Ownership implications of the transformation in Mexican governance since 1982

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Abstract

This paper has the aim to analyse the ownership implications of the transformation in Mexican governance since 1982. The turning point of the implementation of a new model of development was prompted by the Mexican State financial crisis of 1982, after a period of steady economic growth. The effects of this change in ownership are evident. A weak system of regulatory agencies and mismanagement of privatization programs has ended in private monopolies, low economic growth, uneven social development, political instability, alarming increment of insecurity, social unrest, etc.

Key Words: Change in ownership, entrepreneurial state, Mexico, State of entrepreneurs,

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Introduction: Ownership of the Mexican entrepreneurial, presidential state

Mexican economic nationalism emerged as a result of promoting public and private Mexican capital to avoid foreign investment, mainly by the United States. The Mexican State was characterized by an historical distrust of capitalism and a belief in the ability of the government to intervene and regulate economic affairs through its explicit constitutional mandate (Grier and Grier, 2000: p. 245). However, from the 1930s and until the 1970s a model of import substitution industrialization (ISI) favoured private Mexican investments and was also believed to benefit the people. The Mexican public sector enlarged the number of publicly owned corporations. In 1982 state owned enterprises produced 14 percent of gross national product (GNP), received net transfers and equal subsidies of 12.7 percent of GNP and represented 38 percent of investment in fixed capital.

The crash of the Mexican economy in 1982, left the country defaulted on foreign-debt payments, investors fled Mexico, and companies traded for cents on the peso. Hundreds of thousands of micro, small and medium sized firms went bankrupt in the 1980s because of stagnant domestic demand, rising inflation, greater foreign competition, and higher credit costs (Davis, 1992, Vega, 1991). The entrepreneurs founded the Consejo Coordinador Empresarial (Entrepreneurial Coordinating Council) (ECC) to defend their interests from State intervention. Mexican businesses that served foreign markets were more financially healthy than the domestically-oriented ones in the 1980s. In 1982 in the middle of a general economic crisis caused by a fall in oil prices, President López Portillo (1982-88) nationalized the banking system, devalued the peso, and increased interest rates. The country defaulted on practically all payments causing a fracture in the pact between the State and the ECC. The crisis of 1982 was also meaningful as the “crisis of hegemony” which was present in the old alliance between the State and ECC who represented national capital and were the direct beneficiaries of economic policies based on the import substitution model.

The transition of the regime of the Mexican State: From the entrepreneurial State to a state of entrepreneurs

The change of political party in power within the same regime represented a rupture in the old Mexican political system and continuity of the processes of development according to the neoliberal pattern imposed by the interests of transnational capital. This way, the change became significant because it represented a final balance between a presidential regime and its neoliberal economic model. Salinas (1988-94) and Zedillo (1994-2000) truly represented the two big local groups of officials and entrepreneurs politically. The two technocratic presidents had as common governing characteristics a personal focus on social and power relationships. Both fostered the emergence of complicity between the technocrats and entrepreneurs enlarging the capital-politics relationship to the men that held economic power, without respecting the rules of the system or the correlation between social forces and politics.

The strategy they used to implement the neoliberal model consisted of maintaining a reduced group of technocrat economists in a network of alliances in collusion with capitalist groups. The institutional configuration of the Mexican state is reflected on the power of the presidency that cedes greater autonomy to policy makers augmenting the effect of government policies to forge winning political alliances with members of the private sector. These capitalist groups, those whom Ortiz Pinchetti (2000) named the nomenclature, had insatiable financial interests and were the main beneficiaries of the model. In Salinas’ strategy, through the support of PAN, political leverage was given to the group of entrepreneurs and financiers.
Public Management Policy Changes since 1982

During 1980s and 1990s there were two movements in Mexico in public management policy making. The first under the presidency of Miguel De La Madrid (1982-1988) was aimed to fighting corruption. During 1982 presidential campaign, attempted to deal with the corruption-related scandals of previous administration. During 1982-1985 Mexican Government attempted to do some initial changes in public administration as whole but at the end it lost its priority on the government agenda. In 1985 De La Madrid moved its attention to new issues like downsizing and privatization (Cejudo, 2003). A second attempt changes in federal public management occurred from 1994 to 2000 when the Ernesto Zedillo government introduced a new agenda. But the issues were not raised to the governmental agenda (even when there were over reaching, political and economic reforms). At the end In 1996 Zedillo lunched the Public Administration Modernization Program (PROMAP). This program included comprehensive analysis on the condition of the federal public administration and proposed changes in the era of organizations and methods, budgeting, civil service and labour relations (Cejudo, 2003).

Changes in ownership: from State owned enterprises to private monopolies

Under the Salinas administration, the economic reforms were more aggressive although not always resulted in a more competitive economic sectors structure or in a more equitable distribution of economic benefits. The privatization program was conceived originally to balance the fiscal budget by generating income and reducing subsidies but soon was evident the necessity to improve economic competitiveness. The change in leadership created high expectancies for privatization of more state owned industries in Mexico. However, privatization as an economic policy in Mexico meant a mere change of ownership from public monopolies into private ones, without an effective regulatory framework in place and strong regulatory agencies capable of enforcing more competitive conditions (World Bank Mexico, 2007).

State-owned companies that had changed in ownership under the privatization program covered all the financial and banking system, the main two airlines (Aeromexico and Mexicana), the telephone company (Telmex), steel, insurance, hotels, mines, shipbuilding, gas stations, movie studios, manufacturing, airports, railways, etc. The new government of Mexico plans to privatize the energy sector, oil and electrical industries.

Re-assessing change of ownership in México

The benefits of privatization have not yet been evident to the Mexican people even though defenders try to demonstrate the opposite. According to data provided by the former President of Mexico, advocator and implementer of the privatization program, Salinas de Gortari (1988-94), privatization reduced budget expenditures to finance social programs thus preventing a fiscal deficit. However, the effects have not been satisfactory over all. Programs of privatization in Mexico have reduced employment by half, while production has increased 54.3 percent with a significant reduction in investment. A study by Galal et al (1992) analysed the after-privatization performance of twelve companies in different countries, including Mexico, and documented an increase of 26 percent in profits in eleven cases but an increase of benefits to workers in only three of the cases.

When the economic pattern that has been followed up to this point in Mexico is able to generate growth it will be accompanied by a growing concentration of income and an increase in poverty among the poorest strata. In a period in which the Mexican economy reached a peak over 18 consecutive trimesters of growth, the benefits went to a very reduced group of people: “only the crumbs fall down” states (González Amador and Castellanos, 2000). This resulted in a society with big contrasts in income distribution, where 20 million Mexicans (20 percent of the total...
population) live under conditions of extreme poverty, and more than 40 million (40 percent of the total population) live below the line of poverty.

More than half of Mexicans old enough to work were employed in the informal sector of the economy. World Bank figures show that 42 million Mexicans have salary levels below twenty pesos daily, the equivalent of less than 2 dollars a day. With data from the United Nations organization, 64.5 percent of the population received insufficient wages to sustain minimum nutritional requirements; 40 percent of Mexican women live in homes with low income compared to 20 percent of Mexican men (Jiménez, 2000). During the period 1964-1981, the gross internal product per inhabitant rose to 7,776 dollars a year, with an average annual growth of 3.4 percent. However, after 1982 with the implementation of the Neoliberal State model in Mexico, the growth of the gross internal product fell. For the period of the Neoliberal State, which lasted from 1982 to 2007, the gross internal product per inhabitant only grew on the average of 0.3 percent yearly.

The National Survey of Income-Expense in the Households, carried out by the National Institute of Statistic, Geography and Informatics (INEGI) in the year 2000, reports that the generation of wealth increased in the last six years, but the distribution of the wealth became more inequitable, with alarming levels of deterioration. In Mexico 38.11 percent of national income is concentrated in 10 percent of the homes. At the other end, 10 percent of the poorest hardly receive 1.50 percent of the total, when in 1996 it was 1.79 percent. The income available monthly to 10 percent of the poorest homes was 26 percent less than in 1994, while for ten percent of the homes the reduction was 20 percent (González Amador and Castellanos, 2000). The coefficient of GINI for the monetary income in 1992 was 0.5086, in 1994 it was 0.5137, and in 2000 it was 0.4889, which indicates a tendency in the concentration of the national wealth to decrease, though those with more however continues being high.

Quick economic growth has not resulted in an improvement in the levels of the population's standard of living, due to the inequitable distribution of income that impedes the transfer of macroeconomic benefits. The higher rates of growth that reached four percent, on the average, of the gross internal product between 1996 and 2000 have not contributed to improvements in the well-being and standard of living of the family, because they contribute 2.4 real percent of the product per layer. According to an analysis of El Financiero (2000), for each peso (Mexican currency) that was generated in the economy in the first trimester of the year, 0.07 cents corresponded the population with scarce resources (38.11 percent), while the population with high levels of revenue (10 percent) obtained 50 cents.

The political transition came harnessed to economic reform but there was not social advance. Cutting social expenditure in education and public health reduced the weight of bureaucracy gradually by transferring these functions from the State to the private sector. The governments’ years in power leave behind “open wounds in the national conscience” from the indigenous conflicts of Chiapas. Social conflicts were sharply on the rise. The result being: increasing levels of poverty, the growth of the informal economy, increase in violence and public insecurity, corruption with impunity, the precarious conditions of micro, small and large enterprises and the deterioration of the countryside and farming sector. In sum, the current problem in Mexico is good macroeconomics but bad microeconomics.

Mexican government still has direct ownership over large state owned companies, some of which are monopolies, although it has little influence over the big business and industrial groups. The existing stockholders’ ownership interest in a company is not diluted if the company sells debt to raise money in such a way that the investor will not become a co-owner. However, if the company sells equity allows the fund to become a co-owner thereby diluting (or decreasing) the existing stockholders’ ownership interest in the company. A disadvantage of a debt investment is that the investor lacks interest on ownership and cannot have gains from an equity investment.
Many of the top firms belong to one of Mexico’s business conglomerates or “groups”. Garrido (1992:57) uses the term “big business” to refer to those people in positions of ownership and/or control over two or more conglomerates or groups. Business groups in México link together under a “single system of ownership a number of different enterprises, either within a single sector or across various sectors of the economy” (Thacker, 1998:7). Garrido (1992) reports that 99 in Mexico in 1989 counted almost 70 percent of the top 500 firms among their membership in that same year.

Many of these business conglomerates have separated ownership and management by placing control over management in a director general who is not an owner or shareholder in the company (Salas-Porras 1992). Neoliberal governments have shown their inability to reduce the pain of the integration processes through more favorable negotiations that would allow comparative and competitive advantages for Mexico. The results of the globalization processes confirmed that it had gone in only one direction: the entrance of transnational and multinational enterprises, now called global enterprises or contemporary business, which in essence are foreign, have taken legal ownership of the natural resources, land, etc., and returned few benefits.

Private sector and business community challenged the legitimacy of the system itself and secured a permanent role in the political system in order to protect and promote their interests in the future. Private and public sectors differ in nature and specialization in their core competencies. A public sector investing its scarce resources in “loss-making, customer-unfriendly monopolies” is poorly equipped to perform the assigned functions and tasks (Savitsky and Burki, 1999). It has been argued that private or State monopoly creates a deadweight loss to the economy. The ultimate goal of the private sector was to play an active role in government sharing power as it was said by a prominent business leader: “we want to participate in the process of making decisions over the long-term” (Hernández Rodríguez 1986, 262). Under the “alliance for profits”, business bargained and agreed to forsake a direct role in politics in exchange for the maintenance of a stable investment climate (Mizrahi 1992).

In this way, the factions integrated into the directing elite were recomposed of managers to guarantee the continuity of the economic model, the dimensioning of a functional democracy that matches the discipline of the market, and the structural reinvention of the system. The degree of market concentration in the main economic sectors and the existence of public and private monopolies is a feature that limits the competitiveness of Mexico’s economic structure. The World Bank Mexico (2007) has argued that “in several key moments when government policies could have turned the structures of these sectors more open and thus competitive, the government’s choice has tended to be to favour market concentration.”

This allows a bigger reproduction of capital and deepening of the dominant instruments to markedly increase differences and social injustices. But this democracy favoured by a authoritarian free market system is a hegemonic ideology of the elite of transnational globalized capitalism that imposes decisions to its own benefit. However the real power remains under the control of transnational capitalists.

The growing presence of “big business” leaders shows the existence of a small national nucleus of economic control across multiple sectors of the economy. The new business elite control the important business groups, by means of a system of interlocking management and boards of directors. Large business have separated ownership and management by placing control under a director general who is not an owner or shareholder in the company (Salas-Porras 1992). Garrido (1992, 57) refers the big business to those people in positions of ownership and/or control over two or more conglomerates or groups The actual number of people who control the top firms in Mexico is smaller due to overlapping networks of ties between the management of different groups spanning across several sectors of the economy.
The new government of Calderón’s (2006-2012) main challenge will be to build new institutional structures to solve the problems of the new reality that faces the entrepreneurial and managerial group in power. For example, those institutions that impede the practice of monopoly and that sustain governance of the Mexican society. The proposed democratic capitalist model for market economy needs to be revised so that the function of the results is expressed in increments of poverty. Some of the main challenges for the rest of Calderón’s administration are to recover the government’s credibility and genuineness in such a way as to reduce the high index of poverty by creating one million two hundred thousand new jobs per year, and to maintain economic growth and development. Correction of social inequalities is required starting with the reorientation of economic policies. One inevitable topic is how to draft public policies that will combat inequality in education, health, infrastructure, and housing.

It is necessary that the State must govern and act to rectify inequality, create a social economy that is a humane economy, and humanistic policies in the economic sense with a high emphasis on combating inequality. Economic policies should be drafted to generate good conditions of human life and not only change the bias that gives the market an indisputable hegemony and to guide certain production bases, but to make the State responsible for combating inequality. Economic policies have to become unified to reduce poverty through such measures as the establishment of Social Banking to support families and associated companies, as well as to create a government salary pact between employer and worker, that allows workers to recover their purchasing power.

A political system is required that will produce a public administration that is accountable to the people in such a way that rulers are brought closer to those they govern and which will permit social participation in the design and implementation of public policy. However, the conservative ‘panista’ speech manages only to recognize the social participation of private philanthropic non-governmental organizations. Nevertheless this joint alteration of party power, the civil society that had always maintained a relationship in conflict with a government that sought corporate control, now has the opportunity to participate in the design of the country in a new relationship with government.

Discussion and Conclusions

This part systematically and historically looks at Mexico from 1970 to recent as a glance. In the early 1970s, industrial policy diversified its objectives to include export promotion and the strengthening of international competitiveness, the development of capital goods industries, regional decentralization of industrial activities, and foreign investment regulation (CEPAL, 1979; Solís, 1980; and Ros, 1993). The new priorities were reflected in a number of policy reforms. Export promotion policies included the establishment in 1971 of export subsidies called Certificados de Devolución de Impuestos (CEDIS), the creation in 1972-1980 of FONEI (Fondo de equipamiento industrial) for the financing of export-oriented investments, to strengthen export promotion efforts and facilitate access to international markets was very important. Then From 1977 to 1981, a number of trade reforms replaced import licenses with tariffs with the aim of reducing the anti-export bias of the protection regime and increasing industrial efficiency (Ros, 1993).

At 1980s the economy stagnated throughout as a result of continuing negative terms of trade, high domestic interest rates, and scarce credit. By late 1982, President Miguel de la Madrid reduced public spending drastically, stimulated exports, and fostered economic growth to balance the national accounts. Mexico's GDP grew at an average rate of just 0.1 percent per year between 1983 and 1988, while inflation stayed extremely high. Public consumption grew at an average annual rate of less than 2 percent, and private consumption not at all. Total investment fell at an average annual rate of 4 percent and public investment at an 11 percent pace. In April 1989, President Carlos Salinas de Gortari announced his government's national development plan for 1989-94, which called for annual GDP growth of 6 percent and an inflation rate similar to those of Mexico's
main trading partners. In 1993, Mexico passed the Foreign Investment Act. The purpose of this bill was to establish a new legal framework for foreign investment in Mexico. The Foreign Investment Act permits foreigners to purchase and own real estate, and establish businesses, within the "restricted zone". The "restricted zone" is defined as property within 62 miles of any Mexican Border or within 31 miles of any Mexican coastline. The Act permits ownership within this district through a bank trust, or "fideicomiso" (Steve, 2009). In 1994 the commerce and services sectors accounted for 22 percent of Mexico's total GDP. Manufacturing followed at 20 percent; transport and communications at 10 percent; agriculture, forestry, and fishing at 8 percent; construction at 5 percent; mining at 2 percent; and electricity, gas, and water at 2 percent (The World Fact book, 1996).

Economic reforms of structural adjustment introduced in Mexico in the last two decades years have led to a mere ownership change of monopolies but did little to modify the regulatory framework. The economic reforms introduced are leading to increased market concentration and have failed in strengthening the regulatory framework in the case of natural monopolies, in providing more opportunities to introduce competition and in enhancing the competitiveness of the economy as a whole. Market oriented reforms have yielded fewer results in terms of making Mexico more competitive (World Bank Mexico, 2007). Also the question remains, is which other factors plays in slow growth of manufacturing, the policy regime in particular, played a role in the slow productivity growth of manufacturing and the divergent trends of its different sectors.

As pointed out by Nishimizu and Robinson (1986), Verdoorn’s law suggests a positive link between productivity growth and export expansion as well as import substitution, to the extent that both of these processes tend to increase the size of the market.

Transfers of asset ownership in key economic sectors such as land, airlines and telecom have lasting effects on the economic efficiency and on the distribution of political influence among economic actors. In this sense, privatization entails winners and losers. Privatizations in Mexico have favoured new emerging large business. The newly rising class of entrepreneurs and enterprises emerged from the deals of the privatization program and the government protection that the deals themselves offered after the acquisition of the assets (Hoshino, 1996).

In the case of the privatization program in México, the winners are the small number of entrepreneurs who belong to the Mexican economic elite. Some economic elites gained advantageous positions during the decades of privileged access to Mexican State’s power and government protection. A strong orientation toward the privatization program and regulatory framework attract flows of foreign direct forms of investment. The implementation of the privatization program in México has been very pragmatic: State-owned companies merged, closed outright, or were sold at token prices.

Also in the study of private vs. public ownership there is an example of Private vs. public ownership of power generation in Mexico. The fact is, privatization of power generation in Mexico, which has occurred within a market that is only partially open, seems to have produced cleaner and more efficient plants. This appears to have occurred primarily because newer technologies (and the fuels they employ) happen to be cleaner than the technologies that have traditionally been used (Andres, 2005). Some private power producers, who own and operate new plants in Mexico, have chosen to adopt environmental practices that exceed those that public producers have been required to meet. There is actually great variability in the environmental management practices of both publicly-owned and privately-owned plants in Mexico. Among public utilities, most improvements in environmental management practice seem to have come in response to pressure from regulatory bodies at the national level. Private producers, on the other hand, seem to respond more to corporate strategy dictated by their parent companies and to mandates from funding institutions (Andres, 2005).
Privatization of public enterprises in México has been limited because of the restrictions on foreign investment in acquisition and participation, although the privatization program has been open to foreign investment which has purchased important assets. Despite the adoption of Washington consensus-type economic reforms, the results are not positive in terms of economic growth, social development and democratic governance. Privatization has failed to meet the objectives of achieving and economy with more efficient use of resources mainly because the lack of a set of incentives and regulatory frameworks to prevent the establishment of a private monopolies of what have been public monopolies.

The World Bank Mexico (2007) argues that “the Mexican elite has benefited from restrictions on foreign entry into privatized sector”, but while in a number of Latin American countries, privatization has been associated with the entry of foreign capital, by contrast “only five privatizations were carried out with the participation of foreign investors. The majority of subscribed capital across the privatization program was therefore provided by Mexican investors”.

The losers are the immense urban poor people, peasants, landless rural and small proprietors of land, workers, general consumers, owners of micro, small and medium size firms that have to absorb higher prices and higher input costs. Privatization has failed to meet the objectives of achieving and economy with more efficient use of resources mainly because the lack of a set of incentives and regulatory frameworks to prevent the establishment of a private monopolies of what have been public monopolies. Nowadays, Mexican economy is dominated by a network of private monopolies with a governance linked trough cross-shareholdings.

The way that the privatization and trade liberalization reforms were conducted in Mexico, according to the World Bank Mexico (2007:68) suggests “that strong business influence on politics continues, albeit with some changes in the identities of the elites involved and the form of the interactions between the state and businesses. The clear tendency of wealth concentration and unequal distribution of economic benefits (and of the corresponding political influence) has created a highly unequal political playing field where a small number of well-endowed and well-connected business elites manage to obtain preferential concessions from the government (typically in the form of market protection)”.

References


