MEXICAN POLITICAL ECONOMY

SOCIAL DEMOCRACY? FREE TRADE? AUTHORITARIANISM?
GENERAL PATTERNS

• Broadly, post-Revolutionary leaders (PRI) adopted import substitution industrialization (ISI) between 1917 and 1980
  – High tariffs $\rightarrow$ protectionism for industry and agriculture
  – Subsidized credit & energy, very low taxes

• Some variation of policy
  – Nationalists (left within PRI) $\rightarrow$ more redistribution of income, higher state spending, more state involvement in parastatals, greater independence from US influences
  – Liberals (center to right within PRI) $\rightarrow$ economic growth over redistribution, freer trade, better relations with the US, general neoliberalism
ECONOMIC CRISIS
END OF PRI AUTHORITARIANISM
ECONOMIC CRISIS AND PRI COLLAPSE

• By the 1970s, Mexico relied heavily on its oil wealth to support the large-scale state spending which had developed to deal with chronic inequality and poverty
  – Spending led to inflation → borrowing money from foreign lenders
• Oil markets dropped significantly in 1981 → Mexico nearly defaulted on its loans, as interest rates rose (interest rates = up to 24%)
• De la Madrid and Salinas moved to a neoliberal economic policy
  – Removed Article 27 (land reform)
  – Increased competition → NAFTA → cheap agricultural goods from other countries flooded the market
• MASSIVE economic crisis between 1994 and 1995
  – Value of wages dropped 27%
  – 70% of Mexicans fell below the official poverty line
NAFTA AND MEXICO: PROS AND CONS

• **North American Free Trade Agreement** → went into effect on January 1, 1994
  – Reduced most tariffs on agricultural goods
  – Trade increased by more than 500% between 1993 and 2012

• **Benefits to NAFTA**
  – Increased exports of manufactured goods to the US → growth of about 75% annually since 1994
  – Increased market share of US winter agricultural market
  – Lower food prices for consumers
  – More diverse economy

• **Drawbacks to NAFTA**
  – US produce costs about 1/5 of what Mexican farmers charged → hit small-scale farmers HARD
  – Exacerbated the income inequality gap between north and south
  – Maquiladoras in the north