

**DISACCUMULATION, DEPENDENCE AND DELGITIMATION:
THE TRIPARTITE CRISIS OF THE MEXICAN STATE**

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I. INTRODUCTION

Mexico's neoliberal export-led development model, imposed slowly and haltingly during President de la Madrid's sexenio (1982-1988), and with a single-minded vengeance in that of President Salinas (1988-1994) survived the devastating impact of the "peso crisis" of 1994-1995. Survival, however, came at an extraordinarily high price, and was achieved not through any process which would indicate the underlying vigor of the neoliberal free trade model. On the contrary, the then unprecedented mega-loan orchestrated by the US Treasury and the IMF fortuitously combined with a rapid run up of US imports from Mexico--the destination of 84 percent of Mexico's exports. It was the long US expansion of 1991-1998 (which happened to accelerate in 1995-1997) that explains the survival of the "Mexican model". In addition, underwriting the dominant forces of the mega-loan (which returned credibility and loan capital to Mexico) and the boom in exports to the expanding US market, were the twin pillars of pathology:

1. Narco-capitalism which, while its growth cannot be measured with any precision, unquestionably played a pivotal role as stabilizer--now serving as a primary foreign-exchange earner.
2. Emigration, Mexico's saddest export, also served to bolster foreign-exchange earnings when the macroeconomic situation was at its nadir in 1995 and early 1996 (Castañeda, 1996).

The peso crack, following so closely on the heels of the NAFTA agreement (late 1993), also drew capital to the maquiladora industry where a continuous boom based in sweatshop labor brought employment from 600,000 in late 1994 to 1,033,000 in June of 1998--a spectacular leap of 72 percent in less than four years (Banco de Mexico, 1996, IV-12; EFI Staff, 1998, 3). Yet, far from indicating fundamental strength in the Mexican economy, the maquila sector served as a register of two crucial elements of inadequacy in the "Mexican model". First, the model cannot provide socially sustainable levels of employment within the context of the lowest acceptable level of international labor and environmental standards. Second, forward movement on the employment front can only be made through greater foreign dependence.

Making the Mexican model less grim was the fortuitous, sustained restructuring of the US auto industry which brought a welcome inflow of direct foreign investment of considerable magnitude. This inflow allowed Mexico to claim the leading position among the Latin American nations as a site for D.F.I. in the 1990s. A globally integrated production system of considerable technological sophistication now exists in the auto sector. General Motors operates more than 50 maquila plants, with plans to export \$2 billion in auto parts in 1998. Overall, the auto sector now employs 360,000 workers and exports \$19.2 billion of output--equivalent to roughly 5 percent of Mexico's GDP (about equal to the value of all output in agriculture and forestry). Mexico's export-led 'miracle' is to a considerable degree explained by strategies of globalization as created in Detroit--the US auto industry account for approximately one of every five dollars of Mexican non-oil exports in 1997 (Smith, 1998; Senzeck, 1998).

Few and feeble, however, were the autonomous changes in economic structure which could be attributed to either Mexico's internal economic dynamics or state policies. Most of these changes, such as the broad and indiscriminate opening to foreign and private ownership of Mexico's rich trove of natural resources, will most likely become the basis for a deepening of the serious criticisms surrounding Mexico's policy-making elite in future years.

Such, clearly, has been the fate of Mexico's long-running telenovela-like saga of the privatization of the Mexican banking system in 1990/91. Once heralded as the best example of the new "Mexican model", the debate over the kleptocratic privatization process and the creation of the state-orchestrated bank-bailout via FOBAPROA reached critical proportions in late 1998. The attempt to increase Mexico's public debt by \$65 billion in order to clear-off FOBARAPO's portfolio of non-performing bank loans (virtually all to businesses) served as perhaps the strongest basis for the delegitimation of the Zedillo administration's tenacious embrace of neoliberal economic analysis. As the links between the process of bank privatization, the heedless and rapacious practices of the neobanqueros, the 'peso crisis' of 1994/95 and the attempt to off-load the \$65 billion in non-performing debt (much of which the neobanqueros had 'borrowed' from their own banks and surely shifted abroad) onto the Mexican middle and working classes, became more broadly understood, it was possible to revisit the prevailing explanation of the 'peso crisis'.

Far from arising through mere mismanagement of the exchange-rate--and, allegedly, the bungling of the devaluation-- the 'peso crisis' had deep, systemic and structural roots in the very neoliberal economic model which was presumed to be Mexico's salvation. Privatization and the free forces of the market had brought-on a deep and hidden crisis within the financial sector as a fictitious economic expansion between 1991 and 1994 unravelled, fueled by a credit boom underwritten by a highly liquid global financial system which made extensive loans to Mexico's major, newly-privatized banks (Cypher, 1996). It was the inside knowledge of the terminal stages of Mexico's Ponzi-like system of credit expansion which brought massive and sustained flight from the peso, both by savvy foreign financial interests and most particularly the Mexican economic and political elite.

Meanwhile, by late 1998, it appeared that the remarkable string of exogenous factors which had enabled the Zedillo administration to weather the brutal downturn of 1995/96 through mega-loans, scapegoating of the Salinas administration, migration, narco-dollars, the maquila boom and, above all the expansion of the US economy, had all come to an abrupt end.

As Mexico's economy suddenly slid deeper into a slump there appeared to be no hope of a new mega-loan, should one be needed. The IMF, and the US Treasury, had been overwhelmed by the sustained "contagion effects" of the Asian crisis which began in the summer of 1997. Worldwide excess production had taken the bloom off the US expansion, with free-fall of the US stock markets appearing to serve as the coup-de-grace. The strong links between the US expansion, the astounding run-up in the US

stock market from 1996-98 and the growth of the Mexican economy deserve special emphasis: With wages growth for US workers essentially constant until late 1997, the US economy was fueled by consumption arising from credit expansion, and from the "wealth effect" as stock values soared particularly after 1995. This precarious expansion served, to a remarkable degree, as the basis of growth in the Mexican economy. For example, Banamex estimated that in 1998 fifty-five percent of the growth in Mexican manufacturing was driven by foreign demand--virtually all being US demand (Banamex, 1998,p. 299).

Mexico suddenly seemed to face the worst of all possible worlds: The bank crisis which surfaced in 1995 loomed larger than ever before, delegitimizing the PRI and serving as a exquisite platform for both the PAN and the PRD. Oil exports and other commodities, particularly mining exports, were plummeting in value. Meanwhile the Asian crisis was undermining several key manufacturing sectors as Asian manufacturing exports gained a edge in global markets. The Mexican-based portion of the US auto industry, once a pillar of production, investments and foreign exchange earnings was suffering the effects of a globalized sector awash in excess capacity. And, the US economy was poised to fall into recession as the stock markets and the bubble-economy shrank.

Far from being a draw, the 'emerging markets' had become the pariahs of the global financial system. In late 1998, capital was fleeing Mexico, dropping the Bolsa by 38 percent in peso terms, and in dollar terms (given the devaluation of the peso) the Bolsa had fallen by 49 percent between the beginning of 1998 and August 26, 1998 (Dillon, 1998, p. C4) This crushing drop in value has destroyed all hope that Mexico's expansion could scoot ahead with foreign investment in the equities market. In August the rate of peso devaluation suddenly accelerated (dropping the peso by approximately 24 percent from January 1 through August, 1998), while interest rates soared as the central bank vainly sought to attract foreign capital with interest rates above 30 percent. With the central bank quickly tightening its grip on credit creation, Mexico headed into another credit crunch in late 1998.

President Zedillo, and his "economic team" now faced their second, and likely their most difficult test: Can the neoliberal model withstand the pressures of the late 1990s? Will President Zedillo orchestrate a pragmatic turn toward industrial policy which would selectively tighten international economic linkages while dampening other forms of integration which have proven to be conduits facilitating capital flight and volatile and disorientating forces--such as dependence on the whimsical financing available to 'Emerging Markets'? Here is the smug advice President Zedillo offered Asian nations at the 5th Asia-Pacific Cooperation Conference in late 1997, early in the aftermath of the surprising Asian economic crisis:

"This is not the time to lament the integration of financial markets, nor to deplore the fact that capital moves too quickly. Instead, now is the best time to accept what happens and react quickly by accelerating market integration and applying consistent policies." (EFI Staff, 1997, p. 15).

Returning to the theme at the 1998 World Economic Forum, the President stated: "In the face of today's financial turbulence, there may be voices advocating slower trade and investment integration. I happen to believe the opposite." (McCosh, 1998 p. 3).

President Zedillo has sought to ensure longevity for his creed, lasting which would well-beyond his sexenio. He boasted of the "unbreakable discipline" with which his Secretaria de Hacienda (Treasury Secretary) José Angel Gurría deployed neoliberal economic policy (Wills, 1998, p. 10). Gurría (known as the "Angel of Dependence"), upon his appointment in early 1998, was described in the following terms by the head of ING Baring's Mexico-based research division: "If pleasing foreign investors was the president's goal, there was no better choice..." (Wills, 1998, p. 10). At the central bank, Guillermo Ortiz, a tested and loyal functionary with a four year stint at the IMF in his background, ascended to a six year term as governor at the beginning of 1998, thereby signaling a commitment to continuity and a further tightening of Zedillo's neoliberal economic policies.

II DISACCUMULATION THROUGH DISARTICULATION

Mexican economic policy-makers have been fond of portraying Mexico as "remade"-- most recently by the privatizations and structural reforms of President Salinas, who was endlessly presented as a 'Harvard-trained economist'.¹ With the bloom off Salinasismo as early as 1993, it was then the opening to foreign capital and markets under NAFTA that would "remake" Mexico.² Then, as the palpable triumphalism which swept Mexico in late 1993 and early 1994 evaporated, the alchemists within the PRI and the private sector grimly and silently accepted the IMF's austerity plans of 1995. Subsequently, by late 1997 the neoliberals had returned to the triumphalist path--this time portraying Mexico as overcoming, essentially inconsequential, brief problems of adjustment in the exchange rate which had arisen due to unfortunate "errors of December". Yet the structural flaws of the neoliberal policy have continued to lurk in the background, occasionally breaking into the open--as did the FOBAPROA banking crisis--which has made it impossible to hide (for long) the sheer financial speculation which underwrote the Salinas-Nafta era (Cypher, 1996).

¹ Lest we forget, such was the theme of Nora Lustig's Mexico: The Remaking of an Economy cited ad nauseam by countless self-proclaimed experts and "specialists" on both sides of the US Mexican border. The remaking theme was taken to its highest level in Pedro Aspe's Economic Transformation the Mexican Way, which was also approvingly cited widely as an authoritative force.

² Most widely cited in this vein was the arrant work of Gary Hufbauer and Jeffrey Schott, North American Free Trade, also cited ad nauseam to prove that the Nafta agreement would have to be, based on economic science, mutually beneficial to both the US and Mexico, since it was shown to be efficiency enhancing, growth promoting and employment creating.

Behind the 'maquillaje' policies festered the 'really existing' Mexico: The latest episode of the 'remaking Mexico' saga being the farce of the Mexican recovery of 1996-1997, now mercifully brought to a close by the collapse of the emerging markets myth in mid-1998. The superficiality of the latest recovery is worth mentioning: GDP fell by 6.2 percent in 1995. Then the economy reversed course, expanding by 5.1 percent in 1996 and 5.4 percent in 1997. Primary to this sudden reversal were:

1. The (then historically unprecedented) IMF/US Treasury mega-loan;
2. The relatively strong recovery of the US economy, which tended to expand US imports (particularly from Mexico) at a much faster rate than overall US economic growth;
3. Extremely high level of global liquidity due to flush times on the US stock markets, and soaring corporate profits which were cycled into the Mexican economy as bank loans, bond issues, stock purchases, D.F.I. and short term money market flows;

However, this left the economy at the end of 1997 only 3.9 percent above its pre-crash level of 1994, and on a per capita basis 1.3 percent below the pre-crash level. More indicative data showed that average industrial wages continued to decline in 1996 and 1997, leaving workers astonishingly far from a 'recovery', with average industrial wages in 1997 26.5 percent less than in 1993 (Dussel Peters, 1998a, pp. 357-359).

In late 1998, with the fictitious 'recovery' at an end Zedillo's economic team was willing, it seemed, to look everywhere but to Mexico's economic policies to find the roots of the downturn of 1998. Until late 1997 when the slippage in oil prices became critical, and the trade deficit in manufacturing once again soared the country was viewed as the exemplary example of coping strategies in the new globalized economic system. Mexico, after-all, had been the darling of the emerging market financial flows, Direct Foreign Investment was strong, exports were booming, domestic savings had greatly improved, Investment in plant and equipment was up, and Mexico had demonstrated that the determined and swift imposition of austerity measures could quickly turn an economy with strong 'fundamentals' (e.g. low inflation, control of the money supply, a balanced public-sector budget, a trade surplus). Was Mexico the innocent and helpless victim of the "contagion effect" sweeping from Asia through Russia to Mexico?

Mexican policy-makers make much of their restructured foreign trade sector. According to the prevailing interpretation, Mexico was a 'successful' example of a nation which had switched from a dependency on oil, and to a lesser degree on commodities in general, as a foreign-exchange earner, to a nation which was a manufacturing exporter. While in percentage terms it is certainly true that the dollar value of oil exports constitutes a minor share in total exports, oil had been the top net foreign exchange earner, followed by the maquila sector and tourism. In 1996, for example, the oil sector had a surplus on foreign trade of \$9.9 billion, the maquila sector earned, net, \$6.4 billion and tourism \$3.5 billion. In an average year the trade deficit in manufacturing (excluding maquilas) will be strongly negative--from 1991 to 1994 it grew

steadily, dropping in 1995 due to the crisis, but remaining negative and rising once again in 1996 and 1997. This negative trade balance in manufacturing is particularly important since according to the neoliberal model manufacturing exports were to be the basis of a new economy.

The Myth of Manufacturing as a Basis of Recovery

Far from becoming a manufacturing powerhouse to content with in the global struggle, in the first half of 1998, 60 percent of all the manufacturing sectors operate with a net trade deficit. In the aggregate Mexican manufacturing, as distinct from the maquila sector, was a net contributor to the Mexican trade deficit (El Financiero, 1998, p. 4). Meanwhile within the maquila sector, only 18 cents of every dollar earned constituted wage, material or profit income in the Mexican economy (and some of the profits claimed on income statements surely leaked through the current account as repatriated profits and interest payments in subsequent years).

While the economic cabinet of the Zedillo administration sought to portray Mexico's growing trade deficit as the result of passing problems related to low oil prices and weaknesses in agricultural exports, the deficit in the non-maquila manufacturing sector revealed the most basic of Mexico's several structural problems. From President de la Madrid onward through early 1998 every major economic policy decision, from joining GATT in 1986, to the Brady Bond negotiations of 1988, to membership in the O.E.C.D. and NAFTA in the early 1990s, through the IMF/US Treasury mega-loan of 1995, has been premised on the idea of export-led manufacturing growth as the engine of socioeconomic change.

As trade generally expanded much stronger than the growth rate of GDP in the major nations of the global economy, and as Mexico exploited its geographical niche--particularly via NAFTA--policy-makers ignored several well-know problems to be associated with an export-at-all-cost strategy. First, the 'fallacy of composition' problem--where numerous semi-industrial nations rapidly expand export capacity at a collective rate greater than the growth of global demand. Wedded to the precepts of neoclassical/neoliberal economics, the potential problem of excess productive capacity/overproduction of commodities was assumed away--free markets would solve such matters (somehow) through price adjustments. Those who leaned too strongly on the 'fallacy of composition' problem were dismissed as shallow gadflies who failed to understand basic economic 'laws'. By late 1997, however, Mexican companies were beginning to feel the pressure of Asian exports both on Mexican exports in textiles and on domestic firms, such as computer firms.

Second was the necessary corollary of the export-led approach, at least as practiced by Mexican policy-makers (at the urging of the US Treasury, the IMF and the World Bank)--access to foreign markets would entail reciprocity--access to the Mexican market. Yet most Mexican firms were unable to withstand the rapid influx of imported goods--particularly in the early 1990s. Free trade models designed to show the mutual efficiency benefits of free and unrestricted trade are not, as a rule, constructed to

demonstrate what will occur when firms from the most technologically advanced nations, financed by relatively efficient banking system and backed by a massive infrastructure meet, on the economic field of battle, Mexican firms with access to one of the weakest technological bases in the world.

Furthermore, at the very time when the massive openings to foreign-produced goods were occurring in the late 1980s and early 1990s, the Mexican state was first creating a 'parallel' banking and financial system, thereby undermining the intent of the financial nationalization of 1982. And, after 1990 the state rapidly turned-over the banking system to the 'neobanqueros' who were decidedly disinterested in financing the small and medium-sized Mexican businesses which faced a long and daunting struggle to gain or maintain market share in a new, volatile eras of free trade.

Technology and Trade

Searching as they have for international credibility, Mexico's technocratic policy-making elite have focused on improving what are know as the economic 'fundamentals'. In cutting the public sector budget and turning away from industrial policies and targeted credit to strategic sectors, the technocrats have weakened the very modest industrial base, and the level of technological mastery, which was built-up over several decades of state-led industrialization (Cypher, 1990). Critical scrutiny of the technological issues facing Mexico is rare. It is, therefore, instructive to cite at length the perspective of the director of the Science, Technology and Development Program at El Colegio de Mexico, Dr. Alejandro Nadal:

"Mexico has adopted policies which do not guarantee increasing competitiveness through a stronger technological base. Rapidly and indiscriminately liberalizing trade, running balanced budgets that restrict investment in education and R&D, privatizing strategic industries (such as petrochemicals), and getting rid of policy instruments such as the use of the federal government's purchasing power and performance requirements which build backward and forward linkages, does not appear to be the best strategy to develop a healthy competitive base. The experience of countries like Taiwan and the Republic of Korea is almost 100 percent counter to this set of policies. Or to put it in other terms, Mexico is following exactly the opposite strategy these countries implemented in the last 40 years." (Nadal, 1997, p. 12).

Without a steady, long-term commitment to a dynamic technological strategy Mexico has no hope of surmounting its current pattern of 'stop-go cycles' which arise from the subterfuge of financing its inevitable current account trade deficit with an open capital account. During the 'go' portion of the cycle strong international inflows of volatile funds seek high returns on Mexican financial assets, drawn by high interest rates and the potential of quick gains on the Bolsa. This situation results in an overvalued peso, which further undermines exports while boosting imports, setting the stage for a 'peso crash' scenario, complete with massive capital flight. During the 'go' phase domestic and transnational firms circumvent the high cost of borrowing on the

financial markets through foreign indebtedness. In 1997, for example, fewer than 70 percent of a sample of 124 Mexican and foreign companies, classified as small, medium, large and very large, sought domestic loans to finance their various business activities. The vast majority sought financing outside of the Mexican economy, in foreign currency denominated loans (González Pérez, 1997 p. 10).

During the 'stop' phase the contradictions of foreign borrowing become apparent for firms that have some or all of their sales in pesos. As the peso devalues Government foreign debt and private sector debt become difficult either to service or to roll-over. Hence, a debt crisis looms as a result of the failure of policy-makers to build an adequate technological infrastructure in manufacturing. Prior to the downturn in mid-1998, Mexico anticipated foreign debt payments of \$41 billion--based upon then current data concerning maturities. But, in a global drive to liquidity--a 'credit crunch'--lenders refuse to roll-over weak debt, and maturities shorten, while foreign debt becomes more expensive due to devaluation. One of the good 'fundamentals'--successful management of foreign debt--suddenly takes on a life of its own.

Employment in Manufacturing

Non-maquila manufacturing employment continues to indicate a steady deindustrialization of the Mexican economy. In 1981 manufacturing employment was 2,557,000--stagnating and then falling to 2,325,000 in 1993. By 1997 manufacturing volume had jumped 20.5 percent over the level achieved in 1993, but employment stood at 2,208,750--or 13.5 percent less than in 1981. In contrast, the maquiladora sector employed 130,973 in 1981, 540,927 in 1993 and, 946,321 in 1997 (see Table I, below):

[Table I, here]

With the spectacular growth in the maquila sector, and the decline in the Mexican domestic manufacturing sector, it appeared that soon, possibly within the context of the downturn of late 1998, the ratio of maquila to domestic manufacturing jobs (see Table I, column 5) would stand at .50. According to National Income Accounts data, the share of GDP attributable to domestic manufacturing fell from 23.4 percent in 1985 to 17.3 percent in 1994, while employment dropped from 19.5 percent of total employment in 1979 to 15.5 percent in 1993, and, as shown in Table I, has dropped since in both absolute and relative terms (OECD, 1997, pp. 82, 168). Thus, it seems that there can be no question that Mexico has and is undergoing a profound process of deindustrialization; from the standpoint of the share of manufacturing in total employment, from the standpoint of the absolute number of employment positions, and from the standpoint of the relative share of manufacturing in GDP.

Deindustrialization: Does it Matter?

Neoclassical/neoliberal economists are fond of the argument that it does not matter what a nation produces, it only matters that production is undertaken efficiently. In the seamless world of neoclassical economics, where employment always exists for

all, business cycles are assumed away, and national differences based upon the past, such as vastly different educational systems and financial markets, their proposition might be worth serious consideration. But, in Mexico a shift away from manufacturing employment will most likely mean that a worker will fall from the status of a permanent worker to a contingency worker with few if any benefits, lack of union representation, and a lower wage. Coinciding with the drop in manufacturing employment, and the concomitant rise in maquila employment the number of workers receiving no fringe benefits (including the important 'aguinaldo' bonus) rose from 30.1 percent of total employment in 1991 to 41 percent in 1995. Workers employed for either less than 15 hours per week or more than 49 hours rose from 22.7 percent of the employed to 33.8 percent in 1995 (Dussel Peters, 1998b p. 17).

Beyond the important issues of employment status, job security, benefits and labor rights and representation in the work-place stands the issue of productivity. According to 'Verdoorn's Law' manufacturing tends to be the primary locus of technological change and product and process innovation. Nations with strong industrial/manufacturing sectors enjoy 'spillover effects' from the innovations created in manufacturing. Deindustrialization, then, has profound consequences for a nation which experiences deindustrialization.

Deindustrialization and Verdoorn's Law are likely to be fundamental in explaining Mexico's productivity performance: Productivity growth across all sectors averaged 0.2 percent growth per year from 1981-95, while in manufacturing productivity averaged 1.7 percent per year. A separate sampling of maquiladora firms shows productivity of 0.8 percent per year from 1988-93--suggesting that the level of technological mastery and innovation is roughly half that of the manufacturing average (Banamex, 1998b, pp 123-126). Mexico's manufacturing labor productivity is roughly one-half that of the US--1.7 v. 3.2 percent per year 1981-95, and overall productivity is one-quarter of that of the US--0.2 v. 0.8 percent per year in the same period. As manufacturing declines, and as the importance of the maquila sector increases, the technological gap for the Mexican economy widens. A vicious circle is established where the comparative advantage of cheap labor becomes the mainstay of the 'go-stop cycle'.

[Table II, here]

Disarticulation

Within the industrial sector there are three primary areas of growth:

First, the maquila sector, which shows very poor productivity gains, thrives upon exceedingly low wages and minimal labor standards and imports all but three percent of its non-labor inputs, demonstrating the disarticulation between other sectors of the economy and the Mexican economy.

Second are the 'grupos', Mexican conglomerates, sometimes with significant foreign ownership, which are able to obtain credit from both the Mexican financial system the Mexican government and international lenders. The conglomerates demonstrate relatively high levels of productivity growth, with the top 40 grupos accounting for between 60 and 70 percent of the value of manufacturing exports generated by Mexican-owned firms. Thus the top 40 grupos, each controlling many separate firms account for 60-70% of the national exports while some 22,600 other Mexican-owned firms account for the remaining portion of exports. In all, Mexican-owned firms account for only 19-20 percent of total manufacturing exports. The maquilas account for 39-40 percent.

Third, a small sample of foreign-owned firms (150 transnationals) account for 25-26 percent of exports. Seventy-two percent of the value of non-maquila foreign-owned exports is accounted for by 5 auto firms (Basave, 1998).

While incomplete, these data are suggestive: Mexico is experiencing a shrinking of its industrial base, and at the same time a twisting of the industrial base toward a polarized division of firms. At one pole are the foreign-owned giants with clear technological mastery, but with few links to, and spillover effects for, the rest of the Mexican economy. They share the commanding heights of the industrial system with the Mexican-owned conglomerates who may be able to compensate for their lower level of technological mastery and control over the production process, due to their greater ability to harness the benefits available through the state apparatus--including the sidestepping of many taxes and regulations, access to subsidized credits and developmental programs, and control over the labor force.

At the other pole are the small and medium sized national firms. Most find themselves in the same position as Mexico's beleaguered capital goods firms: From 1995-97 400 of 1,100 capital goods manufacturers were forced out of business. Of the remaining, the number one problem is a lack of liquidity due to the contraction of credit by the Mexican banking system from 1994-1998. Close behind, and clearly linked to the 'credit crunch' is that fact that manufacturers in this sector cannot compete with imports due to obsolete equipment (Wills, 1998b p. 16.)

III DEPENDENCE

While dependency theory was largely abandoned as a result of polemical debates of the late 1970s and early 1980s, Mexico's reliance on external factors has, ironically, increased. Above all, in the aftermath of the debt crisis of the 1980s, Latin American nations were urged to open their economies to international investors, including an opening of stock markets and financial systems. Mexico took great strides in this direction, and became the foremost destination in Latin America for emerging market capital flows. Even after the 'peso crash' of 1995, Mexico was able to avail itself of the remarkable liquidity in the international financial markets to finance ongoing

economic activities--perhaps adopting a more restrained stance regarding the attraction and reliance upon very short-term financial assets after 1995.

Mexico's strategy of accumulation had shifted dramatically from the late 1980s onward. Exports as the engine of growth, international financial markets as the source of financing, increasing reliance on oil exports to partially cover the current account deficit (in the early-mid 1980s), full-scale support of the maquila sector, suppression of domestic wages--all this and more constituted the new profile of dependence.

Mexico's neoliberal policy-makers paid scant attention to the downside of dependence--even after the 'peso crash'. Excess industrial capacity throughout the international economy, as best manifested by the 1998 collapse in oil prices, and the growing aversion to financing in shallow, volatile and risky emerging markets seem not to have ever been anticipated by Mexico's neoliberal policy-making elite. The relative ease with which the Mexican elite refinanced their stumbling economy in 1995--using the IMF and the US Treasury as lenders-of-last-resort, while planning to shift what eventually amounted to \$65 billion in 'free market' banking losses onto the public, always relying on the docility of the populace to absorb massive wage cuts and a jump in unemployment of roughly 2 million in 1995-96--was impressive.

Thus, even when dependence appeared to have a cost, the cost appeared to be "manageable" and "transitional", at least through 1997. Now, in late 1998, the terms of the debate have changed: FOBAPROA, once considered the most arcane of financial topics, has slowly moved to the center of the political stage, generating innovative protests from the EI Barzon movement, and finally leading to a full-stage debate both within the Camara de Diputados and throughout civil society. An early indicator of the depth of social disengagement from the new dependence was the battle over the IMF's requirement of privatization of the petrochemical industry as a condition of the 1995 mega-loan. Here civil society, through a variety of creative means forced the Zedillo administration to reverse its pledges to the IMF, and maintain national majority ownership in this important sector.

IV DELEGITIMATION

For vast sectors of the Mexican populace the neoliberal model of export-led growth has been delegitimated. Here we cite but three major aspects of this process: First, the impact of the model on the distribution of income. Second, the particular impact of extreme poverty. Third, the rise of disaffected peasant-led groups in predominantly rural, always poor, sectors.

Income Distribution

Table III, below, chronicles the rapid concentration of income during the neoliberal era. Notice that through 1994 (the latest date for which data is available) there was a 16 percent increase of the share of total income received by the top 20 percent--from 49.5 percent to 57.54 percent from 1984 to 1994. Such mega-shifts in

income distribution are extremely rare, in such a short period of time. Notice that the share increase to the top 20 percent--8.04 percent--is 24 percent greater than the 6.48 percent of income received by the entire bottom thirty percent of income receivers (Deciles I-III). And, as the official data reveal, the share of the bottom three deciles fell from 9.04 percent to 6.48 percent--a drop of 28 percent--in the same period.

[Table III here]

What the data do not reveal is the adjustment that would have to be made to incorporate income generated by capital flight funds which shifted abroad from 1982 onward. It would seem reasonable to assume that a very high proportion of capital flight funds are now invested in income generating assets, and that Mexico's national income accounts are recording a negligible portion of this source of income received by the top decile. Whether or not there was, proportionately, a higher flow of income from these assets in 1994 compared with 1984, remains a subject for future research. Nonetheless, the existence of such income flows from outside of Mexico means that the income distribution, in reality, is considerably more skewed than the official data reveal.

Mexico's elite have long demonstrated a very high marginal propensity to acquire imported goods, including travel, when income has either grown or shifted in their direction. Consequently, one result of the shift in income has been to put additional pressure on the balance of payments. Other results include the weakening of the internal market for mass consumed products, limiting economies of scale for medium-sized producers. And, for production units dependent on the growth of Mexico's internal market for wage goods, the shrinking of this market has resulted the reduction or elimination of business earnings set-aside for capital investments and the maintenance of Mexico's industrial base. These same firms have seen their credit ratings with Mexican banks declining and, in any case, they have not been able to finance capital improvements.

In this context, aggregated data suggesting a "investment boom" from time to time during the neoliberal era should be interpreted with caution: Much of such investment merely supported the conspicuous consumption of Mexico's elite--thus rapid growth in luxury restaurants, hotel office buildings, shopping centers, luxury condominiums, vacation residences and palatial villas.

Increasing Poverty

A recent, partially suppressed, report gauging poverty in Mexico suggests that extreme poverty has risen 73.3 percent from 1989-1996--with 27 percent of the Mexican population in extreme poverty in 1996. In the first two years of the Zedillo administration, reflecting the dramatic peso crash of 1994-95, extreme poverty increased by 53 percent. In 1996 over 42 percent of the Mexican population were classified as living below the poverty line (Burke, 1998a; Acosta y Perez, 1998). In 1992, 23.6 million lived below the poverty line, in 1994, 30 million and in 1996, 40 million. Economic growth in 1997 and early 1998 surely reduced these numbers

somewhat, but the return of the economic crisis in late 1998 and 1999 will once again send the numbers soaring.

Civil Disorder

In the early 1990s, as the 'concertation' between the PRI and the organizations "cupular" of the business elite--such as the Consejo Coordinador Empresarial (CCE) and the Hombres de Negocios--became ever more intertwined, through the single-minded pursuit of ratification of NAFTA--Mexico increasingly faced a wave of civil disobedience. Most dramatically, the EZLN broke into the headlines and consciousness of the Mexican populace days at the beginning of 1994. From 1994 through February 1998, according to a broad-base of non-governmental organizations operating in Mexico, there occurred an estimated 40,000 specific acts of "social struggle" (Correa y Ortiz Prado, 1998).

If correct, this would suggest an average of 833 actions of civil disobedience or social struggle per month, 28 new actions of struggle per day. In the two month period January-February 1998, 426 separate "violent actions" were recorded, 7 per day. Groups associated with a pro-government stance, including the Mexican military and paramilitary organizations, committed 92 percent of these violent actions. In all, roughly 25 percent of the 40,000 actions involved acts of violence--65 percent of which did not involve armed confrontation or resistance--a register of the one-sided use of force in Mexico.

While armed resistance is a minor part of the struggle which the victims of neoliberalism are mounting against the state, it is a measure of the decomposition of the neoliberal model that there are now at least 37 armed groups who manage to operate in Mexico--ranging over 14 of the 31 states. The major groups include:

- . The EPR, which functions in Guerrero, Oaxaca, Edo. de Mexico, Chiapas, Michioacan, San Luis Potosi and Tamaulipas
- . The renown 'Zapatistas' or EZLN operating in Chiapas where 60,000 army troops were ranged against them in 1998
- . The ERIP (Ejercito Revolucionario Insurgente Popular) in Baja, Sonora, Coahuila, Chihuahua and Durango

The non-governmental organizations' report shows that the proportion of military actions in relation to civil action of struggle was decreasing, at least for the years examined, 1994-96. Nonetheless, the extensiveness of armed struggle, along with military and paramilitary actions taken against civilians, hardly suggests that Mexico has successfully overcome or even reduced its most glaring social injustices.

A further disturbing sign of social decomposition is the growing evidence that the Mexican military is increasingly reliant upon the US military for weapons, along with officer and specialist training in counterinsurgency methods (Burke, 1998b, p. 9). The increasing intervention of the US military in terms of training and weaponry naturally

leads to widespread speculation regarding the probability of US military personnel as either field advisors or clandestine special forces engaged in live combat against Mexican peasants and other insurgents. In a nation where the huge capital city, Mexico, is bisected by the seemingly endless Avenida Insurgentes, where signs of the Mexican Revolution are omnipresent, where nationalism is a staple of all political parties, it is not difficult to hypothesize that the PRI has introduced one of the strongest possible agents of delegitimation through its increasing willingness to accept overtures of military assistance from the US Departments of State and Defense.

IV CONCLUSIONS

As a professionally trained neoclassical economist, it would be surprising if President Zedillo had received any training whatsoever in business cycle analysis. Rather, it is safe to assume that his inculcation into the dogmatic field of neoclassical economics and mathematical model-building consciously excluded any serious training in economic history, political economy and business cycle analysis. There is nothing to indicate that either he or his closest associates in the economic cabinet understand the asymmetrical, dependent, economic structure which they have assiduously built through their dogged determination to consolidate President Salinas' export-led model.

It is well to recall, in gauging the economic cabinet's sense of proportion regarding this model, how key advisors reacted in late 1994 to the peso crash. The dominant members of the economic cabinet, most notably Treasury Secretary Aspe, repeatedly claimed that they had no idea that the quick depletion of the foreign currency reserves in late 1994 were possible. They repeatedly said that they had no idea that the global markets would react with such speed and to such a degree. They also claimed, repeatedly, that neither they nor anyone else had any idea of Mexico's looming economic disaster. This in spite of repeated analyses of the precariousness and fragility of the banking system (almost a daily staple of the press in 1993 and 1994). And, acute dissections of the looming foreign account dilemmas by many of Mexico's foremost economists, including Profesora Maria Eugenia Correa, Dr. Arutro Huerta and Profesor Jose Luis Calva all of whom publish scathing criticism of the macroeconomic policies of President Salinas in the major daily newspapers in Mexico City in the course of 1993 and 1994.

Given this time-tested dogmatism (now reinforced by the relatively quick turnaround of the Mexican economy between 1994 and late 1996) as the economy heads downward, what is the likelihood of a repeat of the 1994/95 rescue operation?

As well-recognized, the global economic environment of 1998/99 is dramatically differently from that of 1995. Rather than Mexico being a faltering nation within the context of rapid expansion in the emerging markets, now the emerging market idea has collapsed, along with and because of the collapse of much of the Asian economy, Russia and Brazil. The idea that the emerging markets would solve the industrialization problems of the 'developing nations' through bank loans, bond issues and purchases of equities in newly privatized parastate firms, and enjoy unprecedented growth in Direct Foreign Investment, was never anymore than the cruelest of

neoclassical economic myths. With that myth now swept aside by events, and with the IMF and the US Treasury facing a very long list of nations needing bailout funds, and with both the IMF and the Treasury bereft of funds sufficiently large to deal with the structural problems of the emerging markets, Mexico will be forced to confront its own problems. And problem number one will be the effects and consequences of the single-minded attempt to tie the dynamics of the Mexican economic structure to the growth of US consumption of foreign-made goods. One might well-expect some 'special relationship' considerations to be made (on the part of the Interamerican Development Bank, the IMF, the World Bank, and the US government), but the fact remains that the global economy is suffering major contortions, and Mexico cannot and will not receive more than modest, insufficient, support in such a context.

Another, and last, possibility exists: Could the long standing and deepening contradictions of the export-led model undermine the Mexican elite's resolve? And, where might that lead? Given the PRI's heterogeneous structure and its pragmatic history, it should come as no surprise to find a continual discussion of the merits of a Mexican industrial policy, and of the need to replace the 'invisible hand' of the market with an Asian-like program of intervention and selective stimulus of key industrial sectors and technologies. Most recently, the Zedillo administration produced PROPICE (Programa de Politica Industrial y Comercio Exterior) in early 1996. But, in the final analysis, PROPICE had no serious support from the Mexican private sector nor from the Mexican state, and its program was never seriously implemented. If anything, the CCE, under its current president, Eduardo Bours, Coparmex (the Mexican Employers Confederation) and the American Chamber of Commerce have become decidedly more assertive in their relations with the PRI and the PAN. Representing, as they do, the Mexican grupos and the vast bulk of the US corporations operating in Mexico, these, and other key business associations, perceive no need for a serious shift in economic policy.

Given this myopia and intransigence, the Mexican state continues to fragment as the election of 2000 approaches. Mexico's commitment to Neoliberalism, Globalization, Maquiladorization will be contested in 2000, as never before. The polarized economy and society which has arisen from the development strategies adopted in the early 1980s increasingly must rely on the pillars of pathology, such as narco-capitalism, emigration and sub-subsistence labor to forestall further fragmentation. The global economic crisis which began in 1997 has now enveloped Mexico, adding a whole new dimension and dynamic to the epic electoral and social struggle of the year 2000.

The folly of neoliberalism, perhaps best expressed in Mexico through a review of the sordid history of FOBAPROA and the banking crisis which preceded it, has now become entrenched in the popular consciousness of the Mexican populace. When the economy was creating over one million jobs per year, as it did in 1997, the Zedillo administration managed merely to slow the process of delegitimation. Now, given present trends and prospects, Mexico must orchestrate a fundamental shift in economic and social policy. Such a shift cannot and will not merely lead to a revitalization of old (ISI) strategies of development. But, what it **will** lead to remains largely an open

question. And, clearly, Mexico's long and tortured history will weigh heavily on those who must grapple with the complex task of creating and consolidating the viable alternative to neoliberalism. Daunting as this burdensome undertaking will prove to be, the implosion of neoliberalism surely lightens the load and brightens future prospects. Finally, Mexico will not face this struggle alone, nor will it be forced to independently resolve several issues--many if not most of the semi-industrial nations will now constructively search for an alternative and viable strategy.

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Table I. Mexico: Employment in Manufacturing

<u>Year</u>	<u>A</u> <u>Manufacturing</u>	<u>B</u> <u>Maquila</u>	<u>Total</u>	<u>B (%)</u> <u>A</u>
1981	2,557,000	130,973	2,687,973	5.1
1993	2,325,000	540,927	2,865,927	23.2
1997	2,208,750	946,321	3,155,071	42.8

Sources: Nafinsa, La Economía Mexicana en Cifras 1995 (Mexico: Nafinsa, 1995) p. 33, p. 366. 1997 data compiled from INEGI as reported in El Financiero (various issues)

**Table II. Productivity Growth
(annual, average, in percent)**

<u>Years</u>	<u>Mexico</u>			<u>U.S.</u>	
	<u>All Sectors</u>	<u>Manufacturing</u>	<u>Maquila</u>	<u>All Sectors</u>	<u>Manufacturing</u>
1981-95	0.2	1.7	n.d.	0.8	3.2
1988-93	1.1	2.5	0.8	-----	-----

Source: Banamex, "Statistics and Dynamics of Manufacturing" Review of the Economic Situation in Mexico, April 1998, pp. 123-127.

Table III. Mexico: Distribution of Income, 1984 – 1994
(percent)

<u>Deciles</u>	<u>1984</u>	<u>1989</u>	<u>1992</u>	<u>1994</u>
I	1.72	1.58	1.55	1.01
II	3.11	2.81	2.73	2.27
III	4.21	3.74	3.70	3.27
IV	5.32	4.73	4.70	4.26
V	6.40	5.90	5.74	5.35
VI	7.86	7.29	7.11	6.67
VII	9.72	8.98	8.92	8.43
VIII	12.18	11.42	11.37	11.20
IX	16.73	15.62	16.02	16.30
X	32.77	37.93	38.16	41.24

Source: INEGI, *Encuesta nacional de ingresos y gastos de los hogares*, tercer trimestre de 1984, 1989, 1992 y 1994.