# Privatization of social policy in Mexico. (relationships betweeen economy and political conditions).

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## Summary

The reorientation of social security and health services as mechanisms of income distribution, from the 80's through the beginning of the 21st century, must be located in a broad theoretical and historical context. The first section of the present article presents the mutation of theoretical discourse in economics over the last thirty years. The second section presents aspects of the transformation of capitalism during the same period. The third considers the importance of each of these to understanding the fates of social security and healthcare programs in Mexico in recent times.


## 1. The Theoretical Discourse of Economics

The reorientation of social theory since the 1930's, and its division into specializations tended to constitute the disciplines as sterile fragments. This is nowhere more evident than in the relationship between economics and political science, and in the way the contents of each discipline have been defined. Economics set itself up as an exact science, organized around the task of making itself more scientific, and in the process was disconnected from the social realities of economic life. In the final quarter of the 20th century, economics was further narrowed to privilege mathematical formalization and econometrics, remaking the discipline as an instrument, increasingly distant from the broad analysis of real economic growth that it once offered, and foreign to the sorts of development projects that sought to counter the social, economic, and political disarticulations imposed by the global restructuring of capital.

Hegemonic economic "science"— mainstream economics—helped make real social suffering more acute. It showed not only an incapacity to really "do science" in its conceptual approaches to the mutations of capitalism, but also came to offer itself as a "scientific" support to political projects. Along the way, it demoted and discredited its parent discipline, political economy. With so many new phenomena left undefined, it is urgent to update our understanding of the relationship between the economic and the political, and of the relationship of social theory to these real material processes (Galbraith 1987).

To define the economic using the terms of the discourse of disciplinary economics is to retreat from its objects. "Reality has been assassinated" Baudrillard once wrote of the mass media; and "it is almost the perfect crime, because there is no evidence to be found, nor even a body." (1996:38) The "scientific" ruse has placed a mask on reality. Its arguments attempt to hide the violence that they help to generate.

The reorientation of the discipline of economics was propelled by larger economic and cultural transformations: the intensification of competition on a global scale, and the hegemony of economic financialization, led by supernational organisms, imposed "stabilization" in Latin America, in reality submitting it to short-term, speculative interests. This process has led to a priveleging of a new articulation of the relationship between politics and economics in both the theoretical and public policy discourses.

## 2. An Outline of Globalization.

In the early 1970's the retooling of the economic paradigm was underway, defined over and against the horizons of the countercultural movements, the Keynesian accomodation, and the welfare state. The new initiative aimed to shore up authority and restore social discipline. In politics and social policy, the same impulse was expressed in a return to conservatism; in economics, in a turn toward a peculiar version of the liberal principle. In Latin America, it found its workshop in so-called Structural Adjustment policies, and in the "culture of stability", promoted in concert with programs managed by the World Bank, the International Monetary Fund, the Interamerican Development Bank, the US Government and its agencies—particularly the Fderal Reserve—and operationalized by the IMF and the World Bank, to the benefit of handful of multinational corporations, and a reduced but powerful group of national business interests. A policy intrument, with ten adherents was established in the wake of the debt crisis unleashed in 1982. As Paul Krugman would ironically describe it later on, it promised "victorian virtue in political economy: free markets and a solid currency" (Krugman 1999). This new orientation implied a total hegemony of the economic, narrowly defined, excluding political realities from debate in an artificial way. The vision was paradoxical in that its theoretical discourse and its applications were based on a quite political premise: that "political, social, and cultural forces" must be excluded from economic policy creation, a separation to be enforced by any necessary measure, reserving the task of policy creation for strictly "scientific" interventions.

Discipline in government spending—in realiity a series of political decisions—rules out the work of the state as a regulatory agent and as an actor in the economy in a radical way. This is how "the political" is "extirpated" from the economy. Economic strategies, like the autonomy of the central banks (in Mexico, the Banco de México) are designed as if they were technical solutions, and *ad hoc* monetary policies that conform to the overall political orientation are privileged, accompanied by tax increases and/or reduction of public spending. A balance of payments is pursued that presupposes a policy of expansion in exports and increasing dependency on foreign trade, sacrificing the domestic market, employment growth, and consumption. Furthermore, it was asserted with great confidence that robust foreign investment in material production would make the national economy more competitive, promoting growth and development in the medium run. Neither the short run, nor the medium or long runs actually saw anything remotely like what was projected. What did occur was that the strategy selfdestructed, increasing disequilibria, further deteriorating the economy, and as a result, speeding the process of pauperization.

Globalization selectively concatened national economies with the needs of transnational capital and with the interests of hegemonic internal groups, global actors with local, just as it selectively bound together theoretical arguments with projections for the real economy, in the interest of financiarization, justifying the imposition of monetary policies. The same circular argument is at work in every specific project: that the best functioning of the economy is to be attained by the unfettered work of the market. This perspective reveals the political programme hidden within the supposedly scientific economism. It is an integrated strategy meant to work against the falling rate of profit, promising to each nation an increased competitiveness in the world economy.

These processes characterize the privatization of public policy making in general, and social policy in particular, rendering governmental instruments ineffective before economic, social, and political conflict and deterioration. In Mexico, economic policy aimed at refocussing production was characterized from the early 80's onward by the transfer of the costs of recomposition of capital to labor at every level and in every type of economic activity. This weakened the projects and institutions geared to bringing social justice, and crippled alternatives, This, in turn, permitted the dismantling of social, political, and economic institutions in the 1990's.

## 3. Social Security in Mexico.

### *a) The Economic Context*

The restructuring of capitalism at a global level imposed a wave of reprivatizations on Mexico, beginning in 1982and continuing through 1996. These were accompanied by a commercial and financial opening, which in the context of weak productivity and severe financial limitations on both public and private firms, produced a series of sudden bankruptcies, mergers, and buyouts by foreign entities, leading to an accelerated process of deindustrialization.

Economic growth based on the economic financiarization was insufficient, and out of step with the national economy. The failure of real wealth to grow led the strategy into a dead end, devastating working conditions and salaries, and amplfying negative effects on the distribution of income, which modified the strategies of labor institutions that had been in place since the 1940's. (Jessop, 1999). In the 1980's, this process advanced without respite, characterized by qualitative and quantitative reductions of the protections offered by the social security and health care systems. The unions, which had functioned up to this point mainly as the control mechanisms of corporatism, proved quite docile, and accepted the conditions imposed by globalization. The informal sector grew without any countermeasure, particularly in commerce and services. This went hand in hand with loss of employment and reduction of buying power. In the 1982-88 period, real buying power was cut in half. By 1996, official indices showed nearly 75% of Mexicans living in poverty (Boltvinik and Hernández, 1999).

Next, the secondary model of specialization in exports was put in place, based on low wages, cheap raw materials and energy, and a strategic geopolitical location. The regional and worldwide economic order, particularly the international division of labor, was redefined. The social counterpart to the new financial order has been a draconian reduction in social spending in all the underdeveloped countries—in other words, the failure of the minimalist welfare state. Paradoxically, the breakup of social security comes just as the new global regime of accumulation begins to finance more and better techniques for combatting the negative health effects associated with pauperization.

*b) Deregulation of Healthcare*

In the 1980's, thanks to their financial resources, the World Bank and the IMF, with the consent of local governments, took on a systematic presence. "The World bank had a strong presence in active healthcare projects in around eighty countries, and between 1990 and 1996 lent out nine billion dollars for nutition, health, and population-oriented projects. In Latin America and the Caribbean, it pushed loans earmarked for the reform of healthcare institutions in all the countries of the region" (Abassi, 1999). The objective was to reduce the role of social policy, and to open the market in health care to private corporations, with improved conditions for investment, attractive utilities—an orientation in line with the Washingon Consensus. This orientation embodied what came to be called second-generation reforms. It is in the context of these overarching reforms that the reforms of the social security and health services systems has to be situated.

Given a disciplined society and a social policy at the brink of collapse, the privatizing offensive was able to advance almost unopposed. The dismantling of the Mexican version of the welfare state by "the market" seemed a question of simple inertia, a matter of physics. It is important to point out that the insistant rhetoric of "the functioning of the market" assumes a political will with a political orientation. It imposed a political vision masked as an economic inevitability.

Public spending on health care reached its peak in 1982, and was to fall systematically from then on—a paradoxical policy given the structural and conjunctural deterioration of living conditions. Thus "between 1982 and 1987, public spending as a percentage of Gross Domestic Product fell from 27% to 22%, and was not replaced by any other form of finance. Part of the funding that had been used to finance social security programs was rechanneled into servicing public debt, mainly held by foreign entities. In 1987, this debt represented 57.9% of Gross Domestic Product, and more than 400% of exports." (Lara, Gómez-Dantés, Urdapilleta and Bravo, 1997). Subsidizing the costs of the crisis

It was in this context that the reform of the healthcare system was launched. Its main thrust consisted in reducing supports to labor (in cases of sickness, maternity, disability, death, work-related accidents, etc), and in general in reducing the cost of labor. The form and content of finance for social security was modified in observable ways: in the Mexican Social Security Institute (IMSS), worker contributions fell from 20% to 9% of total financing; while the contribution of employers fell from 76% to 52%, and the government's share rose from 9% to 39%. The state's burden rose by 30%, to provide a 25% break to capital and a 11% break to labor. In other words, as resources diminished, the difficulties and challenges increased.

Between 1982 and 2000, the number of private-sector workers affiliated to social security institutions increased by around eight million. The number of people entitled to services from the IMSS rose from seven to fifteen million. Meanwhile, the number of subscribers to the Government Workers' Union (ISSSTE, the *Instituto de Seguridad Social al Servicio de los Trabajadores del Estado*) rose from 1.6 million to approximately 2,250,000 (INEGI, 2000:209 and Nafinsa, 1988:31) .This is not counting subaffiliations, which would add another 7,500,000 persons. These numbers, of course, contribute to the quantitative and qualitative gaps in the social safety net. Decreasing resources and increasing demands on these institutions was the horizon of the 1990s. The erratic dynamics of job creation in both the private and public sectors amplified marginalization of people from the system, which in turn fed back in to the reduction of funding for the social services.

To all of this, one must add the fact that the deterioration of working conditions led to an soaring number of workplace accidents. The social security institutions themselves took increasing note of a tendency to underreport. For example 27 of 37 IMSS jurisdictions revealed that 7,211 cases of workplace accidents were not acknowledged as such during the period studied. This would be the equivalent of a national rate of 26.3% workplace accidents left unreported…59.2% of the districts showed a rate of 30% of accidents unreported. Of the four regions into which the districts are grouped, the Southern Region presented the highest rate, at 35.4%; almost all of its districts had rates of over 20%" (Salinas Tovar… et all, 2004).

Several other factors could be added to this complexity, such as the relationship between population growth and epidemiology: "in Mexico, and in relatively less-developed countries in general, there coexist health problems that belong to three phases…, a situation that has been called an "expanded transition… At the same moment, the "countertransition", characterized by the resurgnce of diseases that had once been controlled, like malaria and dengue. We think tuberculosis belongs in this category as well. Finally, one might speak of a "polarized transition" which refers to the fact that infectious disease and malnutrition affect disproportionately the dispossessed, while chronic degenerative diseases are proportionally concentrated in the more affluent social strata (Soberón Acevedo, 1992).

Decentralization accentuated the crisis in healthcare by producing a lack of local resources, but it did allow for an evasion of responsibility on the part of government, or allowed responsibility to be diffused. Decentralization faced "three problems that in principle would have placed limits on its advance: a) the segmentation of the healthcare system….b) economic limitations on healthcare spending…which decreased by 37% between 1982 and 1988. In fact, this was the most important factor, which made it possible for decentralization to be carried out in only 14 of the 32 states…, and c) the atomization of municipal organization, since there are 2,403 munipalities in Mexico, whose levels of development are very uneven. (Salud Pública de México, 1996:371-378).

*c) Social (in)security and the deterioration of health*

The process described above flies in the face of the goals of social service institutions built up during the second half of the twentieth century. It contradicts the founding of the IMSS, and later the ISSSTE, as outcomes of the interventions of the World Health Organization, which after 1948, had positive impacts on the quality of life in many places. In Mexico recently, an evaluation of “the quality of life in the 25 largest cities of the republic…The weighted average of twelve categories showed a quality of life of 6.8” (Velarde-Jurado and Ávila-Figueroa, 2002), though other more dramatic indicators exist. Better and more timely evaluations will better characterize the deterioration, so that it can be confronted in better ways. (Marmot and Wilkinson, 1999).

**Conclusion: Economics and Politics**

The disarticulation and deterioration of the social security and healthcare systems intensified the polarization of income, imposing greater inequality and social marginalization. This means worsening conditions for the majority, and therefore a limited existence, which in turn means truncated participation, and a restricted, unstable, weak democracy. The deterioration of the quality of life shuts down the possibilities of an active, broadbased and inclusive public life, and undermines society in the sense of an interconnected whole.

Promoting democracy should entail promoting a vision of full incorporation of all citizens, in the economic, political, social and cultural spheres. During the last twenty-five years, however, exclusion has won out in Mexico, as the breach in income distribution has widened, financially as well as in other dimension of reproduction. The most consistent fight should be for the recuperation of buying power and the improvement of living standards. Electoral democracy is necessary, but not sufficient: what is lacking is democracy in social life. Though policies that would consolidate the social security and healthcare systems are desirable, they are not sufficient in themselves. What is needed is a reorientation of the whole regime of accumulation, and the economic policies that have come with it. A reversal of the processes imposed by financiaization of the economy, in material production and in the production of wealth, might go hand in hand with greater real wealth as well as ecologically safe production. But a series of initiatives in social policy would be a way to reduce individual costs and give both personal and social benefits. Moreover, a more integrated analytical perspective would support efforts toward greater equity, toward reducing the gap in the distribution of income, and hence toward the basic conditions for solid democratic processes.

Income inequality undermines the conditions for an open, deliberative political process, and makes participation in the polis precarious at best, impacting negatively on democratic institutions. The current situation has made social upheavals reactive, functioning mainly as defense mechanisms and not to as spaces where new projects are imagined and elaborated. Because they make the reproduction of labor ever more precarious, the attacks on the social services are attacks on the movement toward an integrated democracy.

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