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Mexico Under Neoliberalism

Working Paper No. 53

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Abstract: This inquiry seeks to establish that a set of policies that can be identified as ‘neoliberalism’ has generated observable effects on the economy and society of Mexico. Initiated during the last decades of the twentieth century, a combination of external and internal interests led to the implementation of neoliberal policies. The marketization of Mexico’s economy during the 1980s and 90s consolidated ‘structural adjustments.’ Through extensive privatization of what were statist assets, combined with the deregulation of trade as well as numerous aspects of private sector activity, the Mexican economy came to rely upon a low-wage labor export-model that also undermined internal development. The Mexican population has experienced increases in economic insecurity, political conflict, violence, and challenges to health, thereby promoting pressures for out migration. [Words:124]

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This inquiry seeks to establish that a set of policies that can be identified as ‘neoliberalism’ has generated observable effects on the economy and society of Mexico. Apparently drawn from the neoclassical economics framework, neoliberalism proposes a ‘free-market’ form of capitalism. Initiated during the last decades of the twentieth century, the influence of the Chicago School, the U.S. government, and business interests led to the implementation of neoliberal policies in Mexico. The liberalization of business activity during the term of President Carlos Salinas helped—to a great extent—to shape the structure of Mexico’s economy. Effects of this liberalization and transformation are indeed observable in Mexico’s economy and society. In effect, Mexico’s economy had adopted a cheap labor export-model that fulfilled the interests of business groups mainly in the U.S. and Mexico. Meanwhile, the Mexican population has experienced increased inequality and deteriorating economic insecurity. The aggravation of poverty, political conflict, violence, and challenges to health have distressed Mexican society, thereby pressuring emigration. As the neoliberal project has dramatically eroded social well-being in Mexico, it remains relevant to hold a critical view towards its origin and its ongoing influences.

The Emergence of Neoliberalism

a new form or variant of Capitalism. In the view of Clark (2016, 135), the “neoliberal project” emerged in the 1970s as conservative economists proposed minimal government intervention and unregulated markets as a solution to capitalism’s problems. Supporters of this project in the spheres of economics, politics, and academia are commonly labeled as ‘neoliberals’. As explained by Clark (2016, 137-138), the basic tenets of neoliberalism purport that the market economy is indeed more efficient than when government owns and/or intervenes in economic outcomes. Stated differently, neoliberals endorse the privatization and marketization of essentially all resources and production facilities. In addition, neoliberals oppose or suggest constraining all forms of social welfare, as related programs would contribute towards high levels of government spending. In its proposals, neoliberalism has an underlying—but many times explicit—emphasis upon individual responsibility and rational choice.

In their book *Mexico’s Economic Dilemma: The Developmental Failure of Neoliberalism* (2010), coauthors James M. Cypher and Raúl Delgado Wise inquire into the emergence of neoliberalism in Mexico, while seeking to understand the economic and societal outcomes stemming from this program’s implementation. Cypher and Delgado (2010, 8) define neoliberalism as an extreme economic belief that unconstrained market forces and the institution of private property are the only conditions that allow individuals and institutions to achieve their maximum
efficiency. A neoliberal program also opposes the regulation of corporations, labor markets, and the movement of capital across borders. According to Cypher and Delgado (2010, 29), the development of neoliberal ideology can be traced back to neoclassical economics for presenting a “new” form of liberalism or a “renewed” Laissez-Faire. In addition, its libertarian posture is a combination of the anti-statist economics of the Austrian School and the “positive” economics of the Chicago School that can be understood as a far right positioned orthodox economics.

Chicago School policies of “economic freedom” were instituted at the beginning of the Pinochet dictatorship in Chile after the 1973 military coup. Since the early 70s, the endorsement of free market policies and programs was represented by the term ‘neoliberalism’ throughout Latin America.

In the view of Cypher and Delgado (2010, 30), the influence of the Chicago School on Mexican central bank policy makers and elite universities was an important factor in the endorsement of neoliberal ideas. In addition, Monterrey’s powerful industrial elite played a crucial ideological role as in 1929 there was founded COPARMEX, an anti-labor organization. In 1975 a Business Coordinating Council known by the CCE acronym was founded. The Monterrey Group had been seeking the creation of a corporatist and extreme laissez-faire state for decades. Cypher and Delgado (2010, 31) suggest that influences stemming
from the Monterrey group helped to shape Mexico’s “endogenous version of neoliberalism”.

Cypher and Delgado (2010, 31) observe that a host of exogenous forces were also crucial for the endorsement and establishment of neoliberalism in Mexico. Neoliberal theory was implemented in the United States’ and in the United Kingdom’s economic systems when Ronald Reagan was elected President in 1980 and Margaret Thatcher became Prime Minister in 1979. The practice of neoliberalism in the U.S. was followed by its expansion towards the Mexican economic system. During the 1980s, the World Bank entered an era of “structural adjustment programs” for developing countries. Cypher and Delgado (2010, 31) note that the United States imposed a neoliberal agenda on Mexico by pushing for a large lending operation through the World Bank’s programs and their International Monetary Fund loans. The adoption of these programs in developing countries is also commonly referred to as the “Washington Consensus”. Cypher and Delgado define the effect of endogenous and exogenous forces as a ‘codetermination process’ that involved the power elites of the United States and Mexico in the transition to neoliberal policies in Mexico.

Neoliberalism initially manifested in Mexico through the abandonment of the import substitution industrialization model (ISI). According to Cypher and Delgado (2010, 32-33), an erroneous popular perception that the ISI had been
“exhausted” was supported by the Mexican business elite. This view coincided with interests of international financial institutions and the U.S. government’s insistence on installing free market policies as a condition for any support to solve Mexico’s debt crisis. Cypher and Delgado (2010, 42) indicate that this transformation started during the term of President Miguel de la Madrid and was consolidated during the term of his successor, Carlos Salinas de Gortari, the political leader holding the top office from 1988-1994. The structural changes to the Mexican economy in Salinas’ term were not significantly modified by the following presidents (Ernesto Zedillo, Vicente Fox, and Felipe Calderón).

Neoliberal policies during President Salinas’ term were aimed towards instituting an export-led economy, privatizing public resources, and liberalizing the financial sector. As explained by Cypher and Delgado (2010, 46), Mexico’s policies sought to increase manufacturing exports through fundamental changes to foreign investment law, thereby opening almost all economic sectors to foreign investment. In addition, the government provided targeted subsidies and credits to firms that fit the new model. It is evident that the Salinas administration prioritized tying Mexico to the global economy. In 1994 Mexico joined the Organization for Economic Co-operation and Development (OECD). Approaching the end of Salinas’ term, the North American Free Trade Agreement was signed and set to be implemented on January 1st of 1994. Cypher and Delgado (2010, 53) comment
that NAFTA’s deregulation of capital flows would be crucial in setting the new structural context. The rise of neoliberalism would soon have a great impact on the economy and society of Mexico.

**Effects of Neoliberalism on the Mexican Economy**

Neoliberalism has generated observable effects on the economy of Mexico. The continuation of neoliberal policies or the so-called “structural adjustment” over time has severely limited the developmental capabilities of Mexico and increased inequality. Cypher and Delgado (2010, 9) argue that the Mexican economy shifted and became based upon a cheap labor export model which is especially observed in the manufacturing industry and in the growing and ongoing tendencies for Mexican workers to emigration in search of jobs. However, Cypher and Delgado (2010, 170) remain critical, writing that this model would prove unsustainable because of its incapacity to increase wages, create employment, encourage technological innovation, and to incorporate national suppliers into production relationships.

Structural change in Mexico was, to a great extent, consolidated through the realization of NAFTA. Cypher and Delgado (2010, 61) suggest that there were efforts to promote NAFTA as a “win-win” opportunity for Mexico and the U.S., all of the while ignoring the asymmetrical nature of the agreement. Cypher and Delgado (2010, 169-171) offer the view that, rather than serving trade, NAFTA
was a restructuring agreement for investment and production that generated an “asymmetric accumulation process”. NAFTA benefited American companies through enabling them to shift their production on to Mexican territory without the previous constraints such as regulations on profit and the use of capital. Furthermore, American firms enjoyed lower labor costs due to the massive migration flows of Mexican workers to the U.S. territory. Cypher and Delgado (2010, 10) assert that, along with other neoliberal reforms, NAFTA led to the export-led manufacturing model that has made the Mexican production system increasingly dependent. In addition, Cypher and Delgado (2010, 47) note that a negative externality of this model was a “deindustrialization” of the country as manufacturing products for consumption in the domestic market shrunk.

Within the objectives of liberalizing the Mexican economy, attracting foreign direct investment was prioritized. In the article “Three Decades of Neoliberalism in Mexico: The Destruction of Society”, Asa Cristina Laurell (2015) reviews Mexico’s social and economic trajectory since the implementation of neoliberal policies. Laurell (2015, 251) states that foreign investment increased rapidly through the purchase of existing assets, not by creating new enterprises. One outcome is that this pattern led to a denationalization of the Mexican economy. In the article “The Social Consequences of Structural Adjustment: Recent Evidence and Current Debates”, Sarah Babb (2005) reviews social
transformations after neoliberal structural adjustment. Babb (2005, 213) indicates that, from the beginning of NAFTA in 1994 until 2001, U.S. foreign investment to Mexico grew from approximately five billion to 16 billion dollars a year. Nevertheless, most jobs created under NAFTA in Mexico were to be found in manufacturing “export-processing zones”, also called maquiladoras. In addition to becoming vulnerable to capital flight, these jobs maintained the country’s population in poverty wages and high unemployment.

Extensive privatization of state-owned firms, land, and components of the financial sector in Mexico led to the creation of monopolies and a strengthened oligarchy. Babb (2005, 204) considers that a mismatch between old and new institutions occurred as financial liberalization and privatization were realized without revision and reform of the corresponding bankruptcy legislation. In addition, the process of privatization was initiated by long-standing agreements that mainly benefit individuals in the government and in big businesses, thereby consolidating monopolies instead of establishing competitive markets. Cypher and Delgado (2010, 62) highlight that rather than exemplifying reliance upon free market forces, characteristically, privatizations were “scandalously corrupt”. According to Laurell (2015, 250-251), the privatization and picking up of most public assets and companies at low costs led to the emergence of a new “oligarchy”. In their inquiry, Cypher and Delgado (2010, 74-75) explain that in the
privatization processes existing business elites such as the CCE and the Monterrey Group managed to obtain private gains and concessions, thereby further increasing their wealth and political power to levels not seen before. In addition, the conferral of power significantly increased the distance between the large conglomerates and smaller firms.

Structural adjustment in Mexico led to an observable inequality in wealth. The existence of an oligarchy itself indicates the concentration of economic power. Cypher and Delgado (2010, 2) mention that the Mexican population’s top strata, composed of family-controlled conglomerates or “national power groups”, is characterized by an incredibly high concentration of income and wealth. In the view of Laurell (2015, 247), the process of structural reform engendered a polarizing effect; as a small set of extremely wealthy people was established while the vast majority became increasingly impoverished. She adds that members of newer generations have been the hardest hit as they face difficulty getting a job or acquiring an education, which has become something of a luxury. Similarly, Babb (2005, 211) offers the view that structural adjustment significantly affected class structures as income inequality increased between the 1980s and 1990s throughout Latin America. In addition, the consistent wealth concentration in the richest population decile is particularly observable in Mexico. Furthermore, the portion of Mexicans living below the national poverty line has increased since the 1980s.
Babb warns that several complex factors, such as the economic crises taking place in the 1980s and 90s, played a role in generating these trends, but they are not easily dissociated from liberalization. In their analysis of data projections, Cypher and Delgado (2010, 26) observe a “pauperization” of the Mexican population. The lowest socioeconomic strata denominated as “Marginal Sectors”, which primarily consists of poor people operating in the “informal economy”, increased from 30% in Year 2000 to 40% in 2010.

Related to the neoliberal project, an overall wage decrease could be seen as further aggravating the of incidence of poverty in Mexico. Babb (2005, 208) states that real wages have significantly declined since the late 1970s and especially since NAFTA’s implementation in 1994. After inviting in foreign investment and lifting trade barriers, the minimum wage was kept down for achieving international competitiveness in an environment of weakened unions. Similarly, Laurell (2015, 258) finds that the export-led model has utilized low wages for maintaining international comparative advantages. One effect is that the stagnation of ‘average income from work’ from Years 1992 to 2010 indicates a ‘regressive income distribution’. In the same timeframe, the minimum wage decreased by approximately 26 percent. Real wages prior to neoliberal reforms were not recuperated. She argues that low wages in combination with persistent
unemployment serve as two important explanations for incidence of poverty in Mexico.

As explained by Laurell (2015, 250), in addition to the decreases in salaries and wages, there has been a significant increase in ‘precarious’ jobs and long term unemployment. Such trends have continued at least until 2015. She also notes that fiscal adjustment gave rise to a drastic redistribution of ‘available income’ from labor to capital. In the view of Laurell (2015, 261), in order to maintain competitive advantage in the neoliberal globalized market, the Mexican government has allowed for employment to become more precarious. In addition to impoverishment, precarious jobs negatively affect Mexico’s economic growth due to a ‘regressive distribution of income’. In the view of Cypher and Delgado (2010, 5), “globalization”—a further internalization of capital—has turned Mexico into a preferred location for the ‘race to the bottom strategy’. As capital is liberalized, it moves around developing countries to find cheaper wages and higher rates of productivity.

Since the decade of the 1990s, many U.S. enterprises have shifted their manufacturing operations to Mexico. The manufacturing or *maquiladora* sector of Mexico emerged as an important component of the export-led model. Cypher and Delgado (2010, 11) explain that low-value-added activities, such as low-cost manufacturing, take place in the northern border states of Mexico, giving rise to
asymmetries in production. This emerges as U.S.-based firms collect the profits associated with the internationalized production chains, through re-exporting the final manufactured goods to wealthier markets. Cypher and Delgado (2010, 81-82) note that, after the implementation of NAFTA, maquila employment and maquila exports grew significantly. Nevertheless, Mexico retained a shrinking share of the benefits of those activities over time. In addition, the maquila worker’s wages decreased relative to the increasing living costs at the border territories. Overall, embodied in the final manufactured products, cheap labor is the true export in this sector.

Participating in contemporary capitalism proximate the dominant U.S. economy, Mexico experiences unequal and limited development. Cypher and Delgado (2010, 10-11) argue that the Mexican economy lacks continuity, dynamism, and autonomy. Instead of advancing Mexico’s production system, it was structurally adjusted to meet the interests of U.S. companies. Consequently, the Mexican economy has tended to fall behind relatively under this labor export-led model. This socioeconomic system fits the idea of ‘transnational dependent capitalism’ which implies a disarticulation of Mexico’s economy. In the view of Laurell (2015, 258), liberalization and subordination to the U.S. economic activities made the Mexican economy highly susceptible to “external shocks”. Laurell (2015, 261) states that free trade agreements have also exposed nations to
transnational corporation’s interests and destroyed national production structures. Cypher and Delgado (2010, 139) conclude that neoliberal policy in Mexico has essentially and effectively canceled opportunities for economic growth.

**Effects of Neoliberalism on Mexican Society**

Neoliberalism has generated observable effects on the society of Mexico. The implementation of Neoliberal policies or ‘structural adjustment’ has affected the social dimension with respect to politics, security, health, and ideology. Political conflict and inefficient policies have resulted in rising violence and decreases in quality of public services that serve to raise the levels of vulnerability of members of the population. Effects noted above The previously mentioned effects on the economy, combined with the difficult living conditions, have led to massive increases in the emigration of Mexican labor in recent decades.

Babb (2005, 215) observes that under NAFTA, undocumented migration of Mexican people to the U.S. significantly increased despite extensive intensive border controls. Laurell (2015, 258) notes that in order to survive poverty and the lack of social assistance, Mexicans could either emigrate as a survival strategy or participate in the local criminal economy. Cypher and Delgado (2010, 170) also emphasize that increasing marginalization and the persistent of poverty can be associated with increased emigration. Cypher and Delgado (2010, 137) interpret this process as the ‘direct exportation of Mexican labor’. Substandard working and
living conditions have displaced urban and rural workers, thereby causing
depopulation trends in several regions. Migration patterns have shown emigration
of both ‘unskilled’ and ‘highly skilled’ workers, thereby raising concerns of a
‘brain drain’. Laurell (2015, 262) highlights that there is an explicit cost in human
lives revealed by the fact that the U.S.-Mexico border registers as among the most
violent in the world.

The realization of structural adjustment sparked political conflict in Mexico.
After decades of the PRI ruling the government, in the 1988 elections there was
indeed a good chance that its dominance over Mexican politics would finally come
to an end. There is consensus that fraud and vested interests placed Senior Salinas,
the PRI candidate, in power instead of his opponent Lázaro Cárdenas. In any case,
this outcome allowed the accelerated continuation and consolidation of structural
adjustments earlier initiated by the PRI technocrats in the previous term. Cypher
and Delgado (2010, 57) note that there was widespread disagreement regarding
NAFTA’s potential before and after its implementation. On January 1st of 1994,
the day that NAFTA was implemented, the group known as Zapatistas enacted an
armed insurrection in the southern states of Mexico, especially Chiapas. Laurell
(2015, 248) explains that this Zapatista movement was supported by a large portion
of the population wanting to resisting neoliberal reforms. In principle, the
Zapatistas rejected state violence and sought change without casualties. Up to this
point in time, the PRI’s presidential candidate, Luis Donaldo Colosio, had surprisingly been campaigning against neoliberal policies. He was murdered later in March 1994, five months before elections were held and Ernesto Zedillo, the new PRI candidate, became president.

In the last decades since structural adjustment, observable increases in violence occurred. Like their predecessors, Ernesto Zedillo and the following PAN and PRI presidents invoked and maintained violent repression in an effort to silence popular dissent. In her statistical inquiry, Laurell (2015, 259-260) observes a striking increase in deaths related to violence, especially after Year 2000. There has been an increase in violent deaths among men and women, followed by a decrease in male life expectancy. Laurell (2015, 261) notes that widespread fear of violence, poverty, organized crime, and the “Narco-State” has brought Mexico into a dangerous situation that generates distresses among members of the population, and that also tends to be used to justify further restrictions of social rights.

After the introduction of neoliberal reforms, accessibility to health services for most members of the Mexican population became compromised. Laurell (2015, 253) mentions that general subsidies to health services and institutions were substituted by targeted poverty programs that have not been successful over time. In addition, individual health services and public social security were commodified. Laurell (2015, 261) notes that privatizing public services was a
priority in the neoliberal agenda because it made up a large portion of government spending and as well as GNP. Laurell (2015, 260) emphasizes that the implementation of the neoliberal model destroyed traditional nutritional habits and induced a state of chronic individual and social stress. These effects are observable in Mexico’s health statistics. Since the year 2000, there have been rapid increases in diabetes and ischemic heart disease. Adjusting for age and GNP per capita, the data on Mexico exhibit a much higher death rates for diabetes, malnutrition, and anemia. While there is indeed a large and malnourished population related to poverty, Mexico registers as among country with the highest obesity rates for adults and children in the world.

In the view of Laurell (2015, 261), neoliberal ideology damages society by destroying cooperative values. Media has become an outlet for neoliberal encouragement of individualism and consumerism. In addition, Laurell (2015, 247) notes that mass media has promoted cataloging people in terms of personal wealth and power, thereby further fostering an environment of inequality. Laurell (2015, 261) argues that neoliberal globalization has allowed hyper-exploitative capitalism to return concomitant ruthless extractivism, thereby devastating people and the state of nature. In the judgment of Cypher and Delgado (2010, 26), Mexico’s unbearable burden under neoliberalism is not showing signs of coming to an end anytime in the near future.
It remains relevant to hold a critical view towards the development of neoliberalism in Mexico and its continuous influence. Discussing the performance of the current Mexican president, Andrés Manuel López Obrador (AMLO), goes beyond the focus of this inquiry. However, it could be argued that his government has maintained the same economic structure despite continuously campaigning with criticism towards neoliberalism and right-wing politicians. In the article “López Obrador or The Absent Left”, Ramón I. Centeno (2021) makes the point that AMLO governs a form of “failed progressivism” while inconsistently defining his government as “post-neoliberal”. In the view of Centeno (2021, 201-202), neoliberalism in Mexico has remained intact as the current political party has become its main guardian. Furthermore, the president has centralized power to favor his “mega-projects” with the private sector, and to further strengthen Mexico’s army.

**Conclusion**

This inquiry has sought to establish that Neoliberalism generates observable effects on the economy and society of Mexico. A free-market form of capitalism encouraged by the U.S. government and business interests has led to the implementation of neoliberal policies in Mexico in recent decades. To a great extent the liberalization of Mexico’s economic system (synonymous with
‘structural adjustment’) was consolidated during the term of President Salinas. Effects of this transformation are, to date, indeed observable in Mexico’s economic and social indicators. Clearly, Mexico’s economy was reshaped as a cheap labor export-model that fit the interests of business groups in the U.S. and Mexico. Increased inequality, economic insecurity, the aggravation of poverty, political conflict, violence, and detriment of individual and public health has caused great distress at numerous levels of Mexican society. One effect can be measured in pressures to emigrate. In sum, the neoliberal project has formed and also perpetuated a socioeconomic structure that continuously erodes the well-being of the Mexican population. True, neoliberal adjustments have indeed led to the liberalization of capital, but at the expense of the well-being and even the lives of Mexicans.
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