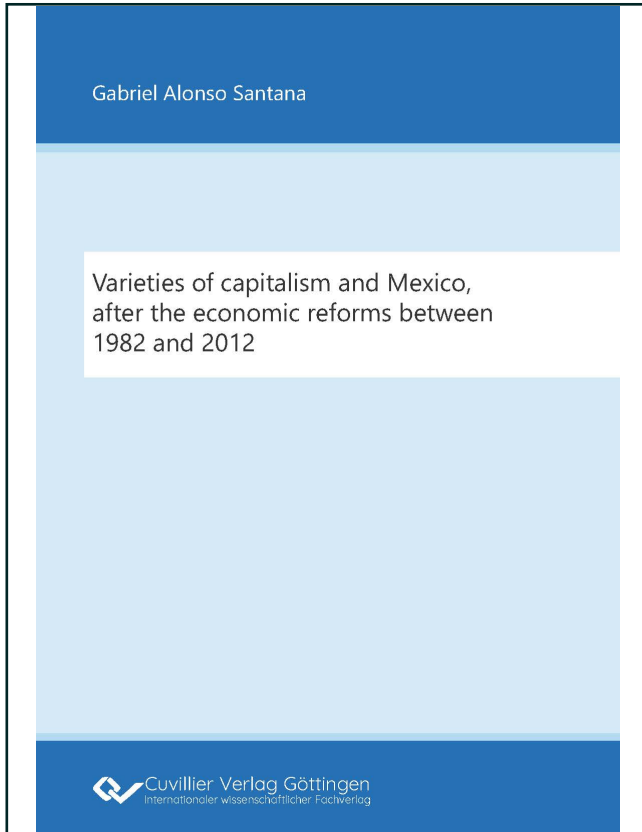




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Varieties of capitalism and Mexico, after the economic reforms between 1982 and 2012



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Introduction

This work departs from the literature about Varieties of Capitalism (VoC) to study the case of Mexico after the economic and political reforms enacted between 1982 and 2012 in that country. The hypothesis is that with the reforms that started after 1982, Mexico adopted a new VoC that was different from the previous one, which started in 1970. If the previous economic structure had some similarities to a state-led, corporatist but capitalist economy, perhaps the new one would similarly follow a specific model. The question of the study is: after the economic reforms in Mexico between 1982 and 2012, what is the VoC of the country? The question is about the open market, free trade, privatisation and other economic reforms that began in Mexico in that period. This relates to the neo-classical approach to economics (known in Mexico as neo-liberal), and the need to reform almost everything within the Mexican economic institutions (e.g. the constitution, the laws, privatisation of government owned companies, creation of new economic regulatory bodies, international image) in order to create a more liberalised economy. The main VoC that relates to that approach is the liberal market economies (LMEs) approach, that is, the attempt to make the Mexican economy more like the US economy, or at least to the neo-classical economy that appears in economics text-books that deal with that specific school of economics.

The said literature of VoC deals with the causes of the progress and development of countries, which have been studied by different disciplines. In the 1990s and especially after the end of the Cold War, various studies emerged around the “types of capitalism” (national structures that determine the political economic organisation) of countries that belonged to the “developed West” (Albert, 1993; Hall & Soskice, 2001; Hutton, 2002).

The idea behind these studies was to present what was different in each geographical region, and somehow to contrast which “models” were better, or their main characteristics. They mainly identified a differentiation between a

more liberal (non-regulated) political economy such as that of the United States and the United Kingdom, and a more organised form of states such as that of Japan, or in a different manner, European countries such as Germany and Austria (the Rhineland model) or Sweden, Norway, Denmark and Finland (the social democratic model), where markets were more regulated by the state.

There are also some studies of countries that do not belong to the rank of the highly developed, but which have also adopted their own national variation, for example Central and Eastern European countries (Nölke & Vliegthart, 2009), and there are some studies of Latin American countries (Schneider, 2009; Ebenau, 2012). In this case, recent economic and political changes have influenced new studies of what was formerly known as the communist bloc and the Third World. In the case of Latin America, however, comparisons of varieties of capitalism (VoC) have not received much attention. Moreover, despite the similarities, the region is large enough to be comprised in single studies. Therefore, I deemed it important to study a single country case, Mexico, and to identify what was different from other economies and political orders.

Coming from Mexico, I would say that the country has not really developed a single model in the way that the abovementioned studies show for the United States, Sweden, Japan or Germany. On the contrary, present-day Mexico shows a mixture of different modes of organisation existing together and interacting in a power game. After some research, however, I realised that somehow the country might reproduce the institutional formations (maybe not in an organised or purported “model”) that date back to colonial or even pre-colonial times (Kuntz Ficker, 2010).

The Mexican case becomes more interesting because the economic institutions and the role of the state were reformed after the foreign debt crisis of 1982. By the end of that year, a new president from the Institutional Revolutionary Party (Partido Revolucionario Institucional, PRI) had taken power, and despite being of the same political party as his predecessor, his government

enacted deep changes in the economic institutions. There were international pressures to reform the economy by transforming the central role of the state and addressing the failed industrialisation based on oil exports. Foreign organisations such as the International Monetary Fund (IMF) also pressed for the adoption of austerity measures, along with reforms that followed neo-classical economics: opening the national markets to free trade, deregulating the economy, and privatising all state controlled companies, including strategic industries and finance. This approach was totally opposite to the economic approach of the previous twelve years, and came after the preceding government had attempted to direct the economy with heavy investments in industrialisation. However, the attempt failed because of bad management and the gamble taken on newly found oil reserves that prompted the government to acquire large foreign credits in foreign currency, based on the expectation of high oil prices. Oil prices fell drastically by 1981 and throughout the 1980s remained low, and more importantly, leading interest rates were also increased at this time, which also increased the debt. In that context, the Mexican government did not have much room for choice among different economic models, as it was obliged to transfer payments of a growing debt and had no liquidity with which to make these payments.

The first chapter of this work contains a literature review of the main theories of VoC. Initial studies of VoC were applied to the US, Western Europe and Japan, which were the most developed countries on the “capitalist side” after the end of the Cold War. Later, some scholars began to apply the VoC framework to other world regions.

The second chapter briefly reviews the application of the VoC approach to the case of Latin America and examines related development issues in this region. It also deals with contemporary Mexican history and opens the question of how the recent history of the Mexican case could be explained using the VoC approach. At this point the main question of the study arises: after the economic

reforms in Mexico between 1982 and 2012, what is the VoC of the country?

However, given that the LMEs model is an abstraction (as are the economic assumptions of the abovementioned neo-classical school), it is worth taking a look at this, particularly because the economic reforms were enacted by force by a ruling party which at the time was directed by a technocratic elite. This seems to be less abstract and less detached from politics and human bias than the neo-classical economics school claims to be. In other words, the theory claims to be objective and technical (not contaminated by politics), but even if that was true (which is not), in practice the reforms were fully enacted by political human beings. In addition, a country such as Mexico with a culture of mixed roots (American, African, Spanish) and having had different economic models under the rule of the PRI in the 20th century, would not import easily the said LMEs model without any adaptation to the Mexican reality.

The time period chosen follows several events and a specific logic. Firstly, the foreign debt and oil crisis in Mexico occurred in 1982. Even though oil prices rose in 1981, the effects were mainly felt one year later. Secondly, presidential terms in recent Mexican history have a duration of six years, starting on the 1st of December; despite the PRI having ruled for most of the 20th century, and even when the National Action Party (PAN) held two consecutive presidential terms, the approach to public policy changed each term. In other words, each new president came with a new team of political officers, with different views and priorities, and the different constraints of the year in which they were living and from the informal powers at that time. This is why even changing from one president to the next under both the PRI or PAN resulted in a different public policy. This is especially relevant in that Mexico is a country that is not famous for having long-term plans or abiding by them. Interestingly though, the changes of president or even the ruling political party in the period of study did not change the route traced by the neo-liberals and their neo-classical economics approach. In addition, many of the technocratic officers remained in top level public or private

positions throughout that time. The examined period ends in 2012, because that was the last year of government of the then president Calderón; the assessment of his administration could be summed up after that year, and the literature and statistics were made available in the following years, during which this work was conducted. In addition, it seems easier to start or finish a period at the end of a presidential term, given that each incoming president had new priorities that could have changed the public policies in the short term. Moreover, at this specific time the main effects of the global financial crisis in the US had already passed; as will be seen, this crisis had an impact on the Mexican economy. In addition, because it was the end of two consecutive terms of the PAN party, and the PRI retook power on the 1st of December 2012, this signalled that despite the change in party and the surprising return of the PRI to lead the federal government, the neo-liberal trend had come to stay for at least the following six years. Given that some events had close relation to those of a couple years before or after, sometimes that circumstance or year will be mentioned, but the focus remains on the established period of time.

The third chapter describes the context of the political economy of Mexico, mentioning the formal actors and some informal actors important in the country. This chapter also comments on some indicators of economic wellbeing, as these could be used to measure the positive results that the reforms may have brought. For context, it also includes some tables displaying the main indicators in the economy in order to have an idea of their status before the reforms and also to be able to contrast how different economic events or crises affected them. The chapter also refers to the tables included in the Appendix I. Since the reforms were developed throughout several years, each passing year shows less the context and more the initial effects of the economic reforms.

The fourth chapter contains the main reforms in the economy during the mentioned time period, followed by brief comments on the circumstances, effects or explanations of these reforms. The fifth chapter comments on the main

reforms, but highlights the existence of an arrangement that seemed to have created material benefits for a few actors at the expense of the majority of the people or to detriment of the economy. I called those arrangements the “economics of abuse”, since it seemed that there were, somehow, constraints created for those purposes. This is a critical assessment of the economic reforms.

Finally, the sixth chapter discusses what model or type of VoC, if any, was created in Mexico with the economic reforms of the period. In the discussion, the chapter repeats and summarises many of the key findings of the previous chapters, which were of course derived from the referenced literature and the reviewed events. Naturally, the Mexican VoC will not remain static and will also be subject to further changes in the future.

Given the nature of the work, it would be such a gigantic task to try to assess the Mexican case with direct sources collected by the author. This is why the main data and statistics consulted became the best ally into the approach to case studied (secondary sources of official and reliable data). In the statistics, where available, two years prior and two after were included (i.e. 1980-2014), in order to show the immediate previous and following trend in an indicator, so as not to miss the whole picture. Despite of some interviews done in Mexico with few former middle level political actors, and a couple entrepreneurs, their contribution, as the latter evolution of the research material gathered would show, came to become more like an anecdotal reference, and this is why their content was not included.

The background that started my interest in this topic was how a model of social organisation came into existence, departing of the developments of what is considered, at least in material outcomes, the most developed capitalist states, such as the US, Western European countries and Japan. In addition, such is the focus of authors like Acemoglu & Robinson (2012) and Chang, H.-J. (2009), as well as of most economics authors from Adam Smith to Keynes, Hayek or Stiglitz. In this context, although the research attempts to find new knowledge, it

does not escape from the underpinning normative goal in economics (to do more with less, achieve material improvement for most of the population while administering scarce resources) that tends to judge bad outcomes in material terms using logic and the historical facts that are studied, as they developed through the years.

The methodology applied in this work was the historical method (evidence shown in outcomes of economic policy), inductive and deductive reasoning, logic as are commonly used by historians and researchers in development economics (i.e. Barkin, D. (1990), Ibarra, D. (2005), Schettino, M. (2007), Moreno-Brid, J. C. and Ros, J. (2009), and Pick, S. and Sirkin, J. (2011)). Many academic works on VoC have some institutional or structural parameters to which they may compare one system to another (like welfare regime, participation of the state in the active economic sectors...). However, for the Mexican case, after starting to write and having analysed the sources, the idea of a clear model seemed to be difficult to apply. This case, as will be seen, has more mixed characteristics that make it difficult to put into a single category.

Chapter 1: Literature review of varieties of capitalism: core groups of countries

The old historic question of why some nations are richer or more developed than others has been positioned in different ways by philosophers and political economists since the times of Adam Smith, Friedrich List and Karl Marx. In recent decades, this question has given new spins to topics such as poverty, development and globalisation. This study is devoted to the topic, with a special focus on Mexico using a political-economic approach to the recent history of the country in the context of internal changes, the global financial crisis and questions regarding the globalisation of trade and finance.

This can be explained by looking at the political-economic map of the developed “West” (including Japan, South Korea and other countries): a pattern can be observed regarding the participation of the state in the direction of economic activities and the role that those countries played in the Cold War.

Behind a debate regarding what some writers have called “varieties of capitalism” (Albert, 1993; Hall & Soskice 2001), there is the abovementioned question of the causes of the wealth of these nations. This debate was cast in different theoretical schools (e.g. functionalists, neo-Marxists, and others), which explained in an assortment of ways the “variety” of national development in those countries that were not part of the former “communist bloc”, nor of the so-called Third World (see Amable, 2003; Liebmann, 2009; Becker, 2009; Streeck, 2010; and others). In this debate it was implicit that different groups of nations followed different typologies of economic and political organisation in order to achieve a high standard of life and development, from the Western point of view. Those typologies were called varieties of capitalism, although the term is not applied with the full connotation given by Marx and the philosophic debate that he began centuries ago.

To some extent, such a debate was not very relevant in international

relations for many years, given that mainstream authors cared more about the “bipolarity” that the Cold War created. From that, they derived an idealised world with a balance of power and even talked about a “hegemonic stability theory” (neo-realist and neo-liberal schools).

However, after the demise of the USSR, some studies began to reappear, given that the organisation of allies (e.g. Western countries not aligned with Moscow) showed that they actually did not have the same economic order, despite the fact that they did not have a centrally planned economy, but one ruled more by markets. The degree of state intervention in the course of trade, finance and economic regulations started to matter in terms of differentiating between those countries. Albert (1993) made this evident when he showed that economies such as that of Japan were more collective and presented more state intervention, and that those of Western Europe also had their own elements of social regulation, whilst at opposite end of the scale, there were the “Anglo-Saxon” economies, where at least theoretically, markets worked mostly freely in providing goods, services and economic opportunities to individuals.

This debate has also had importance in the comparison of different welfare states (see Alber & Gilbert, 2010), where, for example, European countries have a more or less universal access to health care, whereas this is not the case in the US. To some extent, Albert (1993) implies that the European system is more stable than the Anglo-Saxon, as will be shown below. However, there is also the question of which model is better suited to the development of high-tech industries (Anglo-Saxon: with start ups and health research funded by the stock markets) instead of more traditional industries such as automobile manufacture, which are less capital-intensive.

The global financial crisis that started in the US in 2007 (the prototype of the Anglo-Saxon “typology”) might be a reason to take this debate seriously, as similar “free market” policies and financing have been adopted around the world, following the US standards and the pressures of the Washington-based institutions

(IMF, WB, US Treasury, and the US Federal Reserve).

This chapter is devoted to a brief review of the literature around the VoC debate and the characteristics that were assigned to the “German” typology (also named as the corporatist or European model). A comparison will also be made of this typology to the so-called Anglo-Saxon model of national economies.

1.1. Varieties of capitalism and the German model

The debate of VoC in political science was made famous by Hall and Soskice (2001), although there were other previous works in the field in the 1960s and the topic was later popularised by Michel Albert (1993). The renewed idea was that after the conclusion of the Cold War, the countries of the West began to realise that there were differences in the way in which their “capitalist” economies were organised, despite the fact that they belonged to the same political bloc. In other words, the differences began to become important for the analysis of political economy, and for this reason comparative studies paid more attention to them.

This debate uses the term “varieties” because it was seen that there was a differentiation between regions or modes of organisation in Western countries. Among them, the former Western developed countries (of the capitalist “free world”) were grouped into Anglo-Saxon (United States, United Kingdom, Canada, Australia and New Zealand), European Mediterranean (Portugal, Spain, Italy and to some extent, France), European Scandinavian (Denmark, Finland, Norway and Sweden), European “Rhineland” (Germany, Switzerland, Austria and to some extent, France), and the Japanese case of state coordination of enterprises. The groupings vary depending on the author, and no country has a single variety in full.

All of these countries were considered to be capitalist economies; differences between them were not seen to be important during the Cold War, as there was a political constraint to remain united in the face of a common threat (the Eastern communist bloc). However, the manner of organising the country and the economy became relevant not merely because the new free world economy