Mexican Economic Policy

Carlos Alberto Contreras
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Since Mexico was integrated into the world economy in the sixteenth century, the Mexican economy has experienced several periods of rapid growth. A careful examination of the distribution of this growth however, reveals a paradox of increasing wealth and inequality. Indeed, on more than one occasion Mexico experienced spectacular economic growth, as it did at the end of the eighteenth century and again, at the end of the nineteenth century, but that growth was so unevenly distributed that those inequalities contributed to rebellions, upheavals, and in 1910 a full-fledged revolution.

The Colonial Economy

The year 1519, the first year of the conquest of Mexico, signaled the beginning of a system where Mexico would be incorporated into the world economy as a colony of Spain, mainly on the basis of mining, agriculture and ranching. The conquest also introduced an economic system which relied for generations on the exploitation of native peoples. Over the next 300 years, while Mexico emerged as a supplier of raw materials, most notably of silver, cochineal, sugar, tobacco and other agricultural products, its economy was also characterized by an unequal economic system in which the Spanish colonizers and their descendants dominated the economic and political spheres and most non-whites lived in poverty. The effects of this inequality would continue to be felt in Mexico for centuries.

Beginning in the 1760's, the Spanish Crown under the new Bourbon dynasty began implementing a series of policies geared to stimulating the economy and making it more efficient. Known collectively as the Bourbon reforms, one of their main goals was to boost the export of Mexico's raw materials. They included the opening of new ports, abolishing trade monopolies, and stimulating Mexico's largest export, silver production. By 1810, the year Mexico declared its independence, Mexico was the most prosperous of Spain's colonies. On the whole, the Bourbon reforms stimulated economic growth, further integrating Mexico into the world economy. But because these policies were designed by the Spanish monarchs to extract more wealth from its colonies, most people in the colony did not benefit from this economic growth. The wealth that was generated continued to be unevenly distributed. While the merchants, miners, and ranchers that benefited most from this economic growth were invariably of European origin, the workers in the rural sectors, mainly natives and mestizos, saw their real incomes drop. As Mexico's agricultural exports grew, this increasing commercialization of agriculture led to increasing concentration of landholding, thereby reinforcing Mexico's already unequal social system and leading to further insecurity in the countryside. Particularly vulnerable to those economic transformations, for example, were natives and mestizos in the Bajío region, whose lands came increasingly under assault as more areas of Mexico became integrated into the web of capitalist cultivation. The Bajío, encompassing a broad swath of territory to the north of Mexico City from Hidalgo to Querétaro, Guanajuato and Jalisco, became the "breadbasket" of Mexico by the late 18th century. Paradoxically, this region also became a hotbed of violence as natives and humble mestizos rebelled when their way of life was threatened by the encroaching haciendas (the large landed estates), the commercialization of agriculture and the fluctuations of the international economy. Finally, a series of droughts, pressures from below, elite resentment of colonial restrictions and a crisis in Europe came together in 1810 to spark Mexico's wars for independence. The breakdown of the colonial order unleashed the pent-up frustrations of tens of thousands of Mexicans, resulting in race and class warfare and elite infighting from which the country would take decades to recover.

The Nineteenth Century: From Economic Stagnation to Economic Growth

By 1821 Mexico had achieved its independence, but the human and physical cost of the independence wars combined with the inability of the various factions involved to forge consensus contributed to such instability that no coherent and sustained public policy would be possible until well into the second half of the 19th century. The destruction of the wars, the collapse of the credit system, loss of investor confidence, perennial elite infighting, inefficient economic organization, and a lack of well-developed institutions led to almost half a century of economic stagnation. In an example of the difficulties Mexico had in re-establishing central authority, the presidency of Mexico changed hands 36 times from the 1820's to the middle of the 1850's, with the average tenure lasting only seven and one half months. With silver, the engine of economic growth during the colonial period, in shambles, agricultural fields sacked, and textile mills shut down, investors withheld their capital and a vicious cycle of instability, lack of investment and economic stagnation followed. In real terms, Mexico's gross domestic product shrank and would not recover its 1800 levels until 1860.

After stability was finally achieved in the second half of the 19th century, the attention of policymakers turned toward creating an institutional framework that would entice foreign investment, stimulate economic growth, and consolidate an export-led model of development. A new constitution in 1857, with its emphasis on unleashing market forces and the sanctity of private property, outlined the new direction that Mexico would take for the next half century. This Liberal economic model was at its apogee from 1876 to 1911, a period when Porfirio Diaz and his advisors known as the "Científicos" for their belief in a scientific approach to public policy, ruled uninterruptedly. Fueled by a new wave of agricultural and mineral exports, the Mexican economy grew at unprecedented rates during this period. Among the major export products were sugar, cotton, henequen, copper, and petroleum. Railroads played a major role in binding Mexico's regions together, connecting mining sites and haciendas to their principal markets, and bringing new lands into the realm of commercialized agriculture. They also helped to bind the Mexican economy ever closer to the United States, Mexico's largest market and principal source of investment. Diaz' policies facilitated the expansion of large landholdings, created a new class of industrialists and bankers, and attracted foreign investors to Mexico to such an extent that they came to own over one quarter of Mexico's arable land and came to dominate Mexico's petroleum and copper industries. Even more than during the Bourbon reforms at the late eighteenth century, the increased concentration of landholdings created such inequalities that class conflict sharpened as the 20th century approached. By 1910, 75% of Mexico's cultivable land was dominated by the haciendas, several having expanded to such an extent that they were over ten million acres each. At the same time, land was so concentrated that about 95% of Mexico's rural population no longer owned any land. In some regions, like the sugar producing region of Morelos, the sugar haciendas became such an overwhelming economic force that they swallowed up the lands of over 30 native villages. As people lost their village lands, they become temporary, low wage laborers on the growing haciendas. The revolutionary Emiliano Zapata emerged from this region as a leader of native peoples' efforts to recover their ancestral land that had been lost to the haciendas. Despite Mexico's impressive economic growth during this period, the distribution of this economic growth was so unequal that it led to the Mexican Revolution in 1910, a cataclysmic event that brought this model of economic development to a screeching halt.

The Aftermath of the 1910 Revolution and the Rise of Import Substitution Industrialization (ISI)

After almost a decade of violence, dislocation, and economic contraction, policymakers of the post-Revolutionary era ushered in a new inward-looking model of development that was in many ways a rejection of half a century of Liberal economic policies. The Constitution of 1917 was the blueprint for this new economic model that would be characterized by the gradual implementation of nationalist economic policies designed to repossess natural resources, limit foreign investment, foster Mexican industry and engage in a far-reaching program of land reform. The implicit protection provided by the two world wars and the collapse of commodity prices during the Great Depression provided an impetus for Mexican policymakers to consolidate this model of development. Policymakers took back effective control over the nation's natural resources, expanded the building of infrastructure projects, became heavily involved in protecting and subsidizing agriculture and industry, and in general ushered in an era of unprecedented state involvement in the Mexican economy. Because they centered on protecting national industry in order to industrialize the nation and diversify the economy, these policies are often referred to as Import Substitution Industrialization (ISI). Indeed as Mexican economic policy centered on industrializing the nation after 1940, the state moved beyond involvement in energy and infrastructure, and became a direct producer of industrial products. This trend accelerated as Mexico discovered new petroleum deposits in the 1970's. By 1982 the Mexican state was responsible for over 50 percent of economic activity. It owned steel mills, airlines, truck manufacturers and had even nationalized the nation's banks. The model also led to a dual system of agriculture, with large, capital-intensive enterprises tied to international markets, and small agricultural plots often producing for subsistence.

While putting into place this state-led model of development, policymakers were also putting into place a wide-reaching social safety net that included subsidized food, electricity, and health care. Despite a persistent gap between the nation's rich and poor, by 1982 when this economic model ran out of steam, Mexico's levels of poverty were on the decline, educational achievement rates were rising, illiteracy rates were declining, and social indicators in general were steadily moving in a positive direction. Mexico's Social Poverty Index, an index developed by James W. Wilkie, showed a steady decline in the percentage of the population that was ill-fed, ill-clothed and ill-housed during this era.

Though punctuated with periodic economic and political crises, this economic model provided the nation with relative stability for over six decades. Reliant on petroleum exports and international loans, this economic model provided the nation with economic growth until a confluence of factors led to the model's collapse. Because there were few checks and balances in the Mexican political system, this state-led economic model became laden with inefficiencies and corruption, and consequently many industries became a drain on the state. A precipitous decline in oil prices and a surge in world interest rates triggered the model's collapse in 1982.

The Collapse of ISI and the Rise of Neoliberalism

The model's collapse brought with it almost a decade of economic crisis and ushered in a new era of economic policymaking in Mexico. A new generation of U.S.-trained policymakers (economists, mostly) consolidated their power, began dismantling the old economic order and began hammering into place policies of economic liberalization, deregulation, and massive privatization. In their efforts to "get prices right", the new policymakers slashed subsidies on energy, inputs, healthcare, and foodstuffs. In the countryside, subsidies that farmers had received for their corn and beans, for example, were slashed, while the prices they paid for fuel and fertilizers shot up. In urban areas, subsidies for tortillas and milk were cut while the wages of workers declined by almost 50%. The loss of subsidies, combined with the severe economic contraction of the 1980's, pushed Mexico's social indicators in the opposite direction. Cuts in health care and educational expenditures led to a rise in infant mortality and a drop in educational attainment rates. Indeed, the structural adjustment policies that policymakers put into place had such severe social costs for the Mexican population that scholars dubbed the 1980's the "lost decade".

The signing of the North American Free Trade Agreement (NAFTA) in November of 1993 represented the culmination of this new market oriented economic orthodoxy. Referred to also as neoliberal policies because they hark back to the Liberal economic policies of the late 19th century, these policies are designed to entice foreign investment, stimulate economic growth, and consolidate an export-led model of development. Investors have flocked to Mexico and the Mexican economy has once again begun growing. But in an ominous sign of the unequal growth that this new economy has generated, Maya natives from Chiapas, calling themselves the Zapatistas after Emiliano Zapata's movement of 1910, rebelled against the Mexican government on January 1, 1994, unleashing a new round of political and economic crises. In the same way that foreign investors flocked to Mexico when they perceived stability, they also took their money out during times of instability. By the end of 1995 so many investors had taken their money out of Mexico that the peso collapsed, bringing with it a new round of economic contraction with devastating social costs.

The election of Vicente Fox of the National Action Party (PAN) in 2000, the first non-PRI president since the Revolution, was a watershed political event, but it did not signal a shift in economic policy. The Fox administration has continued emphasizing market oriented solutions to Mexico's problems. After the elections, Fox emerged as the lead promoter of the Plan Puebla Panama (PPP), an ambitious Inter-American Development Bank project intended to build the physical infrastructure needed to plug Mexico's poorest region, the south, and Central America into the NAFTA zone and attract foreign investment to that region.

In yet another sign of the unequal benefits these free market policies have brought to Mexico, farmers on horseback forcibly occupied the Congress on December 10, 2002, and began mounting daily protests demanding a re-negotiation of NAFTA provisions that were to end most agricultural tariffs in January of 2003. Though providing only 5% of Mexico's GNP, agriculture employs 22% of Mexico's workforce. The disappearance since the mid 1980's of the federal programs that provided financial assistance to rural producers combined with the opening of markets to highly subsidized U.S. grain imports have devastated Mexico's countryside. It is estimated that one million small farmers have left their lands since NAFTA alone. It is yet to be seen whether this new era of market opening policies will depart from Mexico's previous ones and finally ameliorate Mexico's inequalities instead of exacerbating them.

Carlos Alberto Contreras

Grossmont College

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