

## Chapter 7

# The Change of Economic Institutions in Mexico: the NAFTA Era from 1983 to 2011

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### *1. Changing institutions after 1982. The hypothesis*

From 1936 to 1982 Mexico was ruled by a model of mixed economy, based on government economic intervention, which supported development. But in the early 1980's there was a change. A new model was introduced. In a long process of two decades (1982 to 2002). Another economic policy prevailed. It was based on the idea that the free market is the best way for allocating resources. Since 2002 to 2011 the new institutions of the neoliberal economic model were implemented.

Up to now it has been said that the fundamental reason for this change was the exhaustion of the import substitution model, previously applied. It is difficult to find the elements of such exhaustion (Moreno y Ross 2010), because it has never been explained in detail. The hypothesis of this paper is that, although we think that there was depletion, it was more influential the political defeat of those intellectuals and politicians who had supported the policy of economic intervention. They were overwhelmed by those who had long sought a model of an open economy and free market.

In the previous approach, those whom we call "developers"<sup>1</sup> were always concerned with the employment rate and a better income distribution. Their policy was based on the guidelines of multi-lateral organizations (IMF, IBRD, WB, IDB, USAID and ECLAC)<sup>2</sup>, and on their financial support, with low interest and long-term rates. They managed to have a long period of growth. The other path, preferred by liberal economists, achieved the globalization in the movements of goods, capital and securities, and reduced to a minimum the state interference in the economy. Finally the second group prevailed and was supported, in some reforms, by the measures that international institutions like the IMF and the World Bank suggested or imposed to debtor countries.

These suggestions were the consequence of the changes in the international financial system. Since the early 1970s, among the nations with the largest amount of foreign reserves, a new ideological attitude started (Eichengreen 1996). The Group of the most powerful seven nations in the world (G7), those who had the biggest monetary reserves, redefined financial economic relations. At the same time, we had great technological changes in computing, nanotechnology, the exploitation of new sources of oil and its petrochemical derivatives, and in the influence of information technology in the organizational theories. All these changes occurred so fast and deeply that they altered the way of production and circulation of goods and capitals. This new conditions led the world to the globalization of production and of the financial market. Such tendencies pressed for a change in economic policy. They provided political support to politicians, academics and intellectuals, in order to build up the model of a new economy, government and society.

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<sup>1</sup> In Spanish, "desarrollistas". This concept can be applied to all Latin-American countries.

<sup>2</sup> IMF, International Monetary Fund. IBRD, International Bank for Reconstruction and Development. WB, World Bank. IDB, Interamerican Development Bank. USAID, US Agency for International Development. ECLAC, Economic Commission for Latin America and the Caribbean

The purpose was to replace the previous mindset of development, based on industrialization and public employers, with the free market, where private enterprise is fundamental and central government is reduced to a minimum. The instrument that caused the change was the financial system, which encouraged borrowing and created conditional bailouts and derivatives. Some banks were privatized and organized cartels for the granting of debts.

In the more advanced nations, the economic change gradually also led to institutional changes, thanks to the weakening of the government's role in the economy. Keynes' theory and its applications for development and welfare were defeated by the liberal groups, who were linked to the financial sector. But the countries where oil extraction was dominant, as revenue source, and industrial production was not supported, lagged behind. The change began with the strong political influence of the financial system. Interest rates changed and prices of goods in international trade went down.

That was how, after adjustments of the economy and debt restructuring, the goal emerged of opening economies as a condition for growth. After the basic settings, the new government program was the Free Trade Agreement of North America (NAFTA). In it the main lines are embodied for the transformation of economic policy. Thus the NAFTA era began.

## *2. Features of the change*

The new economic model led to the implementation of new institutions, which were seen as essential for achieving the functionality of liberal ideas. The new institutions are dominated by the ideology of free market. Their basic idea is to have a small and economically weak government, because they give prominence to the enterprise, the entrepreneur and supposedly to the consumer. This new approach puts at risk the integration and security of society, by asserting individual freedom as the basis of society. It eliminates any notion of collective social representation.

The main changes relate to the very role of the state. Public administration undergoes a reorganization, and the allocation of public spending is transformed. Production and market organization change. There is a wide opening of the market; a growing deregulation in both domestic and foreign trade; the international corporate capital and the national private capital replace public investments; private enterprise plays as the main engine of economic growth.

The main argument for such a sharp turn was the inefficiency and low productivity of state capital. In this process, monetary policy, the financial system and the payment system are modified to support the implementation of the stock market as a means of financing the economy. The new open economy adapts itself to the globalization of financial investments and to the subordination of production to foreign markets. Production for the domestic market is depressed; its investments are limited by the inequality in income distribution.

### *3. Historical perspective*

Theoretically the welfare state derived from the analysis of J.M. Keynes, who invoked state intervention when the economy was unable to ensure its proper functioning because of market failures. Then in the areas with a monopoly concentration, with no proper information among operators, or with great inequality among buyers and sellers in the market game, the state should intervene through rules and regulations.

As a policy the welfare state derived directly from the post-war period, when Europe and Japan, helped by the US, implemented a policy of welfare, of nationalism, and economic strength in order to start reconstruction.

The Latin American countries, which were subordinated to the production for the war, also participated in this dynamic recovery. The Bretton Woods agreement (1944) inspired the making of the multinational institutions. So it was that international financial regulatory institutions and the trading system were established: the IMF, the World Bank and the General Agreement on Tariffs and Trade

(GATT). From this agreement many things derived: the prices' control of state enterprises; support for basic industries such as energy and transports; support for the basic consumer goods.

The instruments that promoted economic growth in the era of state intervention, with relative stability and wealth distribution, were: a) pricing and economic regulation in certain areas of production; b) public intervention in some production and services, especially in the supply of strategic raw materials and energy, that led to better conditions of accumulation and investment; c) credit supported by public and private investments under the leadership of the central bank, in the expectation of growth; d) funding and price support of exports; e) proper management of the money supply and of the exchange rate to preserve price stability.

The State intervened in the strategic economic areas, which were necessary for development but in which private capital had not been able to succeed. The concept was framed of mixed economy, government and business. One important aspect was monetary expansion with a fixed exchange rate, and the provision of credit with relatively low rates. This helped also private accumulation of capital, since a series of enterprises, funded with public capitals, provided key services or basic raw materials. The growth of production and the monetary control were always sufficient to prevent the unbridled increase in prices.

But meanwhile liberal ideas were moving around the world against the welfare state. In the Seventies these ideas won and managed to remove any public influence in the economic governance (Harvey 2005). They also caused the ideological shift in the Schools of Economics of the major universities. This occurred throughout the Western world in a span of just twelve years, between 1978 and 1990. In Mexico the beginning of this process is the appointment of Miguel de la Madrid as a candidate for the presidency in October 1981.

According to the ideologists of liberalism, the state intervention in economy leads to authoritarianism and disturbs the proper allocation of resources (see Frederick Hayek, 2008, Ludwig Von Mises 1978, David Harvey, 2012). Their objective is to defeat the

state apparatus (which represents a large part of the economy, with more than 2000 companies owned by the state or with a strong state involvement). The idea is to close up the institutions that promote a mixed economy and provide public subsidies and support. The ultimate aim is to give power to the class which holds the largest concentration of social income (Romero Sotelo 2012a, 2012b).

#### *4. The theoretical debate in the world*

In the international context, we must consider that in the post-war period socialism advanced and became a decisive factor in politics. While a sort of protected development prevailed in the West, mainly in American Continent and in Europe, other nations, like Russia, Eastern Europe, China and other parts of Asia opted for the socialist scheme with state ownership, political prices and government decisions about production. The central planning authorities arranged the size and quality of production, and set the relative wages and prices. In both projects, welfare state and socialist regime, the state's role was crucial.

The difference was about the nature of property: individual and private in one case, collective in the other. In the first case there was a sort of joint venture between private property and unequal distribution. In it the state always assumed its existence as limited, but substantial. Anyway in both cases the existence of a strong state was essential. Neo-liberal ideology, by supporting the elimination of the state from economy, criticized both the mixed economy and the socialist state.

The Mexican development took place in the context of this bipolar world. Mexico was led by political and geographical reasons close to the economics and politics of the United States. While the U.S. built their expansion policy in the world, after the end of World War II, with the Marshall Plan and the United States Agency for International Development from 1948 to 1955, a liberal stream emerged which radically criticized government intervention, and saw it as the "road to serfdom" of state authoritarianism against individu-

al freedom. In the long run, both alternatives based on the state finished in a deadlock. J.M. Keynes and his followers had built up their theoretical framework on public investment. This approach produced the welfare state, but eventually arrived to a shortage of public financing. This led to stagflation and the concentration of financial capital in private hands. On the other hand, in the USSR the bureaucratic central planning authority ultimately failed, because its rigid procedure generated lack of technological adaptation, very low productivity and a distribution of goods strongly unbalanced.

Frederick Hayek and Ludwig Von Mises started the ideological opposition to state intervention as early as in 1944. Their thought formed businessmen and academics in the neoclassical economics and neo-liberal values. Their ideas became a political and philosophical banner. The Mont Pelerin Society, inspired by these two thinkers, held annual meetings and organized centers of cultural development and research. Such a society organized activities for many years and in many countries, mainly in universities, research institutes and government agencies. Particularly important were two of them, the economics program at the University of Chicago, and the Autonomous Technological Institute of Mexico: ITAM (Mirowski and Plehwe 2009, Arroyo 2012).

In Mexico there was never a theoretical discussion among politicians and academics. There was simply a battle for positions of power in the government, which implemented the new policies.

##### *5. The international context in which the change occurred*

The struggle around the welfare state policy and the regulation of the economic cycle through public spending gradually passed from an ideological confrontation to an "economic war" for the control of strategic materials - such as grains, industrial minerals, oil- and for the private control of the international financial system. The internationalization in the production of various corporate enterprises, gave the pace to technological changes in the fields of communications, electronics and organization of the production process.

The last attempt to strengthen the role of IMF as an institution promoting a strong state was the approval of the amendment of 1969 which created the Special Drawing Rights (SDRs). It allowed governments to support the fixed exchange rate. The reaction of the financial sector in the United States was radical. In 1971, when the French government claimed to change its foreign reserves into gold, the U.S. suspended the purchase and sale of gold for international transactions. The gold-dollar crisis began and opened the path to change (Eichengreen 1996). By then the Middle East crisis was at its peak. Oil price rose to record levels thanks to an agreement between the majority of producers, organized in OPEC.

A contextual aspect which had a strong impact, especially in oil prices, was the Six Day War in 1967 in the Middle East. Israel took the Sinai Peninsula and a large area of the Middle East. Five years after that, in October 1973, the Yom Kippur War made this context more complicated. That is the origin of the oil embargo and the reason for the rise in oil prices. That also functions as a counterweight to the claims against inflation in the United States that moves toward the rest of the world.

Economic negotiations to redefine the rules of the financial system within the G7 (the countries which together controlled most of the world's international reserves) were influenced by pressures due to the war and the oil crisis (Eichengreen 1996). Another front was opened by the diplomatic negotiations in 1973 that signed the peace of Vietnam in Paris, France. The alliances in the Middle East between Egypt, Israel and the United States were consolidated, while on the other hand it raised tensions between Iran and Iraq. This led to the stagflation crisis in the United States. It occurred from the late 1973 until 1978, with prices increase and deficit in the balance of payments. In the same period, France and West Germany were reluctant to limit the welfare state and held a covenant with social organizations.

But high oil prices and globalization of the oil problem, together with the reduction in prices of raw materials and food shortages, led to the beginning of the discussion on financial market reforms. This negotiation, that lasted more than eight years, was in the



context of the Middle East war and the price changes in international market. At the same time there was a strong progress in information technology, organization and internationalization of production in various products and regions. But also at this time the situation opened space for political confrontation between socialists, social democrats and conservative liberals in the G7 countries.

When those long negotiations finished, a consolidation of agreements took place in 1978 in Kingston, Jamaica. The members of the Assembly agreed on a proposal of the most developed countries. This agreement established financial support to countries which had problems in their finances and currency. It also established the mandatory application of certain rules in the framework of economic liberalism, such as: reduction of government intervention, floating exchange rate, control of inflation through monetary tightening measures, stabilization of the deficit, control of internal and external credit. The IMF became supervisor for the implementation of measures for the private financial system, in order to grant loans according to free market rates. The reform was driven by the agreement between the G7 countries. It was a triumph of the neoliberal trend. It opened room to the triumph of Conservatives in England and Republicans in the United States. This agreement was also an explicit acceptance of the IMF interference in the internal politics of the signatory countries.

#### *6. Facing the change. Mexico goes against*

During the period 1971-79 in Mexico the state intervention was strengthened. The government spoke of a "shared development" strategy. This occurred in spite of investment restrictions, capital flight, and pressures by entrepreneurs, who insisted to reduce the size of government intervention and to have lower taxes. Paradoxically the boom in the oil market and the strategic geographical location encouraged Mexican government to implement a development project which would be supported by a state-controlled sector and would limit any intervention of international financial capital. Hav-

ing disposal of oil and capital loans at low interest rates, the government had sufficient guarantees of foreign loans. At that time Western commercial banks were lending to all developing countries without limit and without adequate warrant. Mexico was no exception. The government increased public debt and offered to warrant the debt of large Mexican companies.

The decline in commodity prices and the increase in the prices of technology and capital goods led to the crisis that President Luis Echeverría faced in 1976. The deficit in the balance of payments and the pressure of capital flight forced the devaluation of the currency for the first time since 1954. However exports declined temporarily. A loan was negotiated with IMF and the government accepted to use oil resources in support of public finances as security for the debt that contracted (Memo Mexico-IMF 1976). The signing of this understanding caused the flight of capitals of the main investors, in 1976, and the forestalling of goods that caused shortages of various commodities. Business groups were the promoters of this pressure. They influenced the appointment of the presidential candidate and negotiated with him. The successor of Luis Echeverría, José López Portillo, would agree to lead the economy by means of reforms, and accepted in fact the dependency on foreign resources.

Some recommendations by the IMF were ratified by López Portillo in January 1977. They included the balance of the budget and the proposal that public finances could have but a small deficit. There was also the first reference to a floating exchange rate in many years. However the most relevant statement was this: the earnings of oil exports could be used to support the public finances because of the deterioration in commodity prices and in the terms of trade in general. When this agreement was negotiated, the information about the disposal of oil resources was not published yet; this would have been after the first act of the new government of López Portillo in December 1976. Because of the exploitation and export of crude oil, the debt with the IMF was redeemed soon (Arroyo 2005).

Moreover, in those years, with the assurance of high oil prices, international banks lent to private companies and commercial banks; while the government signed as guarantor. During the 1983 crisis,

corporate debt was recognized as public debt. In this package the bank debt, acquired because of the expropriation, was also included. There were two ways to make the private debt public. One was the nationalization of the FICORCA<sup>3</sup> and of the other banks. The other was to pay with public money the debts of the banks. This, together with the government's own debt, formed the total amount of public debt, which determined the government's financial difficulties in the next 10 years. The foreign debt grew up from 22,000 US million dollars to 86,000 millions.

If one reads the terms of the engagements that Mexico signed in the agreement with the IMF in 1976, he can visualize the first signs of what would later be the adjustment program (which was conditioned by the loans contracted during the crisis of 1982). The terms of this program were the same mentioned above: financing public expenditure through the revenues coming from natural resources (oil); beginning of trade liberalization; reducing government spending; deregulation, cancellation of subsidies and privatization of public enterprises. Such principles were foreign to the policy and rhetoric of the State-Party (PRI)<sup>4</sup>, but now they were supported by the power itself.

After 1979 oil prices were falling. In 1981-82 there was an inflation in the US economy and an extraordinary rise in interest rates. The US Federal Reserve forced Mexico to apply the new interest rates from 1979 to 1985. Then they rose from 4.5% to 24%.

Thus Mexico was in trouble for both the increased liability and the reduced earnings in foreign exchange. In this context capital flight occurred, the peso was devaluated. Then the cancellation of payment obligation was announced. The group that was elected in July 1982, led by Miguel de la Madrid, in complete agreement with the reforms suggested, led to a clearer willingness to implement the

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<sup>3</sup> Fideicomiso de cobertura contra el riesgo cambiario". There were public resources that the government used to buy the private debt signed in dollars, and to put it in Mexican pesos.

<sup>4</sup> "Partido Revolucionario Institucional".

recommendations of the IMF, that were already part of the standard body.

It's in December 1982 that the implementation of a market model and the requirements of the adjustment program began. That program was already applied in other countries, and consisted in structural reforms. In that critical situation Mexico, being in a virtual absence of foreign exchange, could not import some essential goods. Then the Secretary Jesus Silva Herzog obtained a letter of intent for a Credit Agreement Extended by 4500 million dollars for the period January 1983 to December 1985. In these negotiations, unlike those of 1976, the first letter of Intent between the government and the IMF was signed. It established the conditional loan of IMF to commercial banks of 5000 million dollars.

The conditions imposed by the IMF and accepted by the government were: trade liberalization and deregulation of domestic trade, reducing the size of government through the sale of public enterprises, reduction of the deficit to the point of zero, reform of financing system, with the transformation of commercial banks. Both the memorandum of 1976 and the agreement of 1983, between the Mexican government and the IMF, are the main antecedent of acceptance to join the GATT and then the negotiation on NAFTA.

Thus, the IMF set the conditions for recovery and gave the resources to overcome the crisis stemming from international banks, through loans where several banks were associated. The engagement was to apply the adjustment program. Throughout the decade, Mexico's negotiations (which later paved the way for other developing countries) had a clearly evolutionary character. Each step was done in the beginning with great difficulty. The debt negotiation and institutional transformation, which went together, followed these steps: August to December 1982, the beginning; January 1983 to September 1985, first phase; 1986 to 1987, second phase; 1988 to 1993, third phase; finally 1994 to 2002.

*7. Neoliberal's political success is in 1982*

The negotiation of 1982 was the result of several years of confrontation between two groups in power, the technocrats (orthodox) and the nationalists (heterodox). The political triumph of the first group came with the appointment of Miguel de la Madrid as a candidate for the presidency of the Republic. Until that time, it was the President who defined the person who would be his successor. He used to do this after consulting the most influential political groups, which were at the basis of the decision. Elections were the formalization and legalization of a decision taken by the dominant political and business groups, in which also labor unions were involved, together with peasant representatives, financial capital and powers from abroad.

These arrangements operated since the constitution, in 1929, of the National Revolutionary Party (PNR), afterwards called Institutional Revolutionary Party (PRI). This was the first time in 60 years of PRI's governments that the decision was taken only by one political group, which wanted the transformation of the country inspired by a radical ideological conception, the neoliberal orthodoxy. This was the time of the political triumph of the technocrats over the nationalists. Since then we may say that the neoliberal group is in power.

The consequence of this institutional change was, since 1982, the acceptance and implementation of adjustment and stability programs, with the provisions included in the letters of intent signed with the IMF. The other element of institutional change was the decision to nationalize the banks and the beginning of the transformation of the financial system, with the rapid development of the stock market. The agreement assumed the features of "political pacts", which involved the most important forces in the decisions of government: employers, unions and some civil organizations that accepted the plan of adjustment.

After this agreement, a stabilization plan was implemented and the change of institutions started. The IMF recommendations were applied between 1983 and 1988. Later, after 1990, these changes

were the building blocks of the conditions agreed in the Washington Consensus. The form taken by the first program is the Immediate Economic Reconstruction Program (PIRE) in 1983, which aims to restructure the economy in the short term. President de la Madrid made the announcement since the beginning and put it into practice immediately.

After several visits for monitoring and surveillance by the IMF missions, with successive updating of the letters of intent, there was progress on several issues such as budget setting, the search for a reduced fiscal deficit, trade liberalization and the gradual construction of the stock market. However the acceptance of excessive financial obligations, payment of debt service without the possibility of postponing it, the inability to sustain an appropriate price level, but also the effects of the earthquake in 1985, all this left the adjustment program with scarce results. The highest levels of inflation ever seen, mismatch of public finances, but also political instability because of internal ruptures in the political party, put seriously in doubt the government's intention to achieve price stability and to make further progress in the structural reforms. These years of low increase in production, hyperinflation and declining purchasing power of the population, are known as the "lost decade".

Stagnation and instability led to seek a solution to the crisis, which involved several countries. A controversy arose with the financial creditors: the United States, the representatives of banks and multinational agencies. The Secretary Silva Herzog stated the need for resources to grow. It was impossible to pay debts without an increase in economic activity and investments. He called for a debt restructuring that would include extension of time, low interest rates and a reduction of the total amount. The Mexican officials promoted a meeting of creditors in Cartagena in Colombia, and organized a debtors' club.

The denial by the creditors about debt restructuring led to the resignation of the Secretary Silva Herzog, just a few weeks before the meeting of IMF and World Bank in 1986 in Seoul, Korea. The meeting was attended by the new Secretary of Finance, Gustavo Petriccioli, who would accept without restrictions the conditions dic-

tated by the creditors to all debtors in what became known as the Baker Plan. Reductions in debt obligations were allowed at the condition of a more profound and explicit reform in the institutional structure of Mexico.

The application of the Baker Plan was not sufficient to solve the problem of growth while still paying the debt. Then the Brady Plan was proposed and implemented in 1989/1990, for a new renegotiation with creditors. The implementation of reforms would be extended, but would be accepted by the US political forces and the G7 nations, later joined by Russia. This made, in November 1989, the Washington Consensus start. In Mexico there was the experiment of this agreement. In this country already many aspects of this agreement had been advanced.

This change of figures in the presidential cabinet of Miguel de la Madrid, gave strength and dominance to the group of technocrats headed by Carlos Salinas de Gortari. The latter in 1988 would remain in power as president. In the debates on the appointment of the presidential candidate, there were political differences. The electoral process altered the tradition of legitimizing the presidential designation. The electoral result that gave the victory to Salinas will always remain in doubt. It was in fact questioned, and the differences in the outcome of the vote was never clear. That dubious election raised the need to implement an electoral institution independent of the government to legitimize the elections. This fact closed the period of the State-Party, but left in power the group that would implement more forcefully the economic and political structural reforms inspired by the neoliberal model.

Thus the Washington Consensus approach was first implemented and experimented in Mexico since 1983. Then it was the basis for the acceptance of a more binding and strong rule, that is the international treaties that would be signed later in 1994. This opened the treaty era, with the American Free Trade Agreement (NAFTA). Such a project had been prepared for years, but till then it had not found the conditions required for its full implementation. After the reforms introduced from 1983 to 1993, the NAFTA agreement allowed the final access to the GATT, the free movement of capital,

the constitution of the stock market, privatization of public enterprises (including banks that would have been nationalized in 1982) and the autonomy of the central bank.

The institutional framework had changed. In 1994 there was a presidential candidate, Luis Donaldo Colosio, who could have put in doubt the above mentioned reforms. Because of this, he was assassinated through a derangement. Then Ernesto Zedillo went into power. He was a strong follower of liberal reforms, and strengthened all of them.

NAFTA became effective in January 1994. It had the year 2009 as the deadline for its full implementation. Since the beginning there were the conditions for a new economy based on open market and backed by the force of law and by international conventions. Mexico agreed, once and for all, on an economic program which has at its basis a deregulated economy, with limited government interference, a reduced deficit, floating exchange rate. This economic and social model was completely different from that which had been supported by the state-party, which followed the ideology of the Mexican Revolution. The NAFTA is more than a free trade agreement. It is the legal frame of the new relationships between Mexico, Canada and USA; that involves also governmental decisions of economic policy, and other binding engagements in various fields.

The international context is essential in order to understand the evolution of economic policy that Mexico underwent. The negotiations about the financial crisis, which changed the Bretton Woods agreement, occurred at the time of the privatization of the banking system and the reform in the financial system. The financial support did not come anymore from the most important countries through multilateral organizations. The financial powers, that now included also Germany and Japan, decided to establish private international financial markets, stocks and securities firms, the bonds of government debt. Agreements about consumer goods and capital goods, project investments and development of new technologies will be negotiated in a global market. All this would be established, in a network with perfect and secure lines of communication, from the financial centers of Wall Street in New York to the City of London



and other stock exchange centers, like Paris, Frankfurt and Tokyo. Around these, other stock exchange centers are connected in real time. This is the basis of what is understood as globalization in the late twentieth and early twenty-first centuries. The global stock market is one of the main institutions built for the working of economy in the XXI century.

This financial structure calls for open economies in the trade of goods, but the most important thing is the flow of capitals. The open market is supported by the idea of full freedom for the individual. The basic principle is that there must be no obstacles to prevent consumer decisions. The government has to reduce its scope of action in society, apart from public safety, education and health care. In some cases room is left to public infrastructures.

This approach replaces the idea of protecting production with subsidies and other support, with the aim of growth. The new logic is based on productivity, competition and free trade, to the benefit of consumers. It is assumed that citizens as consumers are adults and are able to decide for themselves without the guidance of government.

## *8. Conclusion*

Thirty years after the start of liberal reforms that changed the social system, we can find that they are not yet fully implemented, and have not yielded the expected results. In fact economic stagnation prevails, with low growth rates and increasing poverty. The middle class has not emerged, human conditions of the majority of population are not improved, dependence and subordination to the US economy is growing. Mexico remains the provider of cheap labor and raw materials with very low costs, and is increasingly linked to the US cycle of industrial production and consumption.

The radical orthodox groups maintain that the measures implemented have fundamental flaws; they have not been applied as they should; there have been populist concessions. Gradualists maintain that the present policy should keep following the same path; be-

cause we have to wait for processes to mature. But eventually there emerges, although with little force, the search for alternatives. It is based on the critique of structural failures, of the excessive concentration of wealth and the impoverishment of the population.

The main features of the institutional changes in Mexico, resulting from the structural adjustment program, implemented in different phases, and the subsequent acceptance of the rules of NAFTA, are the following.

1) ROLE OF THE GOVERNMENT AND FISCAL POLICY.

a) In this area we have a fundamental change in the state. It passes from a strong government intervention in the economy to an attitude that waives any interference. Now it confines itself to the political and social task of the modern state: health care, education, and poverty relief.

In the new framework, the government renounces to control certain products considered strategic, such as fertilizers, petroleum and chemical industry. The main purpose of this reform was to make the companies responsible for their activity and to reduce radically the government activity.

b) A most debated argument, since the beginning of the reforms, is why tax collection gives so low revenues. It has been attributed to the bad efficiency of the institutions in charge of taxation. But it has also been found that there is preferential treatment on tax exemptions and special regimes that have not changed after the reforms. When tax officials showed the intention to charge more taxes, tensions arose between the government and the business world. Since at present power is in favor of business, the government does not want to charge it by changing its fiscal policy. It looks for support by different income sources such as the exploitation and export of oil. The real problem is not the low efficiency of tax collection, it is rather the privileged treatment of investors and big business, who find many ways to avoid or evade taxes.

For the neoliberal approach, fiscal policy should not inhibit investments, and should strengthen indirect taxes on consumption.

c) Control of current expenditure. Decrease in the number of public employees. Transfer of public workers to the private sector, because public employees often enjoy better conditions than the private ones.

d) Restructuring Public Administration: reorganizing the system to make it more efficient. The reform has suppressed the Ministry of Public Property (Patrimonio Nacional). It also puts strong limits to the Economic Ministry: sections dealing with price control and control of public companies are redefined or suppressed; subsidies are eliminated.

The sale of assets of the public sector provides additional income which allows a deficit reduction.

e) Privatization of public enterprises. "The fundamental belief is that private enterprise is more efficient and more dynamic than the public company" (Alba Vega 1996). It involves the purpose to sell profitable public enterprises and to suppress the unprofitable; and to eliminate trusts in order to promote production.

## 2) PRODUCTION IN THE REAL ECONOMY: DEREGULATION

a) Elimination of price controls.

b) Withdrawal of the state from the market. Closure or privatization of state economic agencies.

c) Elimination of investment control and indiscriminate opening to foreign investment market.

d) Deregulation of the financial system, which means rising interest rates in order to increase savings. Financial support will be awarded to the most profitable projects.

## 3) INTEGRATION IN THE INTERNATIONAL MARKET ECONOMY

a) Support to a competitive exchange rate, to encourage exports.

b) Reduction of import duties in order to have cheaper goods. Local industries have to be more competitive or to close up.

c) Export incentives for agricultural products, previously produced only for the domestic market. Financial subsidies to the private sector.

d) Avoiding an unsettled trade balance, especially with the United States, the country's most important trading partner.

#### 4) MONETARY AND FINANCIAL SECTOR.

a) *Ways of financing production.* In the new policy, resources for production are made available through the sale of securities in the market. In fact bank credit is expensive and difficult to be obtained. This new market condition, started in 1982, marginalizes banks and the government itself. It also stimulates the integration of the stock market and money market with the brokerage business.

b) *Giving autonomy to the Bank of Mexico.* Since 1993 the law grants the Central Bank only these tasks: achieving economic stability, checking the monetary supply and controlling the currency market against speculation. These functions promote a monetary policy to attract more investments.

The Central Bank also guarantees for the payments to the investors; it holds currency reserves equivalent to, or greater than the amounts invested in the market. It is also engaged to pay debt service and the principal, even in case the debt is restructured.

#### 5) SOCIAL SECURITY

In the area of social services government spending provides for the population in poverty, basic education for poor children, health system, etc. These measures want decentralization, by delegating responsibilities to the municipal or regional level. It's remarkable how much public expenditure is devoted to these fields, although social security institutions of the former regime are still prevailing, such as the IMSS (Mexican Institute of Social Security) and the ISSSTE (Social Security Institute for State Workers). The most important reform is the one which has to do with the financial sector directly, that is the retirement pension system. In this area there is a new system that will be fulfilled in about 15 years.

In the present discussion there is a tendency to replace the two large institutions that are currently engaged with the unemployed (Chávez Presa et al. 2012).

#### 6) THE LABOUR SPHERE

a) Implementation of a wage policy that limits the annual increases to the level of expected inflation. This allows wages to be a price benchmark that hinders price raising, and reflects a shrinking market for the gradual reduction of the consumption capacity.

b) Promoting the weakening of unions and their ability to exert political pressure, in order to reduce the presence of organized labor in politics.

c) The labor reform was passed in the final days of government, which ended in December 1, 2012. It contains greater facilities for entrepreneurs in their relationships with unions and workers. The new labor law allows more flexibility in hiring workers, in the settlement of contracts, in hiring outsourcing companies. This increases pressure on workers and the unions.

The declared purpose is to create more jobs. But in fact this reform does not create more jobs. For this purpose more investments should be promoted, and better wages should be allowed to enlarge the domestic market.

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