

# BETWEEN UNEMPLOYMENT AND INSECURITY IN MEXICO

## NAFTA enters its second decade

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One of the objectives stated in the preamble of the official text of the North American Free Trade Agreement (NAFTA) is to guarantee sustained growth of the member countries—particularly in Mexico—such that Mexican workers would enjoy increases in both the amount and quality of employment and earnings.

Mexico's economic policy, based on an open-market economy and accentuated by entry into NAFTA, has resulted in the poor performance of the national economy in terms of creating quality jobs and addressing the erratic and feeble growth of labor income.

Mexico's global trade deficit is growing despite the increase in its trade surplus with the United States. The race to the bottom—brought about by the decision to distort the competitive performance of the export sector by paying low wages to the majority of Mexican workers—has brought benefits solely to large companies, the financial sector, and a reduced layer of administrative and professional workers earning high salaries.

This chapter will show that:

- Since NAFTA took effect, Mexico has experienced a continual increase in the precarious nature of employment.
- Real wages and salaries have followed an erratic growth pattern and, in most sectors, have never returned to levels achieved at the beginning of the 1990s.
- The agricultural sector has suffered a large and steady loss of employment.
- Corporate earnings have grown while inequality in income distribution has followed a volatile trend.
- Mexico's primary structural problem is growing dependence on global imports.
- Growth in foreign direct investment (FDI) does not necessarily translate into growth of good-quality employment.

Faced with these circumstances, the way forward for Mexico is clear: the development project must be transformed at a fundamental level providing benefits for the working population, and guaranteeing sustained growth in production, earnings, and standards of living. The NAFTA model has clearly failed to achieve its goals in these areas.

In order to transform the development model, Mexico must reshape its development strategy to include the following elements: growth in the domestic market along with export activity; the full participation of both the private and public sectors in economic activity; and, a deeper, more extensive democracy permitting the participation of all citizens in defining the country's development plan. As the starting point for this transformation, NAFTA must be revised in order to create a social fund that stimulates the development of infrastructure and employment in the country as a whole and especially in Mexico's most marginalized regions. Only a vast development program can abate the disparities existing among the nation's diverse regions.

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Additionally, an exhaustive revision of NAFTA's chapter on agriculture is needed and the Commissions for Labor and Environmental Cooperation must be endowed with the power and authority needed in order to effectively monitor and enforce compliance with Mexico's labor laws, according to the logic of the International Labor Organization's (ILO) Proposal for Decent Work.

## **A brief overview of the history of economic development in Mexico**

For more than 20 years, the Mexican economy has experienced profound economic changes that have affected male and female workers alike.

The development model began to change with the foreign debt crisis. As has been shown (Salas 2003), there was a radical change in economic policy originating from the crisis of the growth model based on the domestic market (the so-called "import-substitution model")<sup>1</sup>, which arose from Cardenas presidential period at the end of the 1930s. This policy was based on a closed-market economy model that imposed elevated tariffs on some imports and prohibited the import of many types of goods, a restriction that could be circumvented by special permits. Nevertheless, an efficient program to substitute the imported inputs that domestic industry depended upon did not accompany this protection of domestic producers. As a result, domestic production relied on the availability of foreign currency to buy needed inputs abroad.

Foreign currency, in turn, was obtained through international trade in agricultural products and from extractive industries. However, by the mid-1970s, the agricultural sector entered into a crisis (Solís 1981). The discovery of large petroleum-rich zones and their exploitation beginning in the mid-1970s postponed an imminent crisis by facilitating accelerated foreign indebtedness. When the price of petroleum fell in the beginning of the 1980s, it was impossible to avoid a larger debt crisis, which occurred effectively in 1982.

Nevertheless, it is important to point out that despite its limitations in the long-run, the domestic-market-oriented model was able to maintain high per capita GDP growth rates that were accompanied by a reduction in the inequality of income distribution and an increase in income from work (Altimir 1983; Hernández Laos 1999).

The import-substitution model was gradually dismantled beginning with the government of Miguel de la Madrid (1982-88). The change to the growth strategy led to a phase of privatizations and re-privatizations, changes to the laws, abandonment of income redistribution mechanisms, liberalization of foreign trade, and greater labor flexibility (Salas and Gallahan 2004; Zapata 1997). In 1986, the process of opening the market was consolidated with Mexico's entrance into the General Agreements on Tariffs and Trade (GATT) (Calva 2000).

By diminishing direct state participation in the economy and reducing *per capita* social spending (Chávez 2002), the market opening has heightened the economic polarization that characterizes developing countries (Dussel 1997).

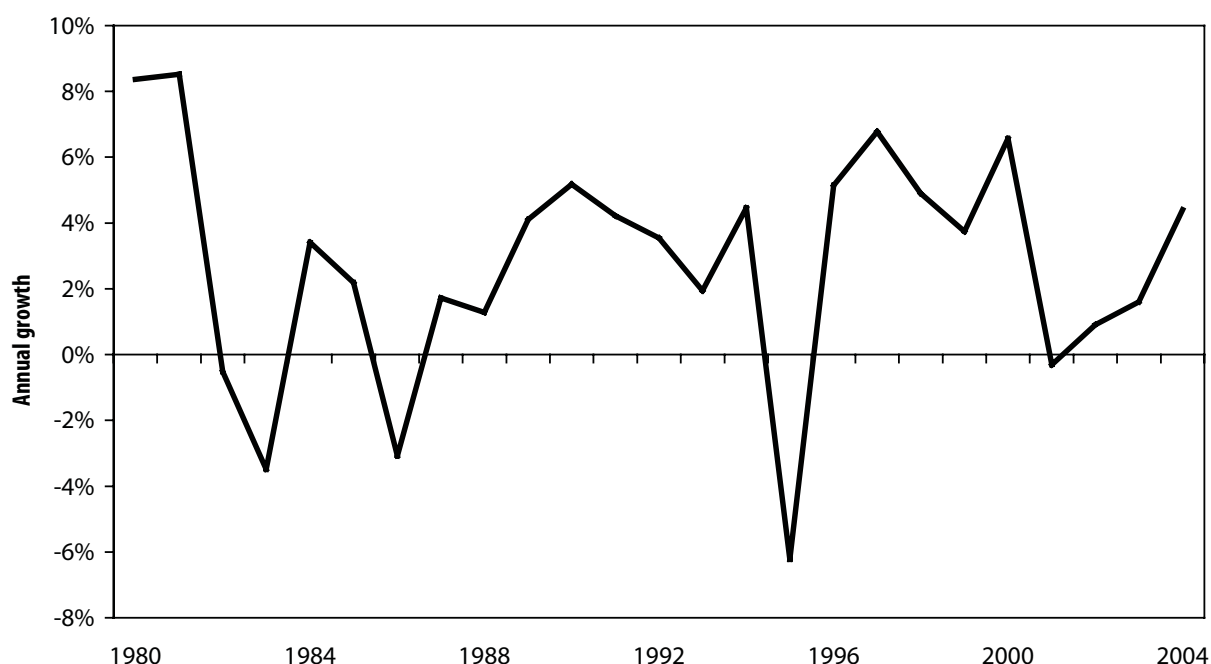
The government of Carlos Salinas (1988-94) presented access to foreign markets as a means for the country to ascend into the First World (Aspe 1993). As an instrument to achieve this goal, and in order to assure foreign investors of the long-term durability of the open-economy model, NAFTA was signed in 1993.

The following sections examine in some detail the evolution in Mexico of two key elements of the export-based economic project: the export-import sector and foreign investment. Later we examine how the economic dynamic has impacted job creation as well as the characteristics of these jobs.

## **The evolution of the economy beginning in the 1990s**

One of the elements that diehard NAFTA supporters use to affirm the trade agreement's success is the performance of the Mexican economy since the crisis of 1995, emphasizing that between 1997 and 2000 the Mexican economy grew rapidly (**Figure 2-A**).

Nevertheless, this performance is irregular. In fact, the International Monetary Fund's (IMF) predictions for the next two years are not very optimistic, and have forecast that annual growth will range between 3.5% and 3.7% (IMF 2005).

**FIGURE 2-A****Wide fluctuations in Mexican GDP growth, 1980-2004**

SOURCE: INEGI, various years.

A brief examination of the evolution of GDP over a longer time interval reveals significant differences in growth rates and patterns between the periods when the import-substitution model was in effect and when the current open economy model entered into force, as shown in **Figure 2-B**.

While the economy did expand during the 1990s, performance in this period cannot compare to the record of growth in the 1950-80 period. This contrast is even more pronounced when examining the rate of growth of per capita GDP (**Figure 2-C**). Note that recent rates are scarcely half of what they were in the 1960-80 period.

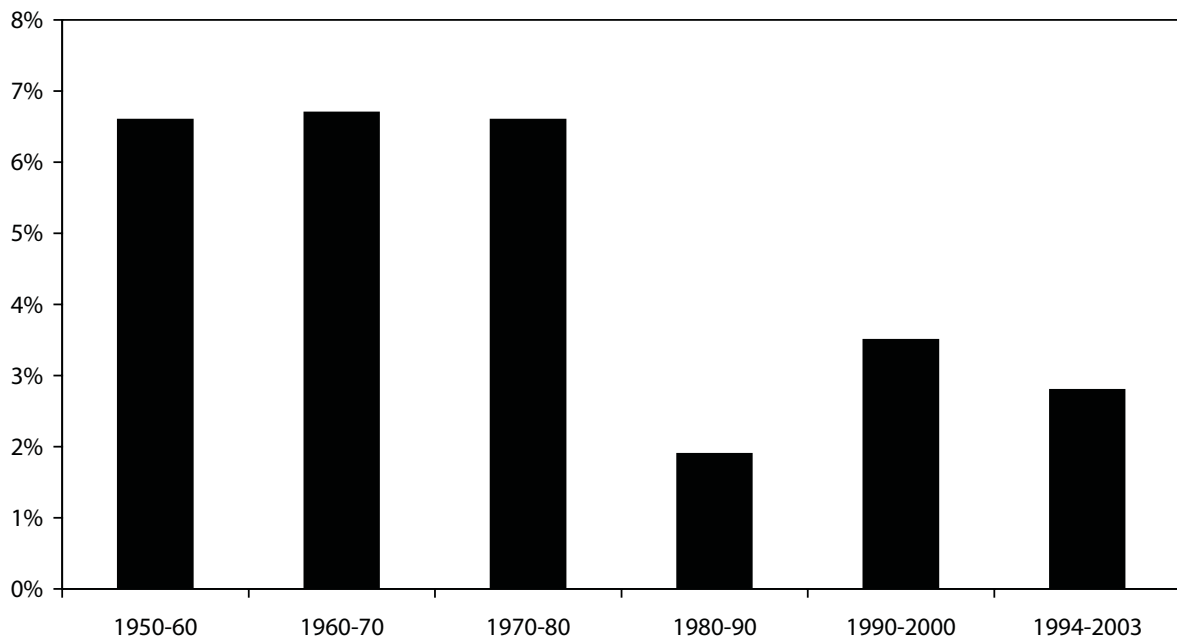
The economy's evolution, while it has not translated into generalized benefits for the population, has improved firm profits. The results of Mariña and Moseley (2001) show that the rate of profit for the economy as a whole recovered after the crisis in 1986 but never achieved a sustained increase, let alone one matching the levels observed in the 1970s (**Figure 2-D**). Therefore, to date, there is no evidence of a cyclical recovery in profit rates.

In order to understand the mechanics of the evolution of the Mexican economy, **Figure 2-E** disaggregates the gross domestic product (GDP) into its component parts: private consumption, government spending and changes in inventory stocks, fixed investment, exports, imports, and net exports. This permits an examination of the contribution of each of the diverse components to the change in GDP. GDP growth is equal to the sum of growth in its component parts in each year.

Figure 2-E shows that during the first year NAFTA was in force, the growth of the economy was driven by growth in private consumption and imports were growing more rapidly than exports. Thus, net exports actually reduced GDP growth in 1994. Following the devaluation crisis that exploded at the end of 1994 (Blecker 1996), exports drove growth during the 1995-96 recovery period, as private consumption was weakened by both the high costs resulting from the devaluation and also the increase in interest rates.

**FIGURE 2-B**

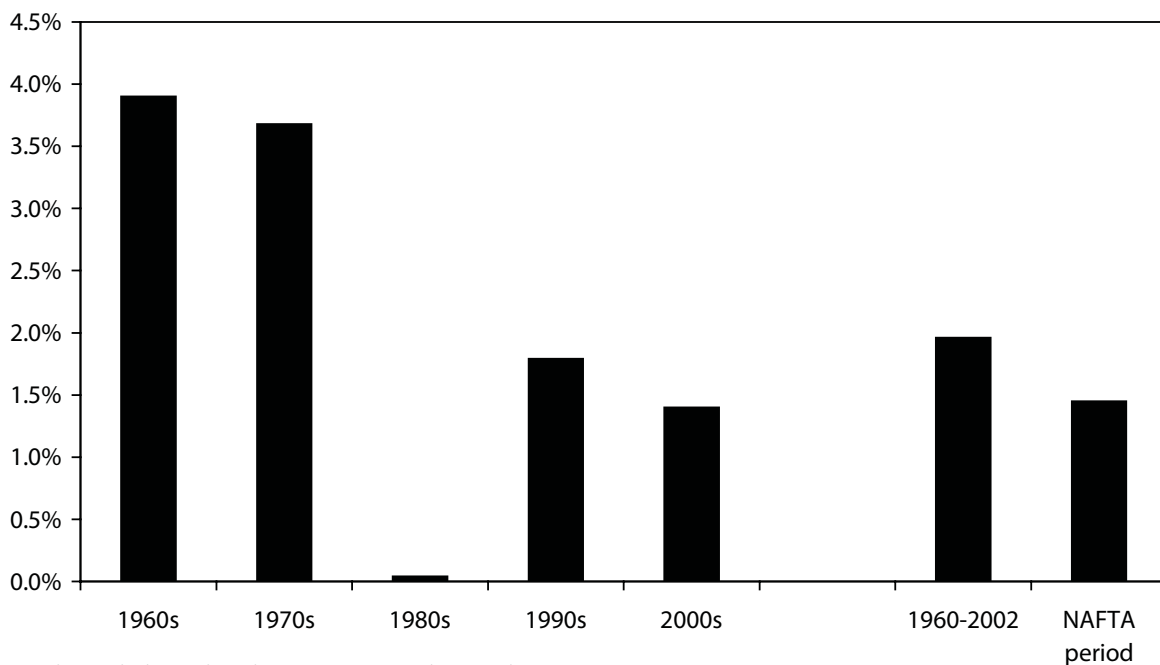
**Average annual GDP growth in Mexico: 1950 - 2003**



SOURCE: ECLAC, Statistical Yearbook, various years.

**FIGURE 2-C**

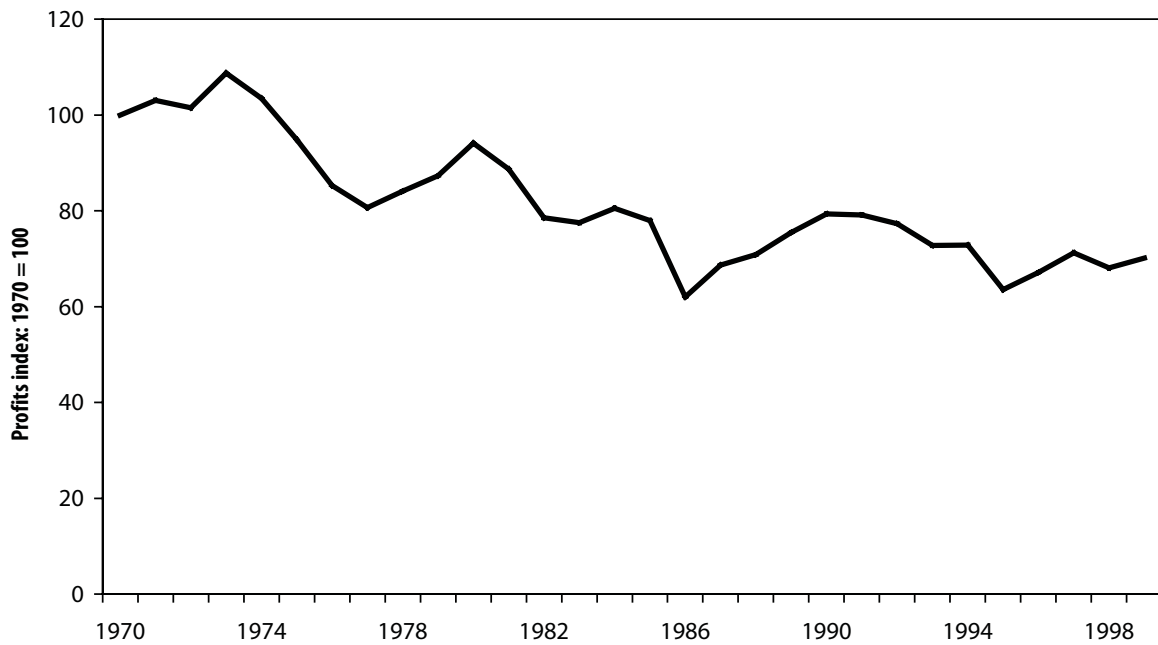
**Export promotion slows per capita GDP growth in Mexico: 1960 - 2003**



SOURCE: Author's calculations based on IMF International Financial Statistics.

**FIGURE 2-D**

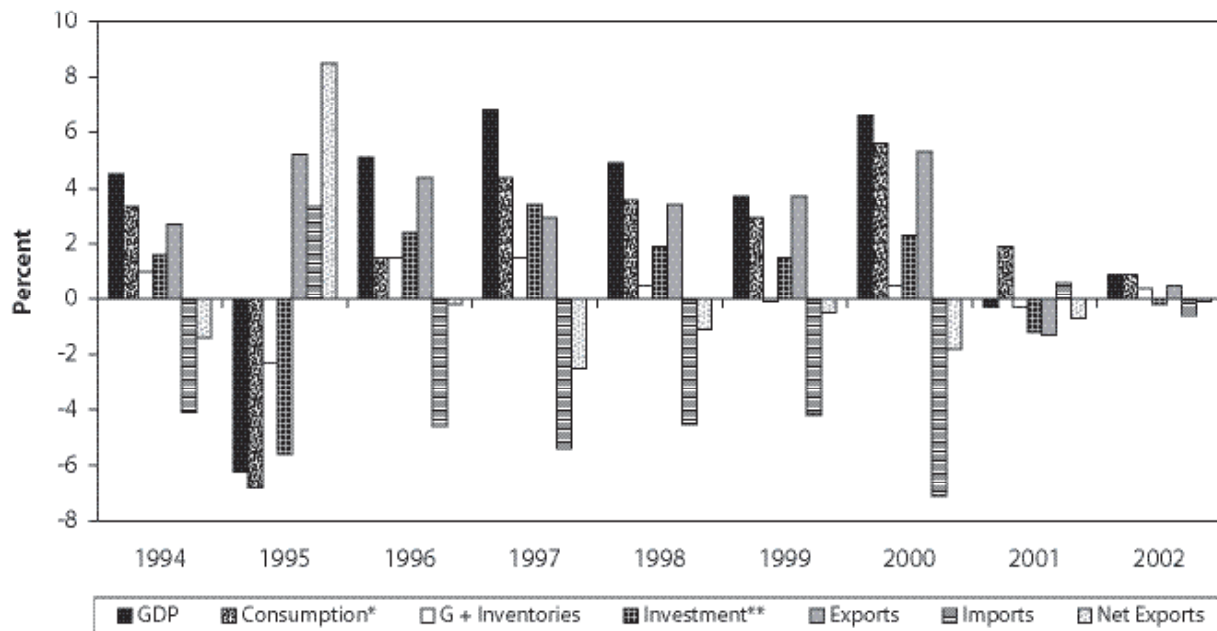
**NAFTA helped stabilize profit rates in Mexico, 1970-1999**



SOURCE: Author's calculations based on IMF International Financial Statistics.

**FIGURE 2-E**

**Contributions to percent change in Mexico GDP, 1994-2002**



\*Private consumption \*\*Net investment

SOURCE: Estimates derived from INEGI's Economic Data Bank.

The net contribution of foreign trade to the economy's performance was temporary. Exports momentarily became less expensive in international markets due to the magnitude of the devaluation. However, imports began to grow vigorously to sustain this level of production—a recurrent phenomenon in the Mexican national economy—and net exports once again began to retard economic growth.

The recovery and consequent growth from 1997 until 2000 was sustained by domestic demand, particularly in private consumption. Private investment also grew, which helped the economy recover its dynamism. The initial impulse may have originated in inventory accumulation and government spending, but the investment growth slowed, in part as a reflection of the financial structure and a tight monetary policy.

### The trade balance problem

The first efforts to re-structure Mexico's industrial production occurred before NAFTA was signed. The goal was to transform the country into an exporter of consumer and intermediate goods.<sup>2</sup>

Despite having a trade surplus with the United States (\$45 billion in 2004), when trade with Europe and Asia is taken into consideration, the balance turns into a deficit (\$8.3 billion for 2004). Exports are mostly manufactured products that absorb a significant amount of imported inputs. Consequently, when the economy grows, so does the trade deficit. **Figure 2-F** shows the relationship between the rate of growth of GDP and the rate of growth of imports (the so-called implicit (average) income elasticity of import demand) and demonstrates that, beginning in 1980, the need to import more in order to grow had heightened to such an extent that a 1% increase in GDP increased import demand by 2.66%. The strong dependency of internal growth on imports is explained by the destruction of domestic productive chains (Aroche 2002), a phenomenon due in part to market opening and to many industrial sectors being uncompetitive.

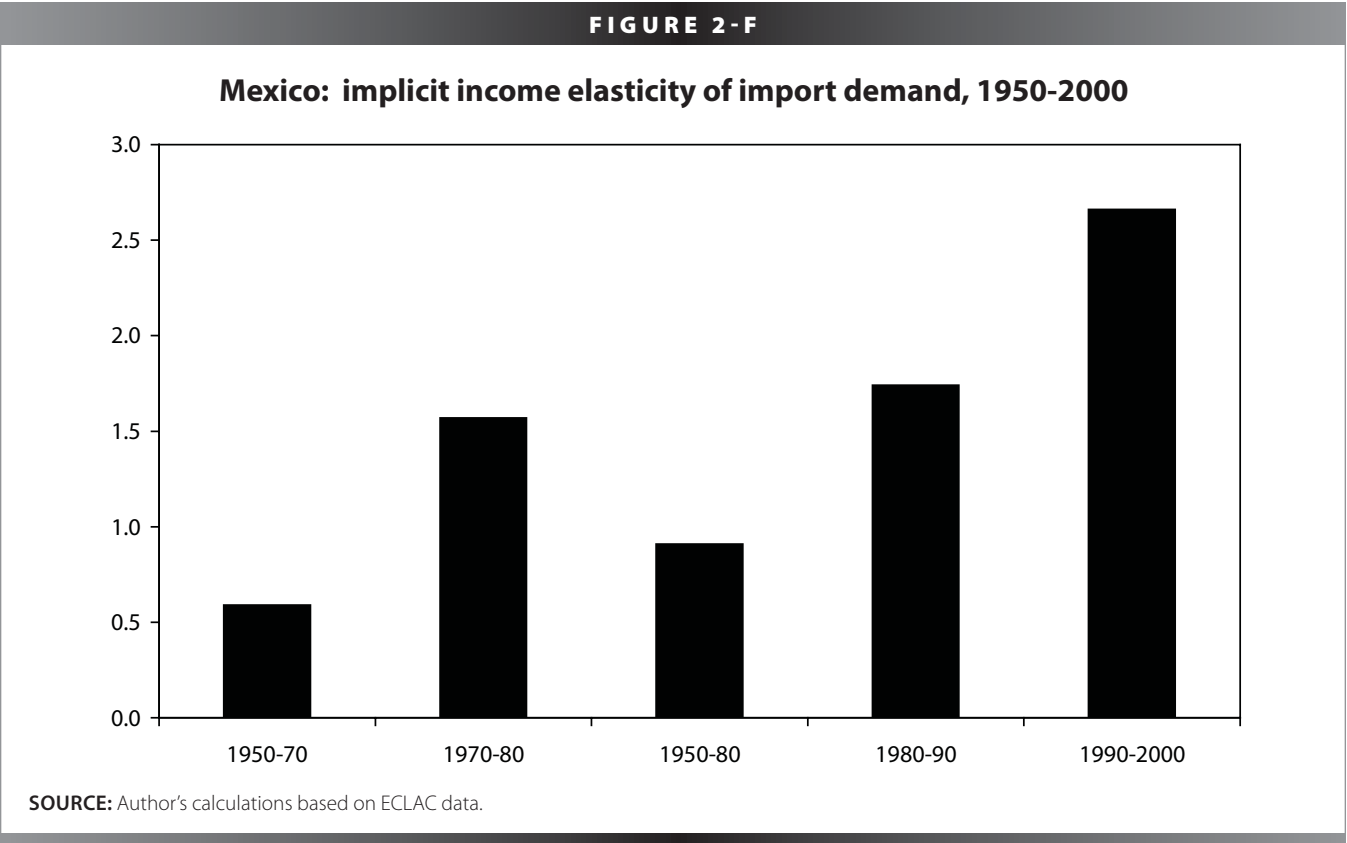
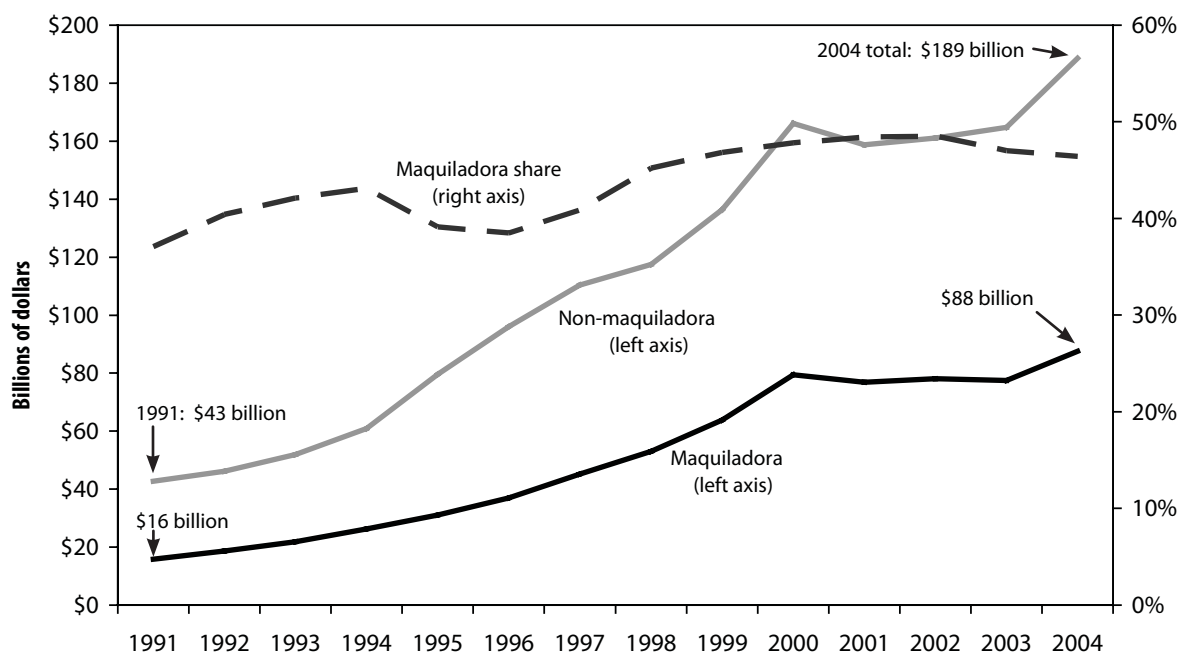


FIGURE 2-G

### Mexico's exports, 1994-2004



SOURCE: INEGI's Economic Data Bank.

Between 1991 and 2004 total exports (including those of the maquiladora export assembly sector<sup>3</sup>) grew at an average annual rate of 12%; particularly during the last 10 years—the period since NAFTA came into force—the proportion of maquiladora exports as a share of total manufactured exports grew considerably, as shown in **Figure 2-G**. Nevertheless, this was a process that had already begun before NAFTA was signed. At this point, it is important to note that despite being considered in the official data as part of exports, when it comes to foreign currency earnings, maquiladora activity generates only limited value-added in Mexican territory. The majority of this value-added corresponds to the wages paid and only a small part of it results from tax payments or payments for inputs. The following paragraphs will examine total exports, which include maquiladora activity.

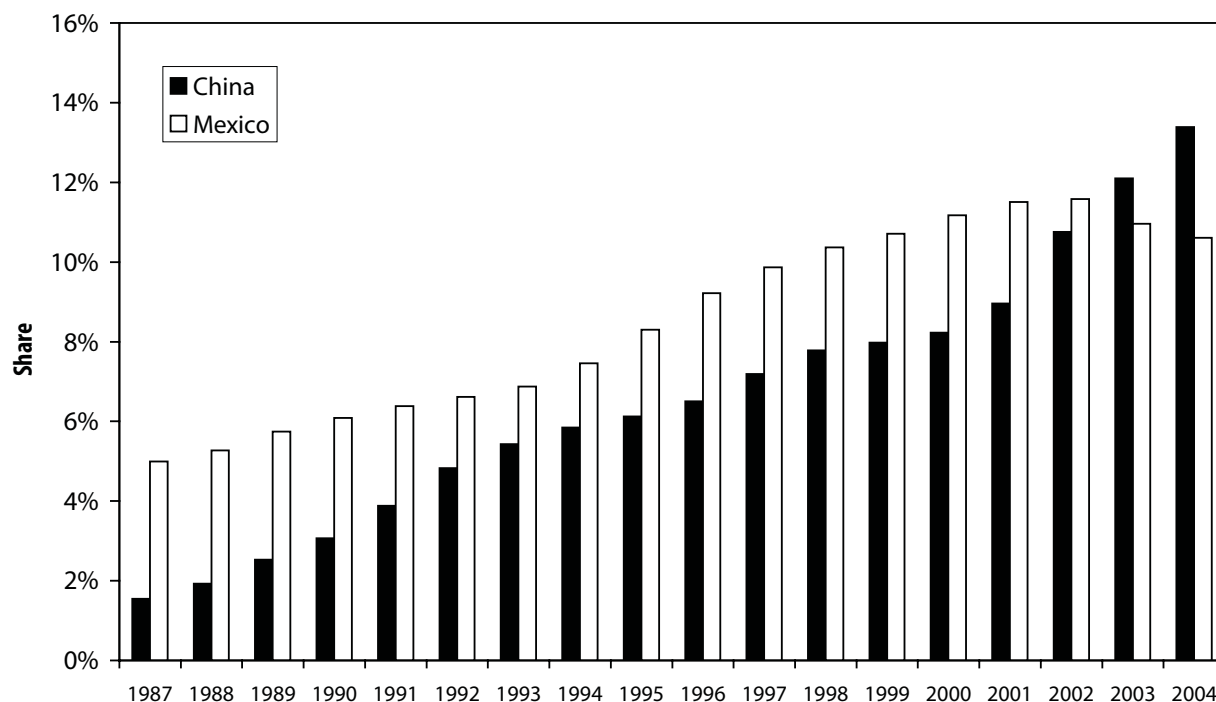
Due to the legal characteristics of the maquiladora industry, its activity does not depend on the trade opening resulting from NAFTA, as the sector has its own rules. So it has been argued that the increment in maquiladora activity is due more to the devaluation subsequent to 1994 than to NAFTA itself (Gruben 2001).

The maquiladora industry primarily produces metal and equipment products, electronics and textiles, as well as steel, paper and printing, clothing, and plastic products. For example, in 2002, of the 47.9% of total industrial exports generated by the maquiladora sector, metal and machinery products account for 39.8 percentage points of the total and textiles and garments represent 4.3 percentage points. The rest (approximately 3.8% of total exports) is shared by the remaining industries.

Agriculture and mining have a reduced presence in trade (currently, they do not account for more than 20% of non-maquiladora exports, whereas in 1991, they accounted for 35% of this category). In contrast, the proportion of manufactured goods in the total of non-maquiladora exports grew to reach 78.8% in 2002. These exports were principally metal products followed by textiles and garments, which represented, cumulatively, 66% and 68% of the exports of non-maquiladora manufactured goods. Outside of metal products, textiles and garments, and the food and beverage

FIGURE 2-H

## Mexico's and China's shares of total U.S. imports, 1987-2004



SOURCE: U.S. Department of Commerce ([www.ita.doc.gov/td/industry/otea/usfth/tabcon.html](http://www.ita.doc.gov/td/industry/otea/usfth/tabcon.html)), Table 56.

industry, the percentage of non-maquiladora exports of other industries—chemical, petrochemical, metallurgic products and steel production—shrank as a share of total manufactured exports.

The manufactured goods sector has grown, but the basic problem is that the specific type of productive specialization occurring in Mexico is product assembly based on imported inputs with little to no link to the rest of the nation's productive apparatus (Aroche 2001). This process does not ensure sustained industrial development in the framework of markets with high value-added products.

In fact, the location of export manufacturing zones is not determined by competitive factors such as training and knowledge, but rather by low wages. As Palley (2004) shows, there is a race to the bottom related to labor norms. Foreign companies are more interested in locating themselves so as to benefit from the national content clauses of NAFTA, always when labor or regulatory costs do not surpass the advantages of being able to sell to the U.S. market.

Despite apparently counting on the advantage of NAFTA to stimulate exports to the United States, between 2000 and 2003, the evolution of the export sector was very weak. This contrasts with the performance of Chinese manufactured goods, which increased rapidly after China joined the World Trade Organization (WTO) in 2001. This evolution is shown in **Figure 2-H**, together with the Mexican exports to the United States. The difference in export promotion policies is very evident in the results of these last years in the case of China, while in Mexico the weak evolution of exports is attributed to the slow down of the US economy. In 1987, Mexico's share of U.S. exports was more than triple that of China (1.6% versus 5%). By 2004, China's exports to the U.S. were 26% larger than Mexico's.



## The evolution of foreign direct investment

After 1994, foreign direct investment (FDI)—a significant portion of which has been directed towards the purchase of existing assets—accounted for most of Mexico’s net financial inflows (Blecker 2003).

Throughout the period of time that NAFTA has been in force, FDI flows have been relatively stable, lacking large, episodic swings. In fact, the majority of foreign investment has entered Mexico as foreign direct investment and not into money market or stock market funds.

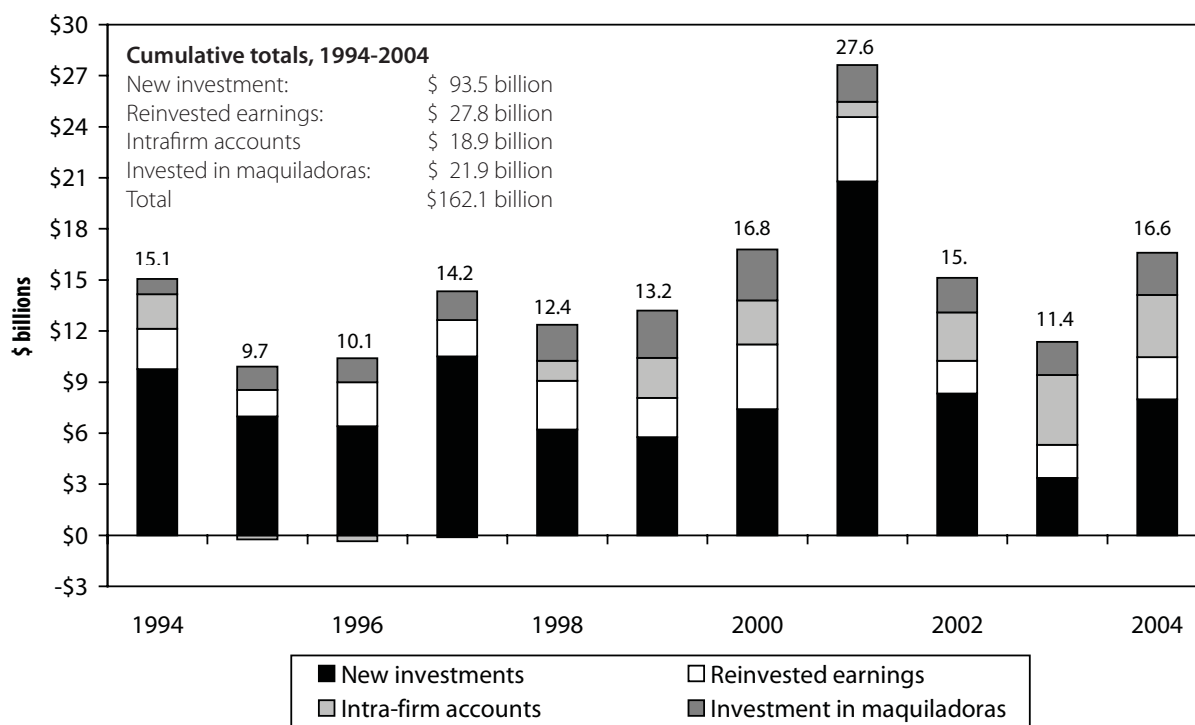
The majority of FDI is composed of “new investments” (**Figure 2-I**), funds that have been used mostly for the purchase of existing companies (as is shown by the enormous flow in 2001, much of which was derived from the purchase of BANAMEX by Citigroup).

These “new investments” have followed an irregular pattern. In contrast, the investments in maquiladora and the flows of accounts between firms have grown in a sustained manner. The problem with both types of flows is that they correspond to account balances between firms that do not translate into real technology transfer. Additionally, the flow of FDI toward industrial activities has diminished since 1980 and has been directed increasingly toward services. In 1980, 80% of FDI went toward manufacturing, while in 2004 this percentage had fallen to 52%.

Therefore, the general growth driven by exports appears to be more a mirage than a reality. On the one hand, the only benefits resulting from maquiladora activity are the direct wages and salaries that it pays because it uses relatively few inputs from other Mexican firms or industries. On the other hand, the flow of FDI toward services rarely results in technology transfer. As has already been shown, FDI translates into the acquisition of existing firms as part of foreign firms’ consolidation or their introduction into the Mexican market (Mattar et al. 2003).

FIGURE 2-I

### Foreign direct investment in Mexico, 1994-2004



SOURCE: Bank of Mexico

**Table 2-1**  
**Open unemployed population, by reason for leaving employment and by duration of unemployment**

	Total	Unemployed: no work experience	Layoff	End of temporary work	Job dissatisfaction	Other reasons
<b>Second trimester 2000</b>						
Number:	659,388	82,651	151,450	122,286	120,632	182,369
Duration:						
1 - 4 weeks	59%	44%	56%	62%	65%	62%
5 - 8 weeks	16%	18%	16%	15%	16%	16%
9 and more weeks	25%	38%	28%	23%	19%	22%
<b>Second trimester 2004</b>						
Number:	1,092,692	143,866	313,744	209,806	151,070	274,206
Duration:						
1 - 4 weeks	59%	54%	55%	64%	64%	60%
5 - 8 weeks	14%	13%	16%	11%	17%	14%
9 and more weeks	27%	33%	29%	26%	19%	26%

**SOURCE:** Trimestral Employment Survey, INEGI.

## The evolution of employment, earnings, and the distribution of income

One of the elements used most often to affirm the export-led growth model, and NAFTA in particular, is Mexico's low unemployment rate, in both absolute and relative terms. However, the following question always hangs in the air: Why is the country's unemployment rate so low? To respond to this question, we began by analyzing the characteristics of those who are currently unemployed. The majority of Mexico's unemployed are young people (over 50% of the unemployed are under 25 years of age), with slightly higher academic preparation than the national average (over 50% have at least some college studies). Most are not heads of households (80%). While the unemployment rate has grown throughout the 2000-04 period, it has not achieved the record levels observed following the 1995-96 crisis.

Nevertheless, **Table 2-1** reveals a disturbing fact. Between the second quarter of 2000 and the second quarter of 2003, the total number of unemployed increased 50% and the average period of time unemployed also increased.<sup>4</sup> The data also show that both layoffs and the termination of temporary work positions are increasing.

The average duration of unemployment was fewer than five weeks in 2000, which demonstrates the frictional nature of open unemployment in Mexico. It has been shown that the majority of those who gain employment do so via the micro-business sector, meaning economic entities with five or fewer workers, including one person operations (Salas 2003). (This theme of micro-businesses will be addressed in the sub-section, *Open Employment*, on p. 39.)

## Job creation and job loss

Beginning with the agricultural sector, agricultural employment in Mexico increased slightly at the end of the 1980s, achieving employment for 8.1 million Mexicans at the end of 1993, barely before NAFTA entered into force. Thereafter, employment in the sector began a constant reduction, falling to 6.8 million employed workers by the end of 2004. In fact, the population dedicated to agricultural activities fell from 26.8% in 1991 to 16.4% in 2004, a significant decrease.

**Table 2-2**  
**Job losses in corn production, 1991-2000**

	Total	Men	Women
Personal consumption	-670,000	-597,000	-73,000
Sales*	-343,000	-309,000	-34,000
Total	-1,013,000	-906,000	-107,000

\* Includes bean producers.

**SOURCE:** Special tabulations of the agricultural module of the National Employment Survey 1991 and 2000, INEGI National Employment Survey 1991 and 2000, INEGI.

The principal affected parties are corn producers, with a total loss of 1.013 million jobs (**Table 2-2**). Additionally, 142,000 jobs were lost in the cultivation of flowers and fruits, which have been the primary products of agricultural exports (USDA 2003). This job loss leads Polaski to declare, “Therefore, the liberalization of agricultural trade linked to NAFTA is the most important factor in the loss of agricultural employment in Mexico” (Polaski 2003, 20).

Considering disaggregated data from 30 economic sub-sectors, one aspect that stands out is that, while the largest number of the (economically) active population at the beginning of the 1990s was in agriculture, by the beginning of the 21st century, the largest sector was retail trade (16.2% in 2003). This process is framed by a light recovery of the manufacturing sector (between 1991 and 2003, it grew from 15.7% to 17.3%) and accelerated growth of manual labor in the services sector (from 33.6% a 39.1%).

In the least urbanized zones (those with fewer than 100,000 residents), the percentage of the population active in the agriculture sector during the 2000-03 period fluctuated around 28%, but at the beginning of the 1990s that figure was greater than 44%. The largest drop in the sector is in male workers, which fell from 53.4% to 36.3% of the employed population, but the decrease of females was also appreciable (from 20.5% to 9.1%).

Next we examine the population engaged in non-agricultural work with a detailed focus on their occupations, considering the varying outcomes for employers, wage-earning workers, self-employed workers, and workers receiving no remuneration.<sup>5</sup> The proportion of wage-earning workers in the total share of workers active in this sector fell from 74% in 1991 to a minimum of 67% in 1998, to later recover slowly to 68% in 2004. The positions for wage-earning workers represented 65% of the new jobs created between 1991 and 1998 in the most urbanized areas, while this category represented 64% of the positions created between 1998 and 2004. Wage-earning work is not accessible to all people. As people age, they are resigned from duty (they are encouraged to resign voluntarily, but sometimes they are laid off) in such a way that the proportion of wage-earning workers falls as age increases, i.e., there are fewer wage-earning workers in older age groups.

Among young people, the proportion of wage-earning women by age group is greater than that of men.

Self-employed workers represent another important group of those working in the non-agricultural sector. The self-employed share oscillates around 24%, while the rest of the population is split evenly between employers and workers without remuneration, each group accounting for 5% of the total.

Between the second quarter of 2000 and the second quarter of 2004 2,788,851 jobs were created, of which 54% were wage-earning jobs, 4% were employers, and 43% were jobs created through self-employment. Next we examine the characteristics of the wage-earning positions that were created during the period in question.

To begin with, 23% of the new wage-earning positions generated between the second quarter of 2000 and the second quarter of 2004 have no social benefits, while only 37% of the new jobs have full social security benefits. These data suggest that the process of making employment more precarious may have been accentuated.<sup>6</sup> Further, in the second quarter of 2004, 43% of the total of wage-earning workers labored under a verbal contract, of which 86% received no

social benefits. Of the wage-earning workers laboring under permanent contracts, 3% do not receive social benefits. Thus, lack of social protection is quite extensive in Mexico.

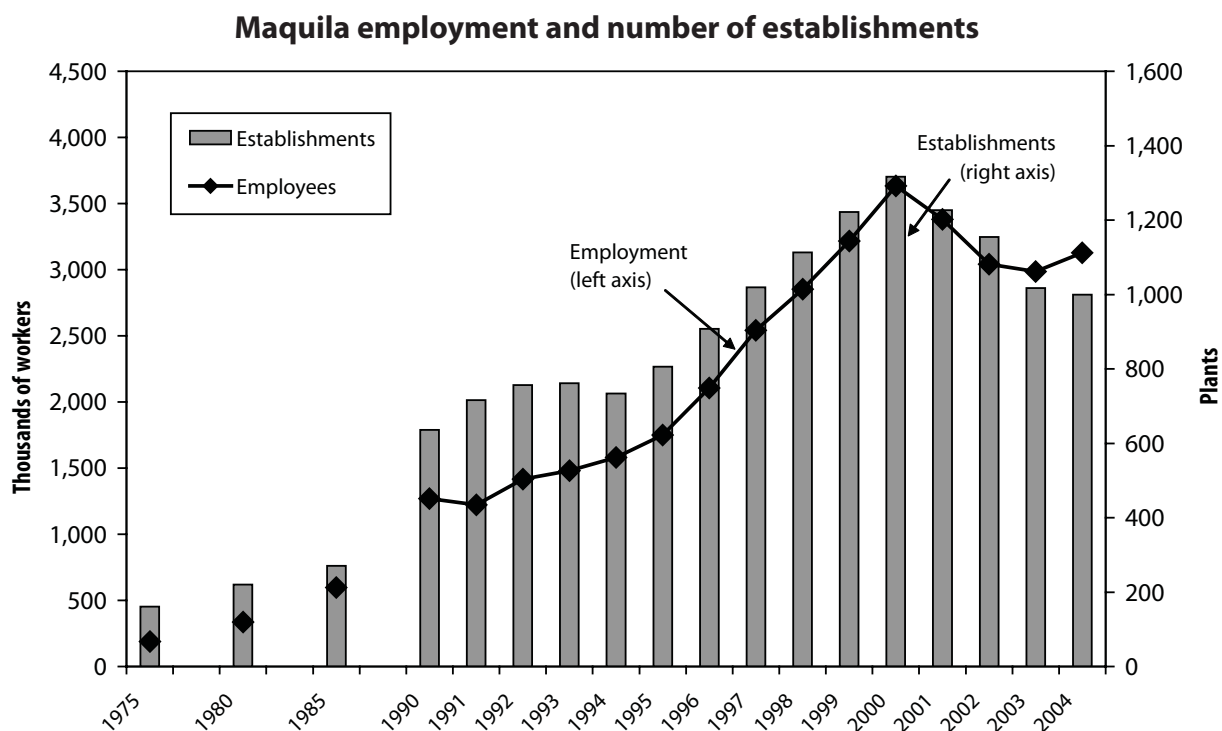
Upon investigating wage distribution patterns (where positions were created according to the size of the economic entity), another facet of precarious employment emerges: 65% of all new jobs were created in micro-businesses (economic entities with up to five employees), and 52% of new wage-earning jobs were found in such entities, which are characterized by low wages, low productivity, and a low level of technology.

In summary, the creation of jobs between 2000 and 2004 was relatively dynamic, given that, on average, approximately 700,000 job positions were created annually. Nevertheless, this rate is inferior to that of the decade of the 1990s when approximately 1 million new positions were created each year. Furthermore, as shown above, a significant share of these new positions were precarious jobs.

## Maquiladoras

Now the discussion turns to the major components of the non-agricultural economy. Between 1980 and 1993, the manufacturing sector as a whole grew by fewer than 100,000 jobs, of which 40,000 were in maquiladora activities. Between 1991 and 2000, manufacturing grew by 2.7 million jobs, a significant number of which—800,000 jobs—resulted from maquiladora activities. But as some have pointed out (Polaski 2003; Gruben 2001), the maquiladora industry grew due to trade and not due to NAFTA. In fact, as Polaski (2003) shows, while it is not possible to know precisely how many jobs were created by the non-maquiladora export industry, it can be estimated that between 1994 and 1999, this sector grew by 500,000 jobs. Starting with the stagnation of 2000, total manufacturing employment began to decline, especially in the maquiladora sector. In fact, although manufacturing employment recovered slightly in 2004, there were still 180,000 fewer jobs in this sector than there were in the peak year of 2000 as shown in **Figure 2-J**.

FIGURE 2-J



SOURCE: INEGI, Economic Data Bank and NAFIN, Mexican Economy in Numbers.

An important series of questions arises here concerning the type of employment created in manufacturing in general and in the maquiladora sector in particular. Wages in the maquiladora sector are almost 40% lower than those paid in heavy non-maquila manufacturing (Salas and Zepeda 2003a). In fact, a recent study by Bendesky et al. (2004) shows that productivity in the maquiladora sector is stagnant, and its average technological base is weak. From this it can be inferred that the maquiladora sector is stuck in a trap of low productivity growth, reduced skills, and sustained by low wages. In fact, Figure 2-J shows that the number of maquiladora companies has diminished since 2000, which is the result of various companies leaving the country to go to other countries with wages even lower than those in Mexico.

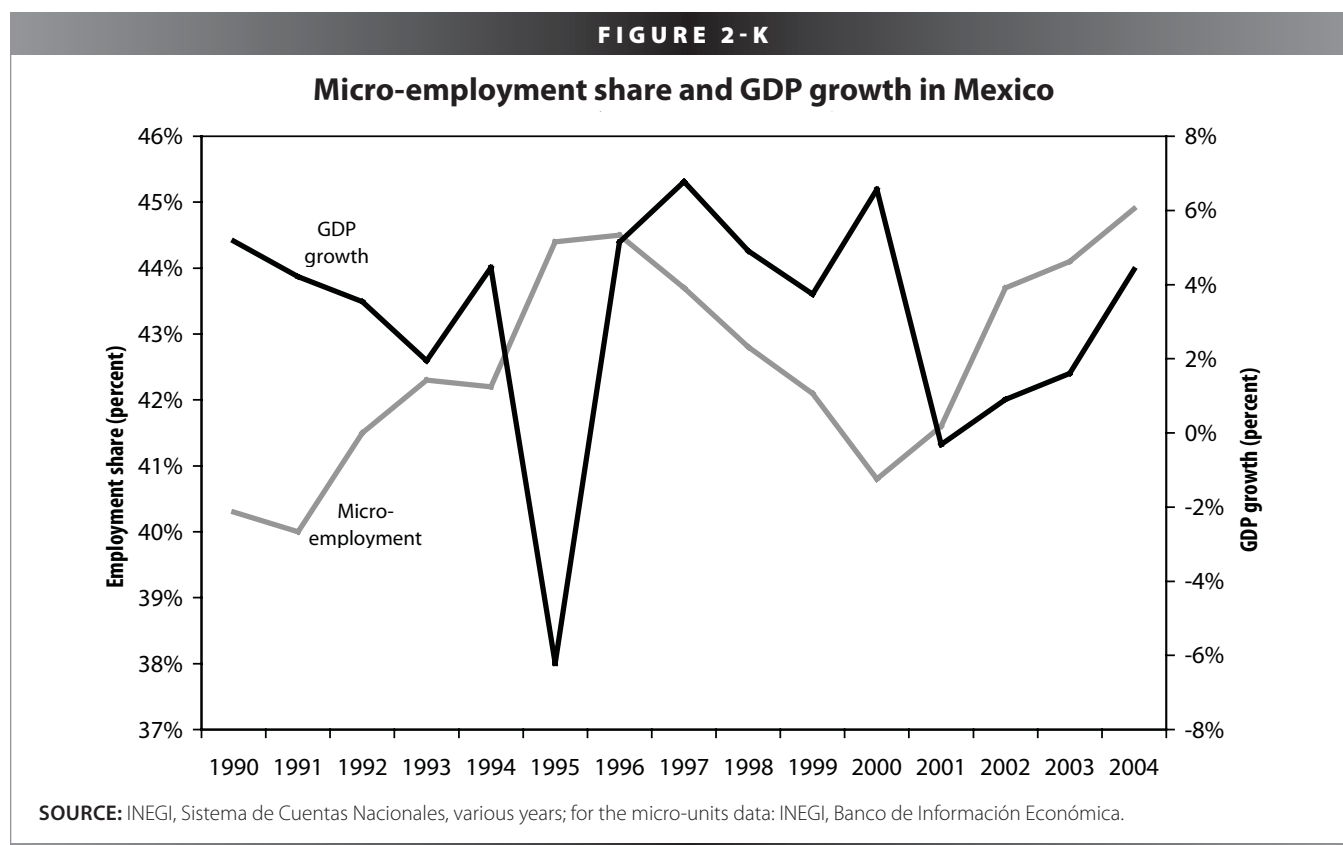
The options for the majority of the working-age population are concentrated in service activities. In fact, as was shown earlier, the share of unemployed people who find employment within one month or less is 59% and a majority of those who find employment do so in very small scale activities. These activities are found in the trade and services sectors, which account for 70% of the non-agricultural work force. Sixty-seven percent of trade-based operations and 47% of service entities employ five workers or fewer. The working conditions, income, and productivity in these operations are very precarious, and yet they represent an earning opportunity for large groups of the population.

## Open employment

Now we are able to respond to the question posed earlier, related to the reduced rate of open unemployment.

The mechanism is the following: because the labor force is growing much faster than employment in larger companies, self-employment or wage-earning employment in micro-businesses provides the only job opportunity for an important number of workers. Faced with the alternative of not finding any job, people take jobs in the micro-business sector where they generally are paid a low wages.

In this way, the micro-business sector acts as a full-employment buffer, absorbing and retaining a large share of workers as GDP growth slows and accelerates, as seen in **Figure 2-K**, which compares the rate of growth of GDP with the



proportion of people engaged in very small scale activities. The share of workers in this sector has trended up over time, rising from 40% in 1990 to 45% in 2005, at similar stages of the business cycle. Furthermore, the share of micro-employment is counter-cyclical, rising during recessions and falling during periods of recovery, thus confirming the buffer role of micro-business activity.

## Migration

Another element that explains the low unemployment rate is illegal migration to the United States. Between 1990-94, the average annual flow of illegal migrants has been estimated to have been 260,000 people (Passel 2005). After 1994, the rate of immigration increased significantly: between 2000-04, illegal migration is estimated to have totaled approximately 485,000 persons per year (Passel 2005). In this way, migration serves as an escape valve that reduces the demand for new jobs.

## Earnings from work

In the case of agriculture, wage-earning women worked fewer hours per week than men (29 and 41 hours, respectively) in 2003, but they received better real hourly wages (3.4 pesos compared to the 2.7 pesos paid to men). The difference reflects the fact that rural wage-earning female workers are generally employed by larger productive entities (with 16

**Table 2-3**  
**Monthly earnings by type of job**  
(constant 1993 pesos)

	1990	1994	1996	2000	Annual growth rate 1994-2000*
<b>16 cities<sup>1</sup></b>					
Total employed	1,170	1,320	980	1,176	-1.9%
Self employed	1,001	1,017	772	974	-0.7%
Employed in entities of five or fewer workers	755	518	408	509	-0.3%
Mobile/street vendors	826	596	536	703	2.8%
Full-time, year-round employees	1,166	1,386	1,039	1,196	-2.4%
Employed in establishments of 250 or more workers	1,187	1,501	1,240	1,406	-1.1%
Employed men with basic education	1,027	997	701	871	-2.2%
Employed men with advanced education	2,703	3,406	2,412	2,874	-2.8%
Employed women with basic education	608	634	438	532	-2.9%
Employed women with advanced education	1,600	2,049	1,529	1,785	-2.3%
<b>National</b>					
Workers in 109 heavy manufacturing industries <sup>2,3</sup>	1,348	1,536	1,273	nd	
Employees in 109 heavy manufacturing industries <sup>2,3</sup>	3,375	4,451	3,903	nd	
Workers in 205 heavy manufacturing industries <sup>2</sup>	nd	1,412	1,095	1,269	-1.8%
Employees in 205 heavy manufacturing industries <sup>2</sup>	nd	3,984	3,246	3,578	-1.8%
Maquiladora industry <sup>4</sup>	1,583	1,645	1,460	1,672	0.3%

1. Data corresponding to the second trimester of each year of the National Urban Employment Survey (INEGI) for 16 cities.

2. Data from the Monthly Industrial Survey (INEGI).

3. The 1994 figures truly reflect 1995.

4. Data from the Statistics from the Export Assembly Plant Industry (INEGI).

\*Compound average growth rate.

**SOURCE:** Zepeda 2003, unpublished document.

or more workers). In contrast, women landowners (of whatever size plot of land) work longer days than men yet earn less—female landowners work 55 hours a week while male landowners only work 35 hours. The value of this work for women is the equivalent of 2.9 pesos per hour while for men, the value equivalent is 7.8 pesos per hour.

The uneven evolution of wages and earnings in rural areas has favored landowners. Between 1991 and 2003, remuneration paid to day laborers in the agricultural sector fell significantly from 535 to 483 pesos per month (unpublished tables from the Agricultural Module of the Encuesta Nacional de Empleo, Instituto Nacional de Estadística Geografía e Informática (INEGI)); earnings by self-employed field workers collapsed from 1,959 pesos in 1991 to 228 pesos in 2003, an 88% decline. In the same period, landowners increased their earnings from 626 to 1,625 pesos.<sup>7</sup>

**Table 2-3** shows the global evolution of earnings from work between 2000-04. Earnings from work is another element that has received considerable attention, given that it is widely claimed that such wages have increased significantly. As can be seen, only wages for mobile/street vendors increased significantly, at 2.8 percent per year over six years. However, these levels do not even manage to recover the cumulative losses dating from 1990, as shown in Table 2-3 (Salas y Zepeda, 2003a, 68). Small wage gains in the maquiladora sector were more than offset by losses of 1.8% per year for employees in 205 heavy manufacturing industries, which were more than twice as large as wages in the maquila industries.

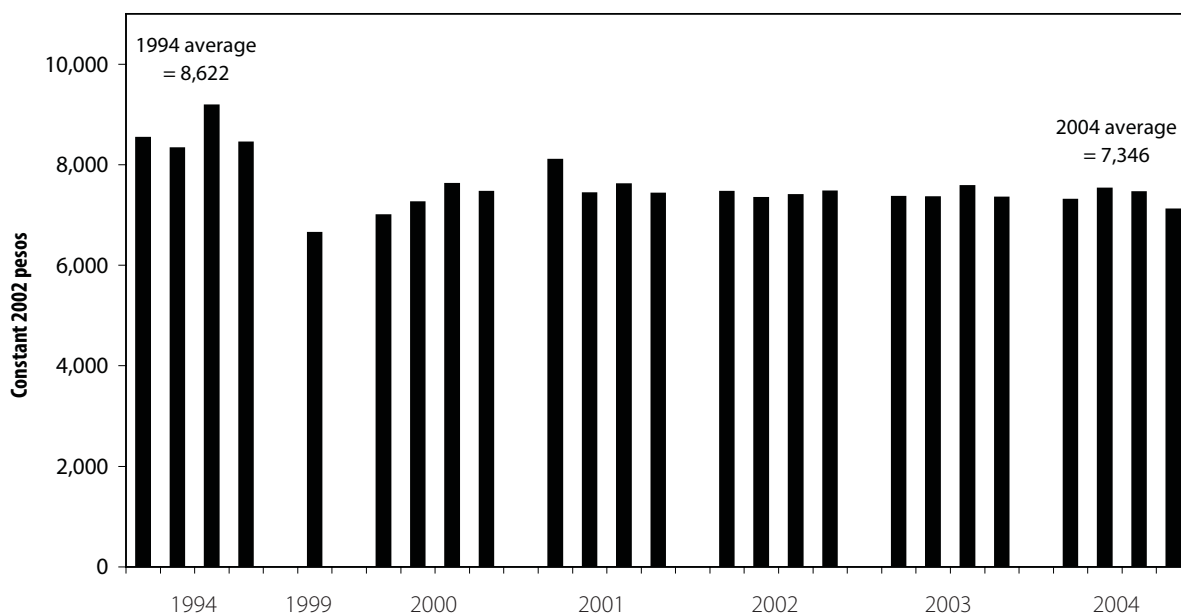
As shown in Figure 2-K and Table 2-3, not even the relative stability of prices, which characterized the country beginning in 1996, has lent itself to the recovery of purchasing power of earnings from work.

Note that Table 2-3 only reports average earnings, but says nothing about the dispersion of wages within each sector. The benefits of income growth are not uniformly distributed across the population; other research has shown that income dispersion in general and wage dispersion in particular is relatively large (Salas and Zepeda 2003a, 73).

Two additional problems with the information presented in Table 2-3 are that the coverage of each group within the series varies over time, and they do not provide information on changes in average compensation levels over time. **Figure 2-L** was constructed using the same set of 16 cities between 1994 and 2004, so comparison problems do not arise.

**FIGURE 2-L**

**Real household labor income in Mexico, 1994, 1999, 2000-04 (by quarter)**



**SOURCE:** Author's calculations using unpublished INEGI data.



It shows the weak performance of the real income growth process. From the last quarter of 1999 to the corresponding quarter of 2004, the total income increased only 7%. Furthermore, average household labor income in 2004 (over the four quarters) was 15% *lower* than incomes in 1994.

## Income distribution

This section begins with the manner in which income is distributed in rural areas, where, in response to lowered earnings, government programs were put into place to offset these earning losses. Between 1992 and 2000, the proportion of monetary transfers in the income of rural zones increased from 10% to 18%. During this same period, the percentage of rural homes that received transfers swelled from 25% to 60% (INEGI, Encuesta Nacional de Ingresos y Gastos de los Hogares, several years). By 2002, transfers had increased to 19.4% of total income, and the percentage of dependent homes rose to almost 70%.

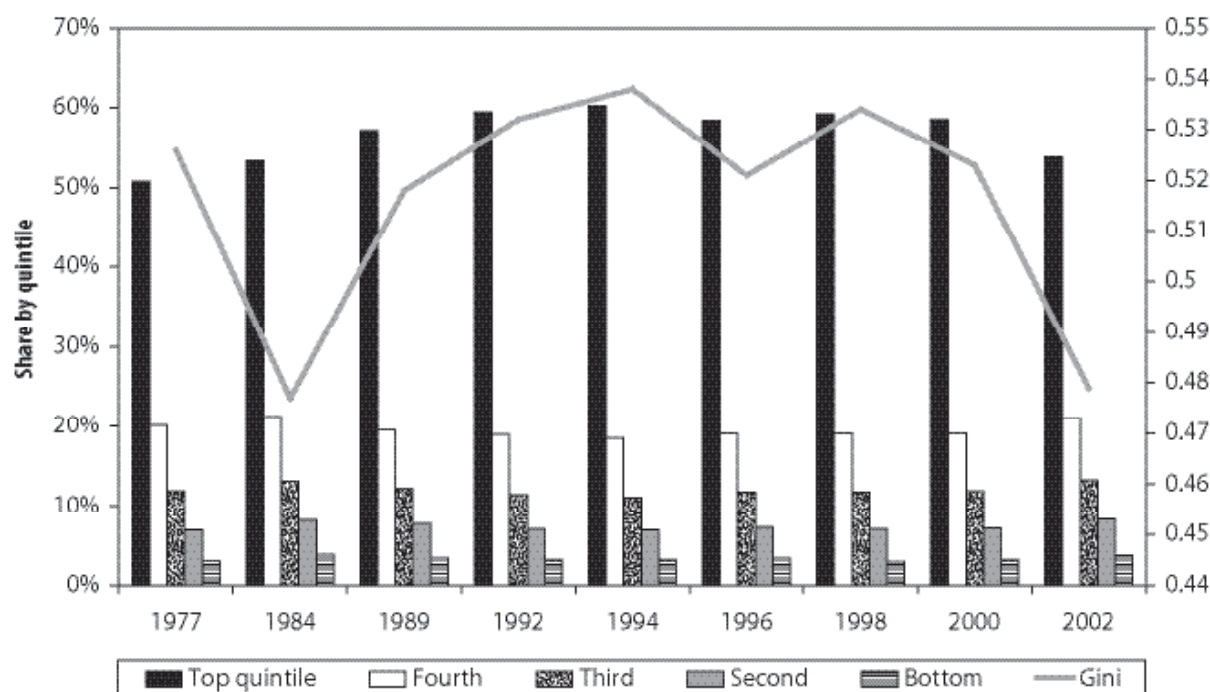
Such transfers were most often focused on the poorest peasants. For the poorest 10% of rural households, the situation is as follows: in 1992, 25% of the poorest 10% of households depended on these transfers to obtain 15% of their total income. By 2000, 65% of these households used this method to acquire 37% of their income. This situation worsened in 2002, when 74% of the poorest peasants obtained 38% of their income from this source.

Rather than designing support programs aimed at generating employment and raising productivity, the government is satisfied to transfer resources, in addition to the remittances that Mexican workers in the United States send to Mexico, which total as high as \$15 billion (Banco de México 2005).

Income distribution improved between 2000 and 2002, above all for families in the 20% poorest (lowest quintile) of the population (**Figure 2-M**), the lowest four quintiles all gained income shares at the expense of the top in 2002.

**FIGURE 2-M**

### Real household labor income in Mexico, 1994 - 2004

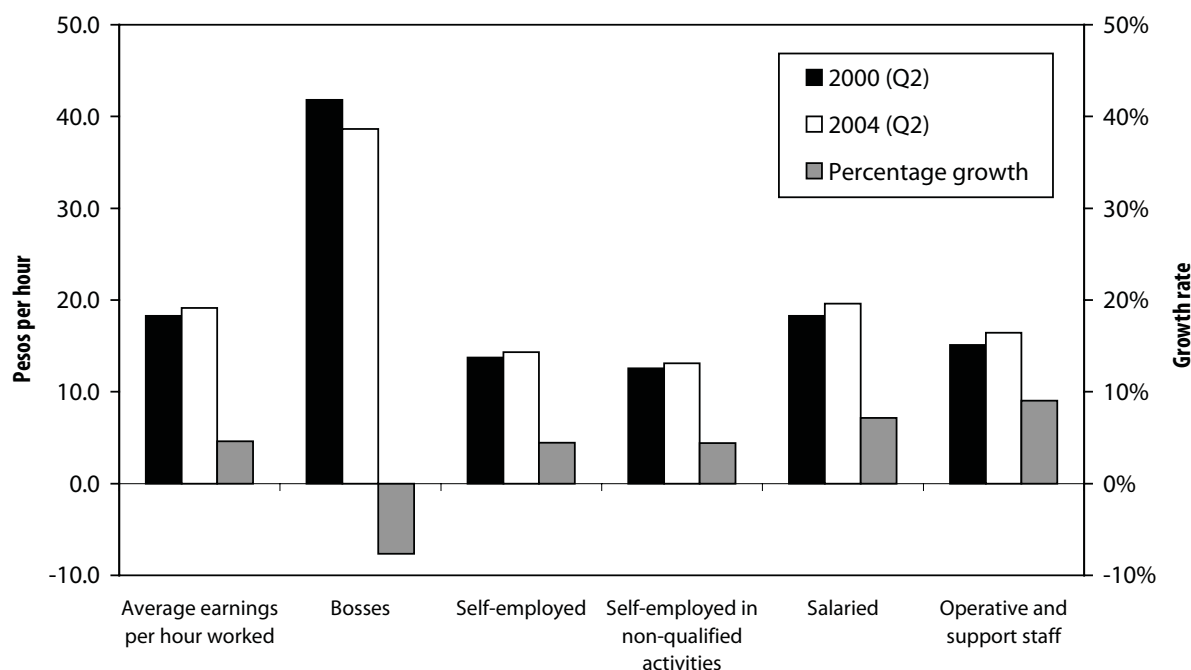


**SOURCE:** Cortés, Fernando, Evolution of inequality in the last quarter century and INEGI, National Survey of Household Earnings and Expenses ENIGH 2002 - National Survey of Household Earnings and Expenses.



FIGURE 2-N

### Earnings by type of job (constant 2002 pesos)



SOURCE: National Employment Survey, INEGI

Nevertheless, inequality is lower now than it was at any time since in 1984. The improvement for the middle quintile groups can be explained by a diminished earnings gap between owners and wage-earning workers (**Figure 2-N**) and a modest increase in wages since 2000. However, the promise of greatly improved living conditions for the majority remains largely unfulfilled.

## Conclusion

The first section showed how the export-oriented model with reduced state participation in directing the economy and unrestricted support for an unregulated market economy led to a period of unstable growth. NAFTA, which is only the most recent expression of this model, bound the country to a model proven to be inefficient in fulfilling a promise essential to every successful development model: an improvement in the living conditions of the majority. Expressed in another way, the current model is exclusionary and is inefficient even in achieving its own objectives. The trade balance continues in deficit, and production levels depend on increasing imports over time. Foreign investment has grown, but mostly in the purchase of existing assets, which neither creates improved conditions in the productive stock nor achieves greater integration of manufacturing into the national economy.

As such, job creation has been left to fate; there is no employment policy other than that of low wages. Additionally, one-sixth of the population that worked in agricultural activities in the beginning of the 1990s has been displaced from the field, literally. This population migrates searching for any place to work, be it in other states of the republic or outside of Mexico.

With respect to generating non-agricultural employment, most recent growth has been concentrated in jobs without social benefits, in small-scale and low-productivity activities. We are witnessing a systematic process of destabilization of labor markets, which will be exacerbated if the labor reform proposed by the party in power is approved. Addition-

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ally, the evidence presented indicates the need to consider an integrated U.S.-Mexico labor market, not only due to the presence of Mexican workers in the United States, but also to the impact that low-wage policies have in Mexico on the working conditions in the neighboring country. In other words, when the relationship between the two countries is examined, the analysis must include both employees and employers of Mexico as well as the United States. Neither the workers nor the nations can be mutually exclusive.

Mexico's experience should serve as a warning concerning the dangers of any trade agreement, bilateral or multilateral, which is similar to NAFTA. As the poet John Donne wrote, "Therefore, never send to know for whom the bell tolls, it tolls for thee."

## Endnotes

1. Refer to the article by Boltvinik y Hernández Laos (1981) for a discussion of the exhaustion of the domestic market based development model.
2. For a long time, capital goods never accounted for more than 8% of total exports. Beginning in 1997, this percentage began to grow, especially the share of those capital goods produced by the maquiladora industry. Nevertheless, capital goods continue to account for a low percentage of total exports. (Source: Bank of Mexico, Balance of Payments at <http://www.banxico.org.mx/eInfoFinanciera/FSinfoFinanciera.html>).
3. Maquiladora activities flourished via the use of the Code of Customs Tariffs in the United States (rule HTS 9802), through which the companies of that country may send domestic manufactured inputs abroad and then import finished and semi-finished products back into the United States by paying a customs tariff based only on the value added in the foreign country.
4. The share unemployed for five to eight weeks fell by 2 percentage points, while the share unemployed for nine weeks or longer increased by the same amount, thus increasing the average duration of unemployment
5. In Mexican labor statistics, hourly workers are known as "trabajos a salarios," or salaried workers, to distinguish them from self-employed and informal-sector workers. We refer to them in this report as "wage earning."
6. Precarious employment is defined as a worker not under the protection of labor laws (even if he's entitled to the protection), has no permanent contract, has low wages, and in general, works under bad labor conditions (Rodgers 1989).
7. This situation may in part result from problems comparing data from National Employment Surveys conducted between 1991 and 2003, yet even taking this into account does not eliminate the evidence of a large benefit for rural land owners who employ wage-earning workers.

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