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Social Policies: Local Experiments, Travelling Ideas: Montreal 2009

“NEVER ENDING ENEMY? Poverty in Mexico”

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1. Historical roots of poverty

Poverty in Mexico (and all Latin American countries) is a result of the historical process. It has historical roots beginning from XVI century when Spanish landed in the New World. The initial colonial conditions under Spanish rule had the specific characteristics. The imposed metropolitan institutions, initial inequality of wealth, human capital, and political power conditioned institutional design. Spanish Catholics Kings established in Meso-America and the Andes institutions with economic, social, cultural, religious and political power concentrated in the hands of an elite. The Europeans developed institutions that promoted exploitation. Habsburg Spanish kings established trade rules of exploitation “in the world where sun never set”, from Manila to

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Acapulco, from Veracruz to Cadiz in Spain caring first of all the gold. The independence came in the early nineteen century.

In Mexico, after the War of Independence (1808-1820) the winners were: the Catholic Church (we remember that Napoleon entered into Madrid in 1808 defeating Ferdinand VII) and the military. We should underline that the War of Independence has important consequences for the ongoing economic growth. Mexico has experienced a decline in per capita income during the period of independence and a very mild recovery between the 1820s and mid-nineteenth century.

In the post independence, a moderate growth took place between the 1820s and mid-nineteenth century. After a slow start, Latin America grew significantly during the three decades following 1860 and, after the slowdown in 1890s, growth accelerated in the early years of the twentieth century up to World War I. The growth in the nineteen century has not been sufficient. Therefore, the social inequality was in the background of the Mexican Revolution of 1910. The economic progress benefited only few. But the Revolution did not resolve the problems of property of lands and waters. Other external factors of international economic relations, for instance, so called 'The Great Depression' influenced the decline of Mexican growth.

After the Depression, Mexico and all Latin American countries enjoyed its fastest phase of growth. In Mexico was successful period of “stabilized development” or *desarrollo estabilizador* and industrialization by sustained imports (ISI) between 1954 and 1970. The growth rate in this time was approximately annual 6.6 GDP. However, the economic growth between 1950s and 1970s was rapid but has not proved sustainable. Further, income and wealth distribution remained highly unequal. Until the late 1970s, Mexico gave evidence of joining other industrializing nations in experiencing “growth without development”. It was contrary, but so real to the official politics “first growth and afterwards redistribution”. The 1980s represented a major break in the whole history of Mexico in the long-run performance of growth. On the whole, the last two decades of the twentieth century offer the poorest relative record in the last two hundred years of Mexico between 1808 and 2008. It has influenced on increasing of poverty rate and inequality, coefficient Gini (see Appendix 1). Let me present in short what happened during last two crucial decades.

2. Poverty today: From debt crisis 1982 to liberalization

The import substitution industrialization (ISI) implemented after II World War in Mexico, although the aspects of ISI policy were introduced by President

Lazaro Cardenas (1934-1940) and open market period during 1980s were not effective for poverty and inequality reduction. The public spending decreased during eighties. President Miguel de la Madrid (1982-1988) did not protect targeted programs. President Carlos Salinas de Gortari (1988-1994) made social spending and targeted antipoverty programs a centerpiece of his agenda, starting the after he was elected as the next president, 2 December 1988. In this day Salinas launched the antipoverty program known as *Programa Nacional de Solidaridad (Pronasol)*, the National Program of Solidarity. Precursors of this program include the regional development program, PIDER, launched by President Luis Echeverría (1970-1976) in 1973 and COPLAMAR which was launched by Lopez Portillo (1976-1982) in 1977. However, the politician used programs against fighting poverty to justify their politician ambitions and to remain at the power. The administration of the president Salinas de Gortari (1988-1994) boosted effectively the political use of *Pronasol*. The idea was how to win the election votes for the governing monoparty (PRI).

Mexico experienced during eighties not only the shock of the debt crisis but macroeconomic adjustment which has directly influences on deteriorating conditions of the life the majority of the population. So, during the nineties the leaders of Mexico recognized the need to redirect public spending to the social sectors to improve its equity, efficiency, and effectiveness. They also recognized that the new investments were needed to extend coverage to the most needy.

Toward those ends they designed health, education, housing and regional development projects that are being implemented with funding assistance from the World Bank, the Inter-American Development Bank, and the Solidarity program.¹ The fiscal adjustment, coupled with price liberalization and the lifting of the general subsidies, affected all spheres of the economy. The fiscal adjustment decreased the funds available for social expenditure, and the tax increase reduced disposable income. The currency devaluation caused a drop in real income, and price increases. Furthermore, the rise in debt servicing increased the flow of national income going abroad, while at the same time the debt crisis halted the flow of foreign investment and access to new credit except from official sources.

GATT

With regard to liberalization, in 1979 Mexico completed negotiations of the protocols to join the GATT General Agreement on Tariffs and Trade). In early 1980, however, the Mexican government chose to delay its entry because of the strong opposition of cabinet members, political leaders, and intellectuals. Mexico joined the GATT in 1986 after several meetings with GATT and U.S. officials to agree on terms of Mexico accession. Mexico trade liberalization measures went far beyond those required by the protocol signed on entry unto the GATT. For example, Mexico agreed to bind its tariff schedule to a

¹ Lustig, Nora, ed., *Coping with austerity. Poverty and inequality in Latin America*. The Brookings Institution, Washington, D.C., 1995, p. 371.

maximum tariff level of 50 percent ad valorem and to reduce tariffs on the majority of its import classification heading 50 % over the period of 30 months. The current maximum tariff level established in December 1987 is 20 percent.²

NAFTA

The negotiation of the North American Free Trade Agreement (NAFTA) started in 1990 under the administration of President Carlos Salinas de Gortari (1988-1994). The idea was to create a free trade zone “from the Yukon to the Yucatán”. Despite the enormous differences, it was not created any Social or Cohesion Fund in order to diminish the differences. NAFTA came into force on January 1, 1994. NAFTA is best seen as a continuation of processes already accelerating since 1980s. In one sense this was only a continuation of trends.³ Let me present these trends.

As a whole, 1980s were a development disaster for Latin America (so-called “*la decada perdida*”). The adjustments in Latin America were long and difficult. As a result, poverty increased rapidly while Latin American economies adjusted their production structures, reduced the size of their public sectors, and expanded their exports. Only two countries, Chile and Colombia, managed to increase per capita income. Rising poverty and inequality were quite

² Ibidem, p. 118-119.

³ Sernau, Scott, *Economies of exclusion. Underclass Poverty and Labor Market Change in Mexico*, Praeger 1994, p. Xiii.

widespread.⁴ Mexico was simultaneously hit by the decline in oil world prices and the debt crisis. So the outside world played a role in Mexico's recovery. In early 1989 the U.S. government's attitude toward México became more favorable.⁵ In the context of collapsing "Cold War" U.S. administration put more efforts in relation with its southern neighbor. This new attitude opened the way for the debt reduction agreement signed between Mexico and its foreign commercial creditors. It also opened the way to negotiations on a North American Free Trade Agreement (NAFTA) between Canada, Mexico, and the United States, concluded on August 12, 1992.

The neoliberal trade policy has influence on of the public policy of the State during the nineties. In the neoliberal framework, programs created in Mexico to fight against poverty, for instance *Progresa-Oportunidades* have so-called "assistance character".⁶ There is an acceptance of the exiting problems of poverty. The question is: how long the society will accept the situation of marginalization and dramatic inequality?

⁴ Samuel A. Morley, Structural Adjustment and the Determinants of Poverty in Latin America, en Lustig, Nora, ed., *Coping with austerity. Poverty and inequality in Latin America*. The Brookings Institution, Washington, D.C., p. 66.

⁵ Lustig, Nora, Mexico. The remaking of an economy, The Brookings Institution, Washington, D.C., 1992, p. 11

⁶ Villarespe Reyes, Veronica, *La Solidaridad: beneficencia y programas. Pasado y presente del tratamiento de la pobreza en México*, México: Instituto Investigaciones Económicas, Universidad Nacional Autónoma de México, 2001, p. 70.

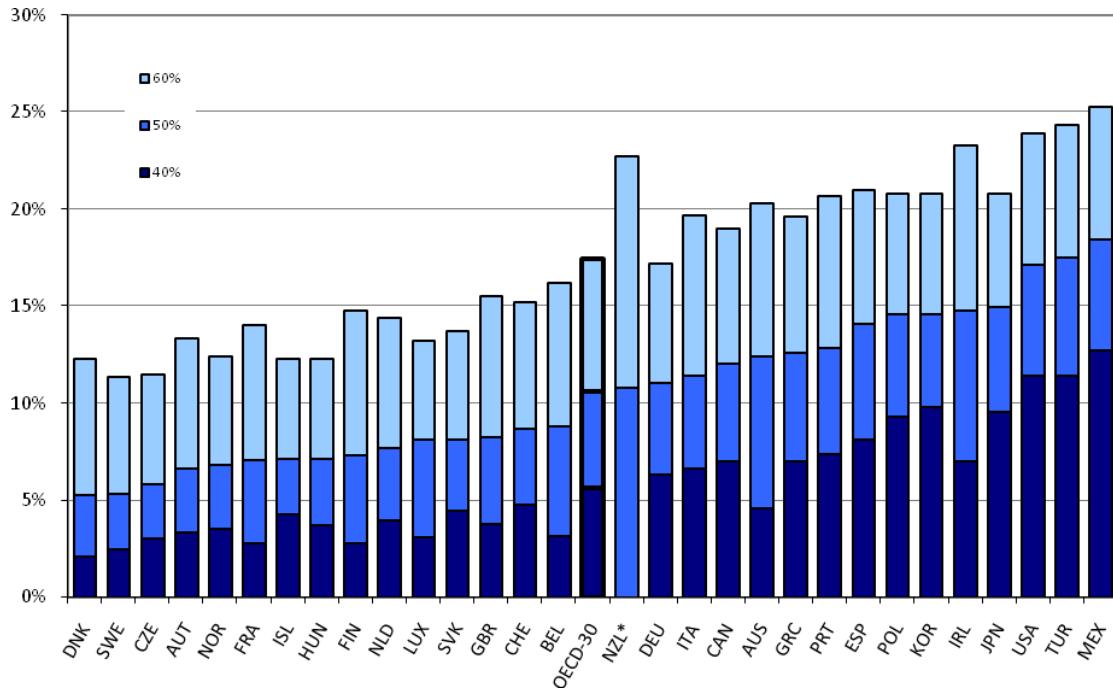
Conclusions

1. Poverty in Mexico has historical roots beginning from XV century when Spanish landed in the New World.
2. The poverty increased dramatically during last two decades.
3. In the 1990s there were imposed programs to alleviate poverty. However, there is no coincidence between programs created during nineties of last century in Mexico against poverty (*Pronasol* and *Progresa-Opportunidades*) and the results which have brought them nowadays. On the contrary, the number of poor people in Mexico is still high.
4. There is a change in the discourse of the public policy of the State during the nineties. In the neoliberal framework, programs created in Mexico to fight against poverty (for instance *Progresa-Oporunidades*) have so-called “assistance character”.
5. In Mexico, at present time, policies aimed to alleviate poverty, in terms of such legitimating, play a very important role as a mean to redistribute income. These policies are linked with other programs which are accorded to the so called structural reforms of neoclassical style, but they are nothing to do with the real structural conditions which produce the economic slumps, inflation, income concentration and other restrictive policies. Programs like these are known as programs of conditional cash transfers (CCT).

6. The CCT programs based their policies on income-consumption, and these obey only to a particular conception of poverty. Consequently, these programs try to raise income, in order to raise consumption. Although it is important for people to receive money to purchase consumption goods, and this is a help in a short term, in the long term it does not eliminate poverty. In fact, the CCT programs try to invest in people as a human capital in order to secure the reproduction of the labour force. In these terms, programs aimed to people being trained or having better salaries, but do not created necessarily a better life for people.
7. *Progresa-Oportunidades* is a conditional cash transfers program and focus in human capital investment, particularly nourishment and education. In order to achieve these goals, the program transfers conditioned recourses to poor families so that their children may go to school and have frequent access to medical service as a basic preventative health care; however its assistance character is obvious.
8. Finally, in our opinion, the programs based on the transfers are not successful because they do not have an influence on the transformation of the structures that originate poverty.

Mexico City, July, 2009.

Appendix 1



Source: OECD, Relative poverty rates for different countries mid-2000, <http://www.oecd.org>
 Relative poverty rates at 40, 50 and 60% of median income thresholds.

Note: Poverty rates are defined as the share of individuals with equivalised disposable income less than 40, 50 and 60% of the median for the entire population. Countries are ranked, from left to right, in increasing order of income poverty rates at the 50% median threshold. The income concept used is that of household disposable income adjusted for household size.

Table 1.
Summary of changes in income inequality and poverty

	Mid-1980s to mid-1990s	Mid-1990s to mid-2000s	Mid-1980s to mid-2000s
A. Trends in income inequality (Gini coefficients)			
Significant increase	Czech Republic, Italy, Mexico , New Zealand, Portugal, Turkey, United Kingdom	Canada, Finland, Germany	Finland, New Zealand
Small increase	Belgium, Finland, Germany, Hungary, Japan, Luxembourg, Netherlands, Norway, Sweden, United States	Austria, Denmark, Japan, Norway, Sweden, United States	Canada, Germany, Italy, Japan, Norway, Portugal, Sweden, United States
No change	Austria, Canada, Denmark, Greece, Ireland	Australia, Belgium, Czech Republic, France, Hungary, Italy, Luxembourg, New Zealand, Portugal, Spain, Switzerland	Austria, Belgium, Czech Republic, Denmark, France, Greece, Hungary, Ireland, Luxembourg, Mexico , Netherlands, Spain, Turkey, United Kingdom
Small decrease		Greece, Ireland, Netherlands, United Kingdom	France, Ireland, Spain
Significant decrease	France, Spain	Mexico , Turkey	
B. Trends in income poverty (head-count rates at the 50% median-income threshold)			
Significant increase	Germany, Italy, Japan, Netherlands, New Zealand, United Kingdom	Austria, Canada, Finland, Germany, Ireland, Japan, Luxembourg, New Zealand, Spain, Sweden	Austria, Germany, Ireland, Japan, Netherlands, New Zealand
Small increase	Austria, Czech Republic, Hungary, Mexico , Norway, Portugal	Australia, Denmark, Netherlands, Switzerland, Turkey	Canada, Czech Republic, Finland, Italy, Luxembourg, Sweden, Turkey, United Kingdom
No change	Finland, Greece, Ireland, Luxembourg, Sweden, Turkey	Belgium, Czech Republic, France, Hungary, Norway, United States	Denmark, France, Greece, Hungary, Norway, Portugal, Spain, United States
Small decrease	Canada, Denmark, France, United States	Greece, Portugal	Mexico
Significant decrease	Belgium, Spain	Italy, Mexico , United Kingdom	Belgium

Source: OECD, Income distribution questionnaire. <http://www.oecd.org>