“Business as Usual?”

Electoral Democracy in Mexico:  
The Economic Implications of the PAN’s Victory

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On July 2, 2000, Vicente Fox made Mexican history. He became the first non-PRI (Partido Revolucionario Institucional) candidate to be elected to the Mexican presidency since the Mexican Revolution institutionalized a one-party political system in 1929. Granted, in recent years non-PRI candidates have won municipal, state, and congressional elections, an outcome unimaginable a few short years ago. But, the presidency of the republic? That must be seen as a true triumph of electoral democracy, no? In fact, most observers of Mexican politics believe that this was not the first time that the Mexican people had voted for a non-PRI president. Why, now, was Fox able to win the election and become the Mexican president?

The election of Fox, the official candidate of the Partido de Acción Nacional (PAN), to the presidency ensures electoral democracy at the highest level in the Mexican government and silences the many critics who have become increasingly vocal in recent years about electoral fraud and stolen elections. But, most importantly, electoral democracy in this case does not bring the country any closer to economic democracy. If possible, the election of Fox brings Mexico even further from it, at least in terms of rhetoric if not action.

Whereas Cuauhtémoc Cárdenas, the apparent winner of the 1988 presidential election, campaigned on economic democracy reforms and in fact, in the 1994 contest, even initially advocated rejection of the North American Free Trade Agreement (NAFTA), the election of Vicente Fox signals a continuation of the acceptance of economic globalization and neoliberal policies. In June, 2000, just before the election, John Saxe Fernández of the Universidad Nacional Autónoma de México, in a speech at the National Press Club, called the candidacy of Fox “una alternancia sin alternativa” (EPI, 2000). His analysis labeled Cárdenas as the only one of the three major candidates who represented an economic alternative to the neoliberal policies
institutionalized during the sexenios of Miguel de la Madrid, Carlos Salinas, and Ernesto Zedillo. Saxe quoted Jorge Marín, who had recently stepped down from the presidency of the powerful Mexican business association Consejo Coordinador Empresarial, as saying that his group had received assurances from both the PRI and the PAN of “the continuity of current economic policies” (EPI, 2000).

Widespread sentiment seemed to even indicate that a Fox victory would likely end many of the economic benefits received from popular government social programs. A poll conducted by MUND Opinion Services for the Alianza Cívica shortly before the election found that 47% of those eligible for social benefits believed that those social programs would end if the PRI lost the election (Washington Office on Latin America, 2000). Forty percent of those surveyed believed that the social programs were, at least in part, provided by the PRI, as opposed to the government. Yet, even with the prospect of the further economic marginalization which a PRI loss might bring them, just over a year ago the Mexican people elected Vicente Fox president.

**The PRI - From Populism to Neoliberalism**

The Partido Revolucionario Institucional, growing out of the Mexican Revolution, has strong populist roots. Under its rule, the Mexican government was an activist government, playing an important role in economic development. Government policies were instrumental in the transition from an agrarian economy into an industrial one (Levy and Székely, 1987; Cockcroft, 1990). In addition, the government was careful to balance the interests and well-being of different groups as market capitalism developed (Teichman, 1988). Most importantly, the PRI-led government instituted numerous economic reforms, from the nationalization of key industries to land redistribution to the peasants. The country experienced decades of unprecedented growth
(the Mexican “miracle”), brought to an end finally as Mexico found itself the first “victim” of the debt crisis of the early ‘80s. Since that time, successive PRI administrations have labored under the structural adjustment programs and economic reforms imposed by their “rescuers,” the World Bank, the International Monetary Fund, and the United States government.

The PRI’s 1982 selection of Miguel de la Madrid to be president signaled the beginning of its rejection of the economic populism on which it was founded and its embrace of the doctrine of economic neoliberalism. During the eighteen years of the presidencies of Miguel de la Madrid, Carlos Salinas, and Ernesto Zedillo, the government privatized large sectors of the economy, ended land reform, opened the country’s borders to foreign investment, and drastically reduced trade barriers.

By the time of the 2000 elections, the perennial problem of inflation had been brought under control and the government was running unprecedented budget surpluses. As John Saxe commented, using these benchmarks, the economic policies of Ernesto Zedillo were a resounding success (EPI, 2000). However, according to Saxe’s goals of development, a fair distribution of resources, balanced trade, and a positive link between foreign investment and exports, on the one hand, and economic growth, on the other, Saxe termed Zedillo’s performance “a resounding and overwhelming failure” (EPI, 2000). Between 1983 and 1997, Gross Domestic Product (GDP) grew at an annual rate less than half that of the previous era of government activism in the economy. GDP per capita experienced 0% growth over the period 1982 to 1999 and contractual wages lost 63.7% of their purchasing power (EPI, 2000). Even before the peso crisis of 1994-95, Mexico had achieved, as Rudi Dornbusch and Alejandro Werner put it, “reform, stabilization, and no growth” (Quoted in De Long, 1998).

Between 1995 and 1999, manufacturing exports improved rapidly, growing at an annual
rate of 16 percent. Much of this production took place in maquiladoras, factories built near the border for the purpose of exporting to the U.S. (Salas, 2001). Maquiladora employment has grown rapidly. The number of factories in Mexico’s maquiladora zones has increased more than 79% since 1993, and employment in these plants increased 139% in this period. More than 1.3 million workers were employed in more than 3,700 maquiladora plants in 2000 (Scott, 2001). Though these factories have thrived under NAFTA, maquiladora production and employment contribute little to Mexico’s development and internal market since production is exclusively for external consumption. And though the level of employment in maquiladoras has risen, the impact on Mexican wages has not been positive. By 1998, the incomes of salaried workers had fallen by 25 percent since 1991, while incomes of the self-employed had fallen 40 percent. The minimum wage in Mexico lost nearly 50 percent of its purchasing power during the 1990s, and manufacturing wages fell 21 percent from 1993 to 1999. The share of wage employees among all workers decreased more than 17 percent between 1991 and 1998, while the shares of unpaid and the self-employed increased dramatically (Table 1).

And while the volume of both total and manufactured exports increased substantially in Mexico, the rate of gross domestic investment, along with investment-output ratios, have declined under neoliberal policies (Holt and Young, 1997). The long-run sustainability of exports as a way of driving the demand side of an economy depends upon the country’s supply capabilities. These can only be improved through advances in technology, institutional factors, and marketing capabilities. In Mexico exports, particularly of manufactured and primary goods, have taken away resources from domestic investment. There has been an increase in exports at the same time as negative or low growth in
<table>
<thead>
<tr>
<th>Type of Worker</th>
<th>1991</th>
<th>1998</th>
<th>Percent change</th>
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<tbody>
<tr>
<td>Owner</td>
<td>4.8%</td>
<td>4.0%</td>
<td>-16.7%</td>
</tr>
<tr>
<td>Self-employed</td>
<td>16.6</td>
<td>22.8</td>
<td>37.3%</td>
</tr>
<tr>
<td>Waged</td>
<td>73.9</td>
<td>61.2</td>
<td>-17.2%</td>
</tr>
<tr>
<td>Unpaid</td>
<td>4.6</td>
<td>12.0</td>
<td>160.9%</td>
</tr>
<tr>
<td>Other</td>
<td>0.1</td>
<td>0.1</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
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Source: Calculated from Salas (2001), Table 2-2.

investment. This reality is in stark contrast to the standard argument that short-term supply-side shortages of capital might exist but in the long-run, with the increase of income and higher savings from neoliberal policies, domestic investment would rise, leading to greater production capacities.

The large increase in exports was not followed by the domestic investment needed for expansion of supply capabilities. Domestic investment is essential for developing supply capabilities to both produce more exports and to meet the demand of domestic consumption. It is also needed for expanding the productive structure and related back-up services in the manufacturing sector. For Mexico, this is especially important, given the need to develop and expand its industrial base and to make structural changes in manufacturing in order to compete in the world market.

Through the income effect, exports can raise domestic savings and stimulate demand for investment. Exports can also provide the necessary foreign exchange to purchase production inputs that can help ease supply constraints. In Mexico, however, the purchase of imported
production inputs has been restricted. Periods of devaluation and recession have hurt those sectors of the economy that depend upon imports for their production processes because of the high cost of those imports. And it appears that neoliberal policies ended up having more of an effect on imported capital goods than on imports in general (Holt and Young, 1997).

The growth in manufacturing exports during the period of 1995-99 was outpaced by manufacturing imports, which grew at an 18.5 percent annual rate and which contributed to Mexico’s rapidly growing overall trade deficit. Large trade surpluses with the United States have not been enough to overcome even larger trade deficits with the rest of the world (Salas, 2001). Even the peso crisis of 1994-95, while it reduced the deficit substantially, did not turn the current account to surplus. In the years since 1995, the current account deficit has grown steadily and is now approaching the level it was just prior to the enactment of NAFTA (Table 2). In 2000, the current account deficit had reached 3.1% of Mexico’s GDP, up from 0.5% in 1995 (Banco Nacional de México, 2001).

**Political Democracy Without Economic Democracy**

For years, a PRI presidential loss was unimaginable to most observers of Mexican politics. Over the 71 years the PRI held the presidency, the PRI had become synonymous with the government. To oust the PRI from the state apparatus would surely cause that apparatus to fall, thought many. Ironically, Vicente Fox has a PRIista (ex-President Ernesto Zedillo) to thank for exercising the political will to achieve electoral democracy and allow his ascension to the presidency. And the transition has been much smoother than expected, largely because turning over the political reins in this case was accompanied by not even a blink in the economic policy formulated by the PRI during the past three
sexenios. In contrast, the transition in Nicaragua, when Daniel Ortega was defeated at the polls by Violeta Chamorro a decade ago, did imply a true upheaval, the defeat of a dominant single party together with a complete reversal of economic policy.

Yet, in Mexico, observers of economic policy seem to be inordinately preoccupied with the political transition. Two of the eight articles in the Banco Nacional de Mexico’s August 2001 *Review of the economic situation of Mexico* (“The Political Environment” and “How the Elections are Going”) had not a single reference to anything remotely “economic” (Banco Nacional de Mexico, 2001). Perhaps the reason is that there is no “news” when it comes to Fox’s economic agenda. No
matter the uncertainty of how his social policies will play out (Hellman, 2000), his economic policies portend more “business as usual.”

Economic democracy is not inherently anti-market. Nor is it inherently market-based. Given the economic reality of the world we currently live in, however, it probably makes the most sense to take our globalized, market-based economies as a starting point for moving towards more economic democracy. The state capitalism experienced by many countries was not particularly democratic, yet that does not necessarily imply that economic democracy will be achieved by governments stepping back and letting markets work unfettered. Globalization has progressed way too far for that. On the contrary, governments are crucial in restraining the imperatives of global capital and providing an opening for economic democracy to take hold. As William Greider put it in “Breakdown of Free-Market Orthodoxy” a few years back, “Governments possess enormous power over the marketplace, if they will decide to use it” (1998). He continues,

Governments need to recognize that they must focus, first and primarily, on rescuing the real economy of production and consumption from further deterioration – instead of concentrating only on financial markets and banking systems. . . Why do the terms of trade protect property rights but not human rights or the rights of workers to organize in their own self-interest? Why does the global system ignore the random inequalities in its own factories? Or the deepening inequalities of wealth and incomes that helped to generate this crisis?

These are good questions, indeed, but unfortunately in Mexico, as in her partner to the north, the economic policies of the past two decades, and which are likely to continue under the Fox administration, have served to protect transnational capital and global financiers rather than to restrain them. There is a strong association between economic performance and capital accumulation. Also, there appears to be a correlation between supply capability and long term export performance. In the case of Mexico, however, it appears that the growth in exports has been at the expense of investment, and with supply capabilities being constrained by the use of available foreign exchange to pay off the
Until Mexico is able to achieve a certain level of industrialization, government policies should be directed toward improving supply capabilities. Otherwise, the process of de-industrialization and the accumulation crisis will only continue, putting macroeconomic sustainability in jeopardy.

Government policies can help to redirect investment from short-term, speculative ventures into longer term, productive enterprises. Higher profit-margin requirements on lending for financial speculation can be imposed on banks and hedge funds. A version of capital controls could be utilized to disarm “hot money” (Greider, 1998). Taxes could be imposed on investments that are liquidated in less than a year. Banks and corporations that borrow abroad in major international reserve currencies could be assessed penalties. The government could issue surtaxes on foreign holdings of domestic financial assets but not on direct investments by foreigners. All these potential policies would have the effect of discouraging short-term speculation and encouraging long-term investors to finance industrialization (De Long, 1998).

Most importantly from the viewpoint of economic democracy, mechanisms must be created for expanding the participation of workers and small producers in the economic life of Mexico and for making capital accountable for its actions. Alternatively, existing mechanisms can be better employed towards these aims. A case in point is NAFTA’s labor side agreement, the North American Agreement on Labor Cooperation (NAALC).

Initially, the proposed NAFTA had no provisions for protecting labor rights. During the debate in the U.S. over the passage of NAFTA, and in the 1992 presidential campaign, this became a huge issue. Finally, the three countries agreed to a labor side accord, the NAALC. But the NAALC was never intended to harmonize labor standards in the three countries, nor did it establish any multinational judicial procedures or appeals processes. Rather, it calls on the three countries to enforce their own domestic labor standards effectively and relies on political engagement between the
parties as the means to address violations.

The NAALC does not intend to resolve individual cases of labor rights violations, but rather to address underlying problems with the practice and enforcement of each country’s own labor legislation. An early draft of the agreement did include an independent oversight body, but it was abandoned in favor of bilateral or trilateral negotiations (Human Rights Watch, 2001). The National Administrative Offices (NAOs), which have been set up in the three countries to hear complaints, have complete authority over whether or not to pursue those complaints. The agreement allows the NAOs to call an outside panel of experts (an Evaluation Committee of Experts or ECE) to hear alleged violations of eight of the NAALC’s eleven “labor principles” and to issue non-binding recommendations. The ability to convene an arbitral panel to consider sanctions is allowed for violations of only three of the eleven principles. And in the case of three seemingly fundamental labor rights (freedom of association and the right to organize, the right to bargain collectively, and the right to strike), not even an ECE can be assembled to issue non-binding recommendations! Even with the weak outcomes that are possible, not a single ECE nor arbitral panel has yet been convened since the signing of the NAALC, though the NAOs have received 23 complaints to date (Human Rights Watch, 2001).

Fourteen of those complaints have alleged labor rights violations in Mexico, twice the number of complaints issued against the U.S. and seven times the number against Canada. However, not one of the countries has been willing to exert the political will to push for independent evaluation of an alleged violation in itself or another country. Notwithstanding the lack of effective investigative procedures, remedies, and sanctions, Human Rights Watch asserts that “perhaps the single most important thing the signatories could do to use the existing NAALC more effectively is to overcome their timid use of it” (2001, p.4). Nevertheless, true democratic reform
would include labor rights principles into any trade agreements signed, and incorporate many of Human Rights Watch’s detailed suggestions for giving meat and meaning to the NAALC. These suggestions include the creation of an independent oversight body and the ability to issue binding judgments on alleged violations of all eleven labor principles (Human Rights Watch, 2001).

In Neo-liberalism or Democracy?, Arthur MacEwan defines democratic economic development as “widespread political participation in social and political affairs . . . not simply as a goal but as an aspect of the process itself” (1999, p.153). He goes on to assert, though, that if private property rights are such as to prevent the political process from having extensive influence over economic affairs, then the procedures of democracy are hollow. If democracy is to be meaningful in the sense of allowing people to assure their own economic and social well-being, then private property rights cannot, for example, prevent the state from implementing land reform, regulating health and safety on farms and in factories and in offices, restricting environmental degradation, establishing minimum wages, or limiting the movement of capital (p.153).

If Vicente Fox is to bring true economic democracy to Mexico, it is not enough to have released the PRI’s grip on the presidency, he must also reverse the last two decades of economic policy which have increasingly removed the Mexican state from its previous role in directing economic activity and moderating the whims of transnational capital. Only if Fox ultimately reveals the “center-left” tendencies which he and others have asserted he has (but which he has yet to reveal in his economic agenda) will he be able to assert the political will to set Mexico on a true democratic course.

REFERENCES


