

# **ON THE MEXICAN CRISIS**

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## Abstract

This paper examines the major factors and forces that led to the present economic situation in Mexico. It begins with a discussion of the peculiar macroeconomic circumstances that necessitated the stabilization and structural adjustment policies in the 80s. This is followed by an analysis of the Mexican experiment with stabilization and structural adjustment and how the experiment itself carried the seeds of further crisis that has culminated in the latest debacle. The concluding part of the paper draws some lessons for other developing countries.

*ON THE MEXICAN CRISIS*

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"The U.S. marines pounced on the port of Veracruz in 1914, following the footsteps of Spanish and French invaders who had landed there at different times in the years before. Now, in a strange and poignant twist of history, the Mexican government caught in a sudden and severe financial crisis, says it is willing to sell - or to put it more politely privatize - not only the oft-besieged Veracruz but three other harbours, the capitals airports, an undisclosed number of toll roads, and the 1600 mile national railway system".

So says Lee Smith on the recent Mexican crisis<sup>1</sup>. This is not a rhetoric. But there is no novelty in this assertion. Lee Smith has forgotten the fact that the process of selling out Mexican assets had begun as far back as 1982 when the then financial crisis had wrecked the Mexican economy. The world remembers that it was Mexico that had triggered off the Third World debt crisis. The therapy applied then by the IMF and the World Bank gave the economy a temporary relief but it was at the cost of an untold human misery. The virus that afflicted the Mexican economy then remained subdued for a while, but reappeared with greater force in 1994. This time the orthodox stabilization and adjustment medicine failed to effect a recovery. Ironically enough, the rescue package has proved to be too costly, consisting of mortgaging national assets to pay back the external debt!

*Some Aspects of Mexican Development Strategy*

In the beginning of the 80's the nature and significance of macro-economic crisis in Mexico called in to question the validity of import-substitution model and the effectiveness of state intervention in the market. Mexico possessed huge reserves of petroleum; yet in 1982, a situation arose in which the country found it did not have adequate resources of foreign exchange for servicing foreign debt and pay for its imports. Looking at the performance of the economy prior to the crisis, one finds that the Mexican economy had performed remarkably. During the period from 1950 - 1973 (the date of the first oil shock), the gross domestic product expanded at an average annual rate of nearly 6.6 per cent while inflation remained below 4.5 percent. Mexico's development since the Second World War was marked by a strategy of import-substitution based on protection. The high growth achieved during the 1950s and the 1960s was often referred to as the 'Mexican Miracle'. During the import-substitution strategy state exercised a higher degree of direct economic control with state owned firms controlling

important sectors of the economy. However, the role of the state in planning and direction of the economy was limited. The government policy favoured industry over agriculture and within agriculture large commercial farms producing mainly exports. Consequently, Mexico had become a net importer of food grains<sup>2</sup>. The distribution of GDP by sectors showed that the share of industrial output in GDP which stood at 21.5 per cent in 1950 increased to 30 per cent in 1985 and that the share of agriculture declined from 19 per cent to 9 during the same period (See Table I).

It may be pointed out in this context that the Mexican industrialization does not have quite the same degree of diversification and sophistication as that of other developing countries say Brazil or India.

Table I  
Percentage Distribution of GDP by Sector of Origin 1950-85: Mexico.

Years	Agriculture & other primary activities	Mining including oil extraction	Manufacturing constrn & electricity	Other Services govt.etc	Total
1950	19.1	5.1	21.5	54.4	100
1960	17.1	3.1	25.4	54.4	100
1970	12.2	2.5	30.1	55.2	100
1980	8.2	3.2	29.5	59.1	100
1985	9.1	4.7	28.7	57.5	100

Source: Nora Lusting and Jaine Ross op.cit.

Unlike in the case of the above countries, where heavy investments were committed to capital goods, the emphasis of Mexican industrialization had been on petrochemicals, metallurgy and simple machinery. Of late, there has been an emphasis also on consumer durables and automobiles.

Studies on Mexican industrialization process had underlined, the emerging monopolistic/oligopolistic character of the industrial structure. By 1972, the foreign transnational controlled 52 per cent of Mexico's manufacturing firms<sup>3</sup>. Though the import-substitution led growth created linkages in the industrial sector, the contribution of total factor productivity to output expenses was small<sup>4</sup>. The main reason attributed to this situation was that the large and medium firms which benefitted from access to credit as well as foreign technology, tended to remain capital intensive and inefficient and market structure highly concentrated<sup>5</sup>. We also have to bear in mind that employment expansion during the period of rapid expansion was limited. Consequently, a highly unbalanced dualistic structure remained within the different sectors of the economy.

Needless to say, the cumulative outcome of all these had been led to a situation of highly unequal distribution of income, which, to a very considerable extent, limited the possibilities of import-substitution<sup>6</sup>.

By the 1970s, the limitations of the Mexican model were evident. In the face of mounting unemployment, it was already clear that private investment was growing slowly and that "Because protected monopoly had already achieved a strong marked presence it had little incentive to keep growing by means of higher employment and increased productivity<sup>7</sup>. In such a context the ruling class had only two options - either to opt for an export promotion strategy or to expand public spending to offer employment for the growing workforce.

In the face of growing social unrest, Mexico opted for the latter strategy but not accompanied by the prospect of rising income. Consequently, the fiscal deficit increased which was financed increasingly by foreign borrowing and public debt. Between 1973 and 78, the public sector deficit rose from 2.5 per cent to 8 per cent of GDP further to 10.2 by 1979-81 financed by internal and external borrowings (See Table II).

Table II  
Principal Macroeconomic Indicators: Mexico

	1956-72	1973-78	1979-81
GDP (annual growth rate)*	6.7	6.1	7.4
Inflation Rate (Per cent)	3.1	16.7	23.8
Public Deficit (percent of GDP)	2.5	8.0	10.2

Note: \* in percentage

Source: Same as table I.

The aggregate demand rose as a result of increased public and private spending. Private investment was stimulated by an increase in the supply of credit by the banking system. The expansionary fiscal policy fuelled inflationary pressures. As is clear from Table II, inflation was the price Mexico had to pay for achieving relatively high growth rates<sup>8</sup>.

Despite the high degree of inflation, the Mexican regime had a very positive view of the future of the economy. This was due to the discovery of large hydro-carbon reserves, which, the authorities thought would support the renewed expansion of spending. As Donald Wymon has rightly observed in this context, "Spending appeared to have no troubles, officials were prepared in that classic phrase, to let the good times roll"<sup>9</sup>.

The pressures on the price front were very intense; the government's response to them was overvalue the "peso" which meant that imported goods

became less expensive relative to Mexican goods and Mexican exports became costlier in the external market. However, the burden put on the external sector was too heavy. Consequently, the current deficit swelled (to 4 per cent of GDP). As the gap between the domestic and international prices started widening, the real value of the peso relative to that of dollar began to fall which affected the import of intermediates - consequence of which was further fall in the non-oil exports. The swelling deficit in the current account was to some extent offset by external borrowing.

Interest payment on the new borrowing proved a serious drain on current account balance. As the short-run measures such (eg.incentive to export promotion etc.) failed to improve the situation. Capital flight accelerated sharply during the 1980s. The weakening of the world petroleum market gave an added blow to the already precarious foreign exchange situation. By then public debt grew by \$20 billion. The operational deficit rose from 16 per cent of GDP by 1982 and foreign debt around 54.4 per cent of GDP in the same year. The situation worsened when international lending was suddenly interrupted. Crisis followed on a grand scale. GDP registered a decline of 0.5 per cent in 1982 and the annual rate of inflation 98.8 per cent.

#### *Macro-economic Adjustment*

By April 1982, the government announced an economic adjustment programme to restore price and exchange rate stability and balance of payments equilibrium. Mexican government officials made several trips to Washington in search of an emergency bail out package and started negotiations with IMF. In keeping agreement with IMF, the two major measures contemplated to check inflation and to restore exchange rate stability were immediate reduction in government deficit and maintenance of an undervalued exchange rate to avoid financial speculation. Towards this purpose, the government reduced public spending substantially and increased public sector prices and tariff.

As revealed by the data presented in tables III, VI and VII, 1982-88 was one of the worst in Mexican history, a period of stagnation followed by one of declining living standards. The cut in government expenditure drastically affected capital formation, real wages and social expenditures much more sharply. To illustrate, the fixed capital formation declined from 23.8 per cent of the GDP in 1989 to 18.9 in 1987-88, while inflation rose from 29.8 per cent in 1980 to 159.2 per cent in 1987-88, Table III. Consequently, real wages declined from 100 in 1982 to 38.5 and minimum wages by 49 per cent in 1988 (See Table VII).

As the exchange rate depreciated further, current account situation improved dramatically. As the policy of stabilization gained further momentum,

inflation also spiralled until the implementation of the wide ranging "economic solidarity pact" of 1987 began.

The economic solidarity pact was launched in March 1987. It was an agreement between government, enterprises and labour unions, and consisted of five lines of action.

1 .A strong upward adjustment of prices of public goods and services and more austerity in government spending.

2 .An adjustment of the controlled exchange rate intended to close the gap with free rate provoked by devaluation and virtual freezing of the controlled rate until June 1988. The exchange rate would serve as an anchor for inflation.

3 .A wage increase at the initiation of the pact and commitment to index wages to inflation from March 1988 onwards.

4 .A speeding up of trade reforms aiming at greater exposure of domestic prices to competition from abroad to combat inflation.

The results of the pact were quite positive. During 1988 monthly inflation dropped from 15 per cent in January to approximately one per cent in December. Real GDP grew at 1.4 per cent. The economic deficit of the public sector declined from 13.4 per cent of GDP in 1987 to 10.7 per cent in 1988. So was the operational deficit which declined from 5.4 to 0.7 per cent of GDP. (see Table IV). During this period the nominal exchange rate remained stable.

Analysts of Mexican scene have underlined the basic reasons for the success of the pact. It was pointed out that the drop in inflation rate was due to the use of income policy complemented by fiscal and monetary discipline<sup>10</sup>. Needless to say, the authoritarian political structure of Mexico facilitated the implementation of income policy in the sense that the state conceded the wage revision only selectively ie. revisions were granted only when the frictions had reached certain intolerable limits. The exchange rate was kept at a stable level by releasing the reserves of Central Bank. This step has resulted in the appreciation of the peso and checked capital flight to some extent. Operational deficit came down on account of drastic reduction in government expenditure and by raising the prices of public sector goods and services.

In view of its success of the pact, it was extended to 1989 and 1990. Some disturbing features of the Act had already began to show up. As the exchange rate appreciated trade balance worsened and the fear of devaluation induced capital flight. The Central Bank had to pump in foreign exchange to stabilize the exchange rate leading to reserve losses. Further, interest rate had to be kept high to prevent further capital flight which in turn led to heavy

servicing burden to the state exchequer to bear. The interest burden on loans reached a high of around 8 per cent of GDP in 1988.

Table III  
Macroeconomic indicators of Mexican economy during the crisis years

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Gross Domestic Product (at constant prices)	8.3	8.8	-0.6	-4.2	3.6	2.5	-3.7	1.5	1.0
Inflation (growth rate)	29.8	28.7	98.8	80.8	59.2	63.7	105.7	159.2	51.7
Gross Fixed Investment (Percent to GDP)	14.9	14.7	-16.8	-25.3	5.1	6.7	-11.7	-0.7	4.9
Current Account (as % of GDP)	-4.3	-5.8	-3.7	3.8	2.5	0.7	-1.0	3.1	-2.1
Foreign Debt (as percent of GDP)	27.7	33.5	54.4	66.6	55.4	53.8	74.3	75.6	77.0

Source: Same as Table I.

Under these circumstances trade liberalization has come to Mexico in a big way. The authorities thought that trade liberalization could act as a powerful instrument to curtail inflation as external prices might act as ceiling to domestic prices.

### *The Impact of New Economic Policy*

As mentioned earlier, the macro economic adjustment was followed by wide ranging policy reforms which *inter alia* included fiscal reforms, privatization of state owned enterprises and negotiation of external debt, monetary reforms and trade liberalization. We may summarise below the major changes that occurred in the Mexican economy since 1988. By 1990, Mexico presented itself an entirely different scenario from what it looked during the previous decade. The state autonomy in economic decision making and the largesee of expenditure-making which dominated the public expenditure led growth phase, almost disappeared by 1990. The central government kept its expenditure at a basic minimum level. Consequently, therefore, for the first time, fiscal balance improved considerably and in 1989 (for the first time) the fiscal sciene registered a surplus (see Table IV).



Table IV  
Trends in Government Deficit (As a percentage of GDP)

Year	Economic Deficit	Operational Deficit (X)	Primary Deficit (+)
1984	7.1	2.9	-5.5
1985	8.0	3.3	-3.9
1986	14.9	7.0	-2.2
1987	13.4	5.4	-6.9
1988	10.7	0.7	-6.4
1989	5.7	-2.6	-8.3

Source: Andrien Tenkate, Trade Liberalisation in Mexico, Lessons of Experience, World Development, Volume 20, 1992.

X - Excluding inflation component of interest payments on domestic public debt.

+ - Excluding all interest payment.

In order to achieve this, programmable spending had to be reduced to around 9 per cent per year. Together, with reduction in spending, the level of subsidies and transfers was also reduced. The elimination of price differentials for energy and basic petrochemical products and the reduction of financial transfers to development banking were among the most important steps in this direction.

Along with these developments privatization proceeded with great vigour. More than 80 per cent of the 1115 state-run companies which had existed in 1982 were no longer there by 1991. The funds raised from divestment of public sector shares have been used to reduce the volume of internal debt. This measure led to a reduction of internal debt from 6 per cent to 2 per cent of GDP in 1991. The re-negotiation of foreign debt with commercial banks, Paris Club, IMF and World Bank allowed Mexico to have a long term resettlement implying lighter servicing incidence. Foreign debt servicing (as a percentage of GDP) which had stood at 12.1 per cent of GDP came down to 5.2 per cent by 1991.

Trade liberalization which had began in the mid-sixties accelerated. Items covered by import licensing relative to tradeable output which had been 100 per cent in 1983 had declined to 9.1 per cent in 1991. The average tariff which stood at 27 percent in 1983 was brought down sharply to 13.1 per cent in 1991 (see Table V).

Table V  
Indicators of Trade Liberalization

Years	Average Tariff	Import Permit Coverage
1983	27.00	100.00
1985	22.60	35.10
1988	13.10	21.20
1989	12.10	18.40
1990	10.40	13.70
1991	13.10	9.1

Source: Andrien Tenkate op.cit.

### *Impact of Expenditure Policy*

The social impact of structural adjustment policies may be assessed now. Mexico is the typical example of a country where reforms in the realm of finance, income and expenditure policies have pushed the economy to a point of self-defeat in respect to social justice. The distribution of wealth and income during the adjustment phase behaved in a regressive fashion. To illustrate, the Mexican wage income declined on an average 8.1 per cent per annum (see Table VI and VII). A sharp decline of 24.6 per cent in 1983 and 10.7 per cent in 1984 occurred during the two years of the deepest economic crisis. The population living in poverty though registered a decline between 1970 and 1981 from 34 to 29 per cent, however, increased to 51 per cent by 1986<sup>11</sup>. By the end of 80s according to Hernandez Laos poverty in Mexico had reached a figure of 59 per cent<sup>12</sup>. In the words of Manvel Paster, "The high rate of inflation, decline in real wages and capital flight created a perverse distributional dynamics - the poor undergoes austerity in order to pay for international banks which in turn make interest payments to those Latin Americans wealthy enough to have assets abroad<sup>13</sup>.

In this context, a glance into a few more ramifications is in order. The agricultural labour households in particular registered rapid decline in consumption. The performance of agricultural output and prices, the reduction in agricultural credit and subsidies and an attempt to hold down prices during the solidarity pact depressed farm wages and pushed the farm households down to poverty levels. On the contrary, the non-wage share of the total income rose from 61.0 per cent in 1981 to 71.6 per cent in 1988<sup>14</sup>. To illustrate further, by 1980s the income distribution was worsening further, with the share of income to the lowest 40 per cent of the household declining from 14.3 per cent in 1984 to 12.9 per cent in 1989 and the share of income of highest ten per cent of the household increasing from 32.8 per cent in 1984 to 37.95 in 1989.

Table VI  
Trends in Real Wages and Unemployment: Mexico

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Real Minimum wages (yearly growth rates)	-7.4	1.3	3.3	-25.2	-8.3	-1.2	-10.8	-4.7	-12.7
Real average wages (yearly growth rates)	-0.8	4.2	-2.4	-26.5	-4.9	1.0	-9.9	5.5 <sup>P</sup>	n.a.
Open unemployment rate	4.6	4.2	4.2	6.6	5.7	4.4	4.3	3.9 <sup>P</sup>	3.5 <sup>p</sup>
Wage Share	38.9	42.7	38.2	31.7	30.8	31.2	30.6	n.a.	n.a.
Real GDP per capita (yearly growth rates)	16.2	-0.7	-27.8	-0.3	0.7	-6.2	-6.4	n.a.	

Sources: Same as table 1.

Key: p = preliminary; n.a. = not available

Table VII  
Trends in Wages, Non-wage income and employment: Mexico, 1980-1989

	(annual rates of change in per cent)										Average 1983-88	Cumulative 1983-88	Average 1983-85	Average 1986-87
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989				
Total wage income	-	11.3	-5.4	-24.6	-2.7	2.0	-10.7	-2.0	-7.9	4.2	-8.1	-39.7	-9.2	-6.5
Total wage income per workplace national accounts	-	5.8	-5.3	-23.1	-5.0	-0.2	-9.4	-3.1	-8.4	2.7	-8.5	-41.4	-10.0	-6.3
Real Wages quoted by industrial survey- Minimum Wage <sup>C</sup>	-	5.0	0.1	-24.1	-6.8	1.1	-6.9	-1.4	-6.3	8.8	-7.8	-38.5	-10.6	-4.2
Private consumption per capita	-	4.6	-4.9	-7.8	1.1	1.7	-4.8	-2.2	0.3	3.7	-2.0	-11.5	-1.8	-3.5
Non-wage income share of non-wage income in total	-	4.8	2.0	-7.2	9.9	-0.2	-9.2	5.4	-3.4	9.8	-1.0	-5.9	0.6	-2.2
Employment	61.4	60.0	61.8	66.6	69.2	68.8	69.1	70.6	71.6	72.7	69.3	-	68.2	69.9
Urban open unemploy- ment (percent)	-	4.2	4.2	6.6	5.7	4.4	4.3	3.9	3.5	3.0	4.7	27.5	5.6	4.1

Source: Same as table 1.

As indicated earlier, government expenditure on social sectors registered a sharp decline. Estimate indicated that outlays on education and health fell by a cumulative 30.2 per cent and 23.9 per cent respectively since 1982. To elaborate, the total spending on education which was around 20 per cent in 1979 declined to 10.6 per cent by 1985. The health expenditure which was 3.1 per cent in 1979 declined to 1.1 per cent by 1985. Several consequences of this phenomenon like decline in the school enrolment, the increase of infant and pre-

school child mortality due to institutional deficiencies etc. have already been noted by scholars<sup>15</sup>.

**Table VIII**  
**Share of Education and Health Spending In Total**  
**Spending of the Central Government in Mexico**

Head of Expenditure	Years		
	1970	1979	1985
Education	18.9	20.0	10.6
Health	3.1	3.1	1.1

Source: Elina Cardoso and Ann Helwage, *Below the Line, Poverty, In Latin America*, op.cit.

*The Transition and after:*

The adjustment process came to a standstill by the end of the 1980's. By 1990, policy makers used to claim that within the framework of stabilization and structural adjustment, considerable success had already been attained. The macroeconomic situation improved and inflation came down. However, policy makers were puzzled over the phenomenon of low growth. When President Salinas took office in 1988 he pledged to generate six percent annual growth. But the growth rate till 1991 averaged only 2.4 per cent -only marginally higher than the Mexican population growth rate. Since then, surprisingly enough, growth rate has come down further even to as low as 0.4 per cent by 1993, though inflation rate also remained low. (See Figure 1). The Mexican economy since the beginning of the 1990s did not show any semblance of further recovery. As a consequence of the limited growth of the economy, open unemployment rose to 3.4 per cent in 1993, a figure greater than that for 1992 (2.8 per cent). Though inflation remained subdued till 1994 due to drastic curtailment of government expenditure other two major anomalies persisted: high interest rates and government intervention in exchange rate stabilisation. In order to prevent capital flight domestic interest rate had to be kept high and in order to reduce exchange rate uncertainty government intervention to maintain a stable exchange rate has become inevitable. Both phenomena, through their several linkages, run through the capital account of the balance of payments. Interestingly enough, the strategy of exchange rate intervention and high interest rate had to be resorted to during a period of import liberalisation and in an overheated economy this led to a contraction in domestic output and an increased demand for imports. As is well known, Mexico has gone quite far with

liberalization and the degree of its openness has even surpassed that of the United States.

One of the major consequences of this phenomenon has been that the quantum of saving got reduced. Theoretically, a temporary reversal of capital flight should have raised internal saving but the lowering of tariff rates were accompanied by an import boom. Hence, consumption in the economy rose with private inflation - adjusted saving falling from 19 per cent of GDP in 1989-90 to less than 10 per cent of GDP in 1991-93<sup>16</sup>.

Consequently, the external gap increased despite budgetary deficit remaining small (Figure II and III). Strangely enough, the logical relation between current deficit and external deficit no longer applied in the case of Mexico. Alternatively, the feeling was gaining ground that current account deficit relative to GDP stimulates strong expansion of private investment financed by capital repatriation or direct foreign investment. No doubt, capital repatriation and foreign investment began to flow into Mexico. But more importantly, private investment did not get adequate stimulus since the complementarities between the public sector and private sector which had historically evolved in Mexico got suspended during stabilisation. Therefore, even after stabilisation, private capital remained shy. The demand surges were increasingly absorbed by imports and financed by in-flows in the capital account. As Sidney Weintraub, has remarked, "they felt it was okay to run a current account deficit so long as foreign capital kept on coming in - that capital would finance production"<sup>17</sup>. An analysis of the capital inflows showed that Mexico received \$81 billion as capital flows since the 1990s. But only 15 billion was in direct investment. In several other developing countries also we observe such situations. However, the point of departure is that a very small fraction of the deficit is reflected in productive investment, the rest accounting for short term speculative investment of short term deposits. It needs no emphasis that the build-up of foreign exchange with the help of resource flows especially of the portfolio investment type on capital account, has the high risk of uncertainty and instability.

The two immediate reasons for the collapse of the bond market were the armed rebellion (rebels of Chiapas) whose guerilla movement in the south of Mexico dramatized the plight of millions of poor Mexicans. Because of the revolt and the shock from massacre and arson which followed, Mexico underwent dramatic political upheavals which scared away short term investors. The holders of peso denominated Mexican treasury bills switched on to dollar denominated 'Tesobonos' for hedging against a possible devaluation of "peso". The rise in American interest rate made investment in Mexico unattractive and prompted

investors to take money out of Mexico and invest in risk free America. The bond market sent shock waves all over Mexico. By the end of December 1994, the prices of Mexican bond fell by 23 per cent. The Government decided to devalue the volatile 'peso' by 13 per cent. Frightened by the rush to convert the peso denominated bonds into dollar denominated ones, the government decided to float the 'peso' which the government had secured from overseas credit, to defend the economy. Besides, short-term interest had to be pushed up steeply to prevent further depreciation of the peso. After devaluation, the Peso dropped from 3.5 to a low of 5.6 to a dollar by mid January 1995, a decline of close to 40 per cent. The peso goes on into a free fall.

Once the dust settles, the solution articulated by the authorities in a package form would call for further sacrifices on the part of the people of Mexico for converting the devaluation into an opportunity for export-led growth. Ironically enough, plans to revamp the economy consist of further sell-out to foreign capital and further cut in government spending. With inflation going up by 45 per cent, workers would end up with a drastic wage cut as the new plan expects wages to rise only by less than half the inflation ratio. For the last four years, wages have been squeezed to bring down inflation and today, they lag 10 per cent behind the 1980 level!

Figure 1

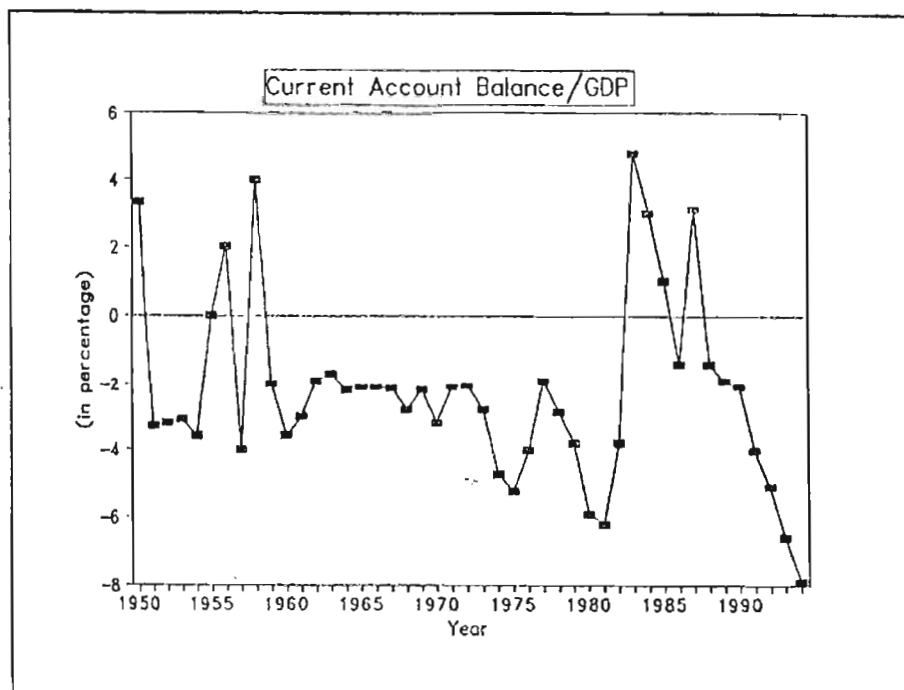


Figure 2

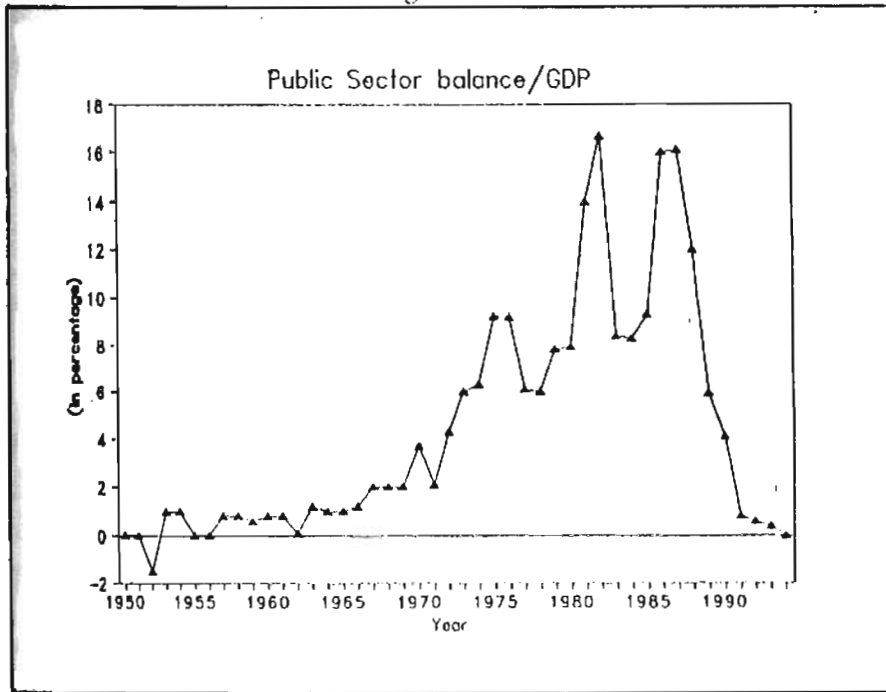
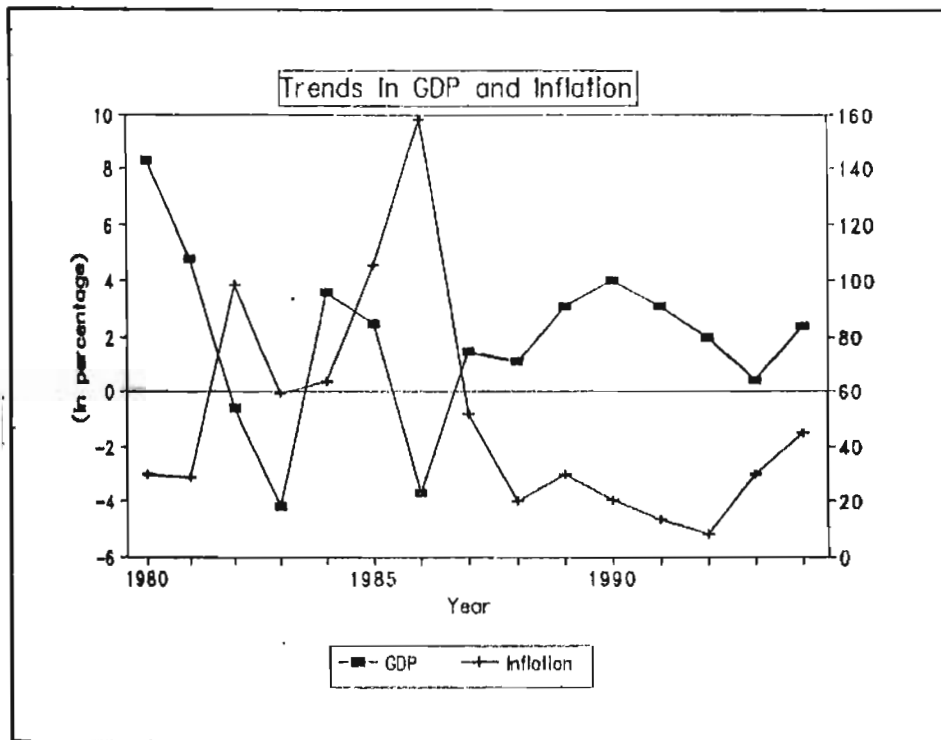


Figure 3



The most interesting consequences of the two crises elaborated above lie in the realm of the structure of class forces of the Mexican society. The import-substitution strategy of Mexico was based on a populist type of class alliance among the State, domestic industrialists and foreign capital. In this type of corporatism, the state tends to be dominated by the military while the popular sectors are demobilized<sup>18</sup>. However, in the case of Mexico, though the State is strongly authoritarian, it is not ruled by the military. Till the beginning of 1980s the authoritarian regime had tried to incorporate with the administration certain elements of democracy and political liberalism and responded to selective demands of various sectors of the society. "Within the authoritarian system, the party and especially the popular organisations, constituted the principal means of communication between civil society and the government"<sup>19</sup>. The agrarian reforms, the nationalisation of large foreign owned oil companies and the official support of labour organisations and of some of their demand allowed the official party to proclaim that it governed Mexico in the name of people - workers, peasants and middle class<sup>20</sup>. As the crisis overwhelmed the regime, the demand of labour and the large majority of marginalised groups mainly the Indians, was met with repression and terrorism. As the structural adjustment gathered momentum, the intensity of repression increased. Moreover, the trade agreement Mexico negotiated with the U.S.A. and Canada further sharpened the contradiction between the ruling elite and the marginalised sections. As correctly illustrated by Craig Benjam with reference to the agrarian scene. "The requirements for Mexico to eliminate subsidies for corn production, making it all but impossible for Mexican farmers to compete in the production of Mexico's most important dietary crop. According to a World Bank study, between 1.1 and 1.9 million farmers will be uprooted as a consequence of these changes. Jose Luis Ealver estimated that these reforms would lead to the dispossession of some 10 million rural Mexicans"<sup>21</sup>. Ironically enough, due to the impact of economic measures in the late 1980s, such as austerity programmes associated with stabilization and structural adjustment, privatisation and wage cut which led to growing mobilisation of marginalised sections, all point to a new convergence of class forces in Mexico. The growing combat with the Mexican and the foreign capital on the one side posited against the growing mobilisation of suffering masses on the other can no longer afford the kind of "fine tuning" of earlier decades. Mexico today is sitting on a live and simmering volcano.

#### *In Lieu of Conclusion*

To what extent does the Mexican experience have relevance in the context of developing countries? It may be pointed out that what happened in one



country with its specific socio-political and economic environment does not provide a sure guide as to what would take place in other regimes and contexts. Evidently, Mexico has gone too far with the orthodox stabilization programme. As seen earlier, the cost Mexico had to pay for undergoing the transformation has been enormous. The Mexican failure has to be understood in terms of regressive impact on income distribution which in the long run proved self defeating. The logistics and the linkages of the Mexican imbroglio have already been discussed<sup>22</sup>. Suffice it to conclude that a pseudo state of long run normalcy was reached without much consequence on productivity and growth. Moreover, in the process of adjusting the public finance, a contractionary process began in the second phase i.e. external deficit, and return to the long run normalcy of the budget, pushing the economy to increasing instability at enormous social cost. Now the policy makers in developing countries face a puzzle. From the Mexican experience they are rediscovering that opening up by deregulation, privatisation, and trade liberalisation in general is not a pre-condition to growth; rather it adds to the volatility of the economy.

However, there are viewpoints expressed in India emphasizing the dissimilarity between the Indian and Mexican economies. The following argument is often put forward to emphasise the point. India's capital account being closed there is no question of capital flight here which played havoc in Mexican economy. Moreover, India does not represent a kind of semi-peripheral dependence syndrome that Mexico did. Here, the ruling class is much more differentiated and labour much more organized than in Mexico and therefore an adjustment strategy of depressing wages and income might not be possible in the Indian context. On the basis of relevant facts one could refute the above arguments.

As for India, there may be apparent differences but the fundamental forces operating here remain the same. As mentioned earlier in the Mexican context import liberalisation was accompanied by a rise in conspicuous consumption which in turn led to a drastic fall in the saving rate of the economy. Even the foreign investment could not help Mexico to return to historical saving rates to support growth during the post reform phase. Strangely enough, almost similar situation is slowly developing in India. The Domestic saving to GDP ratio declined sharply from 23.7 per cent in 1990-91 to 20.2 per cent in 1993-94 and all indicators to a further fall in the years to come. This is largely attributed to rise in conspicuous consumption in the wake of liberalisation. The saving gap is unlikely to be offset by increase in foreign investment for the following reasons.

Of late, in India glaring difference has been recorded between the volume of direct foreign investment and that of portfolio investment; the ratio between

is 1:7 similar to that of Mexico in the late 1990s. The portfolio element in the bundle is likely to swing back. This phenomenon indicates the limit to resource flow on capital account that a country like India could expect from foreign direct investment notwithstanding its liberal and open door policy under economic reforms. India's high debt service ratio of 28 per cent is heading towards the Mexican level of 46 per cent, by the time repayment starts such a high ratio is bound to curtail India's import generating capacity. Though India has a foreign exchange reserve of US \$ 22 billion against Mexico's 8 billion, it was accumulated through large scale borrowing, which is likely to get progressively depleted when peak repayment starts by 1994-95. In such a situation, the uncertainties regarding the future payments position may increase. Two similar situations of near collapse of financial system comparable to that of Mexico is not far away from our memory. The first was in 1990 and second in 1992 when NRIs withdrew their deposits abruptly. If the first was provoked by political uncertainty and worsening balancing of payments position the second was, followed by the security scam.

In Mexico it was the expenditure cuts and privatisation which were resorted to disastrous results particularly large scale unemployment and social misery. We also tend to follow the same logic indiscriminately. Already there is evidence of increase in absolute poverty and unemployment in India, still we tend to brush aside the major questions on social dimensions of reforms and restructuring. The distance between the miracle and tragedy in Mexico was too short. As the economic forces in both countries tend to be the same we cannot assume away such a historical convergence in the Indian context.

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### Notes

1. Lee Smith, Time to Buy Mexico? Fortune, February, 1995, p.42.
2. See Rose J.Spalding, Structural Barriers to Food Programming: An Analysis of the "Mexican Food System", World Development, Vol.13, No.12, 1985.
3. G. Gereffi and P.Evans, Transnational Corporations Development and State Policy in the Semi periphery, A comparison of Brazil and Mexico, Latin American Research Review (b)(3), 1981, Pp.31-64.
4. Nora Lusting and Jaime Ros, "Mexico" in Lance Taylor (ed) Rocky Road to Reform (Adjustment, Income Distribution and Growth in the Developing World) MIT Press, Cambridge, 1993.
5. The percentage of total capital controlled by firms in the highest value of production range increased. IN 1955, around 54 per cent of the industrial output in Mexico was controlled by 4.5 per cent of all firms. In 1960, 52.6 per cent of the industrial output was controlled by 1.9 per cent of all firms. In 1965, 76.2 per cent of the output was shared by 0.9 per cent of firms and in 1970, 1.7 per cent of the firms controlled 80.2 per cent output. The details from the works of Hernandex Rodriguez cited in Janet M.Tanski and Albert A., Blum, "Mexico: A Model for Developing Countries", The Indian Journal of Labour Economics, Vol.37, No.1, 1994.
6. Nora Lusting and Jaime ROS op cit.
7. See Pedro Aspe, Economic Transformation, the Mexican way, MIT Press, 1993, p.9.
8. Nora Lusting, Jaime Ros, Mexico op.cit. pp.
9. Donald L.Wyman, Mexico's Economic Crisis, Challenges and opportunities, Centre for U.S., - Mexican Studies, University of California, 1983.
10. Gressami Damicla, The Extent of Mexican stabilization programme on Inflation, Simulation Results From a Model with wage and price Determination, World Bank, 1989.
11. Elina Cardoso and Aun Melwage, "Below the Line, Poverty in Latin America", World Development, Vol.41, 1984.
12. Hernandez Laos, Poverty in Mexico, Foreign Trade Magazine, Vol.42, Issue 4, 1990. Even today the proportion is reportedly 44 per cent, 16 per cent in extreme poverty and 28 in poverty. See Carol Upadyay, Repression and Reforms, Economic and Political Weekly, March 4, 1995, p.430.
13. Manvel Paster, The Mexican Economy, Present Situation, Perspectives and Alternatives, World Development, Volume II, No.5, 1983, pp.108.

14. Nora Lusting and Jamine Ros op.cit also see, Gressm, Daniela, The effect of Mexican stabilization program on Inflation: Simulation Results from a model with wage and price determination, Washington, DC. World Bank, 1989, also Ize.A, Saving, Investment and Growth in Mexico, Five Years After Irish, IMF, WP/88/198.
15. Lusting Nora, Mexico, The Remarking of An Economy, Washington DC, The Brooking Institution, 1992, also see
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  2. Richard H.Wood, Literacy and Basic Needs Satisfaction In Mexico, World, Development, Vol.16, No.3, 1988.
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16. See Global Capital Flows Economlst, June 24th - 30th, 1995.
17. Quoted in the article 'Time To Buy Mexico?' Fortune, op.cit.
18. See Bjorn Hettne and Thomas Sterner, Mexico as a Regional Power in Jerker Carlson and T.M.Shaw (ed) - "Newly Industrialising countries and the Political Economy of South-South Relations" Mcmillan Press, 1988.
19. Ibid, p.108, also see Nora Hamilton & Eun Mee Kim, Economic and Political Liberalisation in South Korea and Mexico, Third World Quarterly, Volume 14, No.1, 1993.
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21. Craiz Benyanin, the Zapatistic uprising and popular struggles against neo-liberal restructuring, Labour, Capital and Society, April 1994.
22. See Lance Taylor, Varieties of Stabilisation Experience, Oxford, 1988.

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