	8.43	8.76
VIII	11.22	11.19	11.35
IX	16.08	16.29	16.14
X	40.84	41.24	39.12

Source: Instituto Nacional de Estadística, Geografía e Informática (INEGI), *National Survey of Household Income and Expenditures*, third quarters of 1992, 1994 and 1996.

However, inequality is rooted in specific forms of production and consumption in regional or national areas that contribute to generating economic, political and social living conditions that give identity and cohesion to social groups. For that reason, its definition cannot be limited to a disparity or deficiency originated by economic conditions.

In Mexico, social inequality has often been based on ethnic and rural origin, making it discriminatory. Individuals and collectives subjected to it have often seen their access to public goods like education, health and the exercise of political and social rights restricted. Access to education, for example, has always been linked to income, and one of the ways inequality has been imposed has been through excluding groups and individuals from enrollment. Another form of inequality is the kind that exists among different regions of the country: abundant public and private investment

flows to some regions to the exclusion of others. This has caused the existence of what has been known as “the two Mexicos,” that is, the North and the Center, with their higher levels of investment, education and social well-being, and the South, with its great deficiencies, particularly in rural areas, and a large indigenous population.

These forms of inequality determine the existence of an income gap as educational and sanitary deficiencies are impediments to the formation of a labor market with adequate pay. In Mexico, wage differentials among the population as a whole, and between the urban and rural population in particular, have been one of the most difficult structural problems to solve. Undoubtedly this problem has historical roots. Since colonial times, there has been a strong tendency to concentrate income. Often, poverty has been linked to rural groups, especially ethnic ones. Nevertheless, some urban groups also

lack income, housing and sufficient services.

From the time the Mexican republic was born, groups of mestizos could be seen wandering the streets of the cities suffering all kinds of privation. The root of this inequality was in the heterogeneity of the Mexican economy: one part of it was geared toward satisfying demand on the international market and the other, immersed in a domestic economy based on personal or family labor relations. The heterogeneity of the population, the sectors of the economy linked to the international market and the technological backwardness of national industry all contributed decisively to the creation of a polarized society. This polarization was a fundamental concern for progressive political forces from the time of the founding of the Mexican state itself. That is why the 1917 Constitution provided for the recognition of social rights and the crea-

TABLE 2
CURRENT MONETARY HOUSEHOLD INCOME BY DECILES, URBAN AND RURAL AREAS
(PERCENT OF PARTICIPATION)

Deciles of Households	Urban Areas			Rural Areas		
	1992	1994	1996	1992	1994	1996
I	0.35	0.39	0.56	6.52	6.27	6.02
II	1.25	1.27	1.64	10.95	10.74	9.06
III	2.51	2.41	2.61	10.57	10.56	10.28
IV	3.65	3.55	3.93	10.64	10.29	9.32
V	5.01	5.00	5.03	9.18	8.26	10.11
VI	6.22	6.16	6.60	11.38	10.97	9.71
VII	8.50	8.04	8.73	9.58	11.68	8.99
VIII	11.46	11.28	11.42	9.19	10.38	10.85
IX	16.60	16.90	17.27	11.66	11.10	8.07
X	44.40	44.94	42.15	10.28	9.69	17.53

Source: Instituto Nacional de Estadística, Geografía e Informática (INEGI), *National Survey of Household Income and Expenditures*, third quarters of 1992, 1994 and 1996.

tion of institutions to diminish or temper inequality. The Mexican Revolution's promises of social justice were cast in a series of social rights that surpassed the individual rights defended by liberalism. To live up to those ideals, a series of instruments and institutions were created with the aim of guaranteeing access to education. The protection of waged laborers and land distribution were also part of the attempts to make those ideals of social justice a reality.

The decades after the armed struggle, but particularly after World War II, did witness a redistribution of income. Studies on the question indicate that inequality in the concentration of income dropped in the 1960s and 1970s.¹ Nevertheless, inequality began to rise drastically in the 1980s, affecting the living standards of most of the population and driving a series of phenomena that have affected family structure, such as violence and migra-

tion. In addition, over the last 20 years, new contingents of poor have been formed, fed by large sectors of state employees affected by that decade's adjustment policies, by industrial workers, peasants and other sectors that had traditionally benefited from the institutions and bodies created to curtail social differences.

In the early 1990s, Pedro Vuskovic wrote that Latin America was immersed in a crisis of inequality given that in addition to the structural inequality that plagued our countries, we were facing processes of polarization in which the middle classes tended to progressively join the ranks of the poor.² This new inequality has become permanent in the cities and countryside, showing just how far our countries are from attaining our goals of social justice.

Many have said that the situation generated over the last 20 years is due to the liberalization and fiscal adjust-

ment policies implemented in Mexico because of the crisis of its populist state, born in the 1930s, which had neither solved the problems of inequality nor been rational in its social spending, which it used to manipulate elections and feed patronage systems. Nevertheless, it is clear that in the last 15 years a process of dismantling of institutions has made for limited protection of social rights. This has been linked to accelerated growth of international trade through which the state's role in economic processes and the reduction of inequality has changed. On the one hand, the state has gone from being a regulator of economic activity to being a "facilitator," making way for a managerial theory of the state in which its role is to assist in investment growth. In Mexico, with the prospect of the new administration of Vicente Fox, the voices saying that the state should be run like a corporation to increase efficiency are growing stronger,

TABLE 3
GINI COEFFICIENT. CURRENT NATIONAL INCOME

	1992	1994	1996
Gini Coefficient	.5086	.5137	.4889

as are those saying that abating inequality or living up to social responsibilities should not be priorities.

In a certain sense, this process of restructuring of the state has been going on in our country for many years. The signing of international free trade agreements has been a response to a vision of the state as a promotor of investments. The factors that have most influenced the goals of the free trade agreements Mexico has signed with the countries of North America, with the European Union, with South American countries like Chile, with Israel and with the countries of the so-called triangle of northern Central America (Honduras, Guatemala and Nicaragua) have been increased employment, a reduction of poverty and economic growth. Indisputably, the attainment of these goals has been linked to export growth, to the degree of making Mexico the world's eighth exporter, even though our exports depend increasingly on the large foreign companies. Its relative success has led some government officials to express their optimism about adopting trade agreements as mechanisms for distributing economic benefits and about the market's efficiency for solving the problem of poverty in the medium term.

However, if we look at one of the indicators of inequality, the evolution of

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income in the last decade, we will get an idea of the magnitude of the problem. One of the sources for current data is the National Survey of Household Income and Expenditures (ENIGH), which sheds light on Mexican families' income and spending. Although it does not tell us the income of the families that really concentrate the country's wealth, it is a valuable instrument for looking at the evolution of some indicators linked to family income. This survey has invariably shown that inequality is on the rise in Mexico.

Between 1992 and 1994, the current income of the first decile of households did not even reach 1.5 percent of the total income of the Mexican population. The highest decile, on the other hand, concentrated more than 40 percent of

all income. This percentage increases if we take into account only monetary income. Households classified among the middle deciles—from the fifth to the eighth—saw their participation in national income drop, while those in the highest deciles—but particularly the tenth—saw consistent increases in their total participation. That means that under the administration of President Carlos Salinas de Gortari, concentration of income took place at the expense of middle-income groups.

The 1996 ENIGH shows, to the contrary, that during that year, there was a two percentage-point drop in the participation of the highest-income group and a slight recovery by the middle-income sectors in their participation in total national income. However, one of the reasons for this was that the 1994 crisis affected all sectors of society and caused a slight drop in inequality as a result of the overall descent in income (see Table 1). This hypothesis seems to be confirmed by the results of the 1998 ENIGH, which shows that the highest-income decile had recovered and now has even more than 40 percent participation in income.

The differences between urban and rural areas are even greater. Between 1992 and 1994, participation in total income of the highest decile was 42

percent in urban areas; by 1996 this dropped two percentage points in accordance with the general trend. In rural areas, apparently income distribution is not as polarized, but this is due to the conditions of generalized poverty that, according to the calculations of Boltvinik and Hernández Laos, affect more than 60 percent of all rural residents.³ What can be observed, however, is that the decile of the highest-income households, representing only 3 percent of the homes in the countryside, tended to concentrate income even more during the 1995 crisis, almost surely because the peso devaluation favored agribusiness producing for export (see Table 2). If we take into account the Gini coefficient, the index usually accepted for measuring inequality, Mexico is one of the countries with the greatest inequality in the world. Table 3 shows that the coefficient tended to follow the trend to concentrate income during the 1990s with a slight fall in 1996 due to the hypothesis I already mentioned.

This data sheds light on three important questions in the study of inequality in the last decade. The first is that the trade liberalization of the 1990s coincided with income concentration that seems to reverse the gains made in previous decades, and, therefore, it is not possible to establish a direct link between liberalization and greater income for the population. In the second place, inequality in urban areas is affecting a greater number of households, since greater income concentration seems to be operating most intensely there in the last decade. This suggests a displacement of poverty from rural to urban areas. In the third place, apparently, inequality tended to accentuate in rural areas in the last five years of the decade.

These trends seem to demonstrate that during processes of liberalization and state deregulation like those of recent years, in countries like ours, structural tendencies to concentrate income take the upper hand. If appropriate policies are not put in place, access to the goods which determine reversing inequality—education, health and employment—will also be restricted. Therefore, we

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can say that the problem of inequality cannot be resolved solely through economic growth or increased investment, given that it has profound historical roots that influence income distribution. In Mexico, the tendency to concentrate wealth, limited in the past by policies favoring more equitable distribution, has been reactivated by the new function of the state and its relations with the market. This has meant to a great extent the abandoning of effective social policies in urban areas and the implementation of compensatory policies in rural areas.

What can be done to narrow the gap between rich and poor in Mexico? This question is just as complex as the one asked at the beginning of this article, but is intimately related to it. To answer, we could observe, in the first place, that

public policies for lessening inequality have centered on investment in human capital, basically health, education and nutrition in rural areas. They have actually contributed little to the formation of social capital, that is, to communities developing productive projects based on increased links of trust and mutual protection. In the 1980s an effort was made to identify groups of the poor in order to include them in social programs. This process has continued in the social policy of the Zedillo administration.

However, until now the need for jobs, for larger incomes or carrying out productive projects has not been solved. The plan of President-elect Vicente Fox (2000-2006) includes policies of this type through the creation of instruments for easy credit. However, it is not clear what the role of the state and public spending will be under the new administration given the globalization of the economy and the new tasks attributed to the state. Continuing to bet on simple liberalization and the expansion of international markets to beat back inequality is dangerous if not accompanied by public policy instruments aimed at reverting the tendency to concentrate wealth. ■■■

NOTES

¹ Enrique Hernández Laos, *Crecimiento económico y pobreza en México* (Mexico City: CIICH-UNAM, 1992), pp. 107-111.

² Pedro Vuskovic Bravo, *Pobreza y desigualdad en América Latina* (Mexico City: CIICH-UNAM, 1993), pp. 22-23.

³ Julio Boltvinik and Enrique Hernández Laos, *Pobreza y distribución del ingreso en México* (Mexico City: Siglo XXI, 1999), pp. 187-193.