

midiendo el progreso de las Sociedades

una perspectiva desde México



Contribution from Dr. Alicia Puyana to the study: “Measuring the Progress of Societies: A Mexican Perspective”

Alicia Puyana holds a PhD in Economics. She is author of numerous articles and author/editor of several books concerning regional economic integration, economic growth in Latin America, the economic effects of oil discoveries in Colombia and Mexico and production for global value chains (maquila) in Mexico and other Latin American countries.

THOUGHTS ABOUT PROGRESS WITHIN FIFTY YEARS

Personalities from different backgrounds were asked to recollect about progress addressing some questions

----- What we should consider as progress?

To ponder on progress is a meditation exercise based on social conscience aiming to present the moral norms: the set of values that guide and direct all social life, apply to all human beings and from which all duties and obligations derive. Therefore my definition of progress cannot and ought not to abstract from the knowledge received in university, work and vital experiences. I consider most convenient to concentrate on some recent ideas about progress.

It is not enough to suggest “we do not measure what really matters”. It is important to think carefully about what is wrong in the economics discipline and in economic policies. They both have distanced themselves from the search for collective wellbeing and turned exclusively into tools for capital reproduction or the “rational use of the productive factors”, thereby treating equality and efficiency as antagonists. That artificial dichotomy helped to enthrone a false dilemma between positive and normative economics. Additionally, when we do not prioritize the elements which constitute progress, according to a set of moral principles, “everything is important and nothing is

relevant”. I ask myself what implications come from stating that economic growth does not matter, since “...for ordinary people, measures like these (GDP and commerce growth, AP) were too detached from their everyday life to have real meaning, and worse, sometimes contradicted their own experience”.¹ I guess that for Briscoe the “common people” are the poor ones, precisely the majority which in Mexico, and elsewhere, needs to work for a living. In order for such “common people” to be able to work, economic growth is a necessary condition, but not a sufficient one.

The type of growth and the kind of jobs created do matter. To finance what Briscoe includes in progress: security, education, health, children’s and elder’s, the preservation of the environment, making reality of the right to be heard and respected, and to know the properties and names of every single plant (as in the survey of Bhutan's Kingdom), amongst others, demand colossal investments and imply high rates of surplus as well as the political will to apply part of it to provide all the above mentioned goods to the entire population, in equal amounts for everyone and without any type of discrimination. In other words, it commands a *social pact*. These two elements, economic surplus and social pact constitute the base and the measure of progress. And I am sure, here in Mexico and elsewhere in Latin America, a significant surplus does exist, but not the political will to agree on a social pact. The political will for social justice and to reduce inequality has been fading since the end of the seventies, but especially since the eighties with the Reagan-Thatcher² conservative revolution, the crumbling of socialism, the dismantling of the welfare state and the weakening of social cohesion. All these gave birth to a new morality, to the triumph of the individual rights over social duties, the end of the legacy of the French Revolution. This new individualist morality demands from each person the maximum efficiency not only in work but even in pleasure, obliges him or her to care for his health and to look always young and fit, all the time to be in command³. Only then, can the individual claim and maintain his/her right to a hedonistic maximum. In this new world, every aspect of the reproduction both of the economy and of social life, were put to play in the stock-

¹ Simon Briscoe, 2009, “A more humane way to measure progress”, Financial Times, January 31 2009, : <http://www.ft.com/cms/s/2/b2926d7e-eb63-11dd-bb6e-0000779fd2ac.html>, February 2, 2009

² Margaret Thatcher has presented in very short sentences the essence of the conservative revolution: “New Labour was my finest creation”, quoted in Palma, 2009 “*The revenge of the market on the rentiers. Why neo-liberal reports of the end of history turned out to be premature*” in Cambridge Journal of Economics 2009 33(4):829-869; doi:10.1093/cje/bep037; and : “There is no such thing as society: there are individual men and women, and there are families” consulted in <http://www.brainyquote.com/quotes/quotes/m/margareth165648.html>.

³ A very good Picture of this culture was depicted in the film “American Psycho”.

exchange casino. *This development is not really progress; it spreads insecurity all through life.*

----- Would you please, consider whether there has been progress in your field of research?

When I first studied economics⁴, the information and available tools to analyse the economic trajectory of our countries were weak, compared with the long series of current data and the computers and programmes we have today at our disposal. Material progress has transformed the study and practice of economics.

At that time, some hypotheses were proposed which went beyond the existing modelling capabilities. The development theoreticians insisted on recognising increasing returns to scale, the imperfection of information and the role of institutions as historic creations. The orthodox economy evolved within the frames of perfect competition, decreasing returns. By doing so it got rid of the richness of the real world and transformed the abstraction into reality. *This is a regression in economic thinking.*

Even if they are theoretically useful, those models abandon important elements, because of insufficient or imperfect information or because of ideological preferences. Neoclassical economics pretends to explain the world with absolute laws on the premise that society is ruled by similar rules as the ones found in physics, with the capability of prediction. With econometrics, economics appeared to win in terms of the precision of what it may apprehend. But because of what it abstracts from, it lost all relevance. In this process, macroeconomics was assimilated to microeconomics. Because of all the forgotten knowledge, we have arrived at the "macroeconomic middle ages". Economics has become "...a branch of applied mathematics."⁵

What is even more troubling is the course that the teaching of economics has taken. A Commission set up by the American Economic Association, concluded that: '...graduate programs may be turning out a generation with too many *idiot savants* skilled in technique but innocent of real economic issues'.⁶ Economists are experts on mathematical modelling but lack knowledge. In a letter to the Queen who asked, in November 2008 at the London School of Economics why nobody saw the crisis coming, a group of distinguished economists expressed their concern about this

⁴ All my formal studies have been in economics; therefore I do not have the insights of a sociologist or an anthropologist, despite my efforts to study some of these disciplines.

⁵ "Report of the Commission on Graduate Education in Economics", **Journal of Economic Literature**, Sept. 1991, : 1035-1053. The commission was set up by the American Economics Association.

⁶ Ibidem

problem. What has been scarce is a professional wisdom informed by a rich knowledge of psychology, institutional structures and historical precedents. This insufficiency has been apparent among those economists giving advice to governments, banks, businesses and policy institutes⁷. *That is another grave regression.*

There are plenty of statistics covering all kind of topics, at the disposal of academics, politicians and public administrators, producers associations, multilateral organisms. And we well know that what is measurable is controllable.

Using the “physics metaphor” allows neoclassical economics to present itself as a discipline with inherently scientific rationality, which goes beyond the interests of social classes and displaces the distribution of income to the quicksand of *social policy*. Equality, employment and poverty became exogenous variables... *Progress is released from the real content.*

That is why we should seriously ponder on the character of economics as a social science and on what is the economist’s role, when, as professionals in a social discipline they participate, from a position in the State, in the design of economic policies. We have to think as well about the possible change in character of the economy and the role played by the economists, in the wake of changes such as the fall of socialism, the scientific and technologic revolution, the unification of the world market of goods and capital. These transformations are brandished in order to reinforce the idea of the scientific objectivity of economics and to legitimize as rational only one economic model and only a certain type of economist. In that way, the gap between economics and politic is further broadened. “(T)he economist, bearer of a legitimate knowledge, will be transformed into a public actor when he enters in the political institution network. At this moment, he links his knowledge to political power⁸.... and while participating in the definition of policies or laws, all of them, decisions of compulsory character, they have the power of imposing their will upon each one of all social relations. That is true even if the economists argue they do not belong to any party, since to affect or to promote specific interests within society is a political act. The non militancy does not guarantee the ideological neutrality, which is supposedly endorsed by the “scientific objectivity of economics”.⁹

⁷ Carta a la Reina, consultada el 15 de agosto 2009, en <http://www.docstoc.com/docs/9919280/queen2009b>

⁸ Palacios, M.A. 2005, “Knowledge is Power: The Case of Colombian Economists”, In V. Fitzgerald and R. Thorp, Eds. 2005, *Economic Doctrines in Latin America: Origins, Embedding and Evolution*, Palgrave, Oxford, UK.

⁹ Ibidem

According to Palacios, the economist has considered himself as an instrument of modernization, which is feasible if technocrats able to manage the public matters with political neutrality are move to key government positions. The intention of modernization has been to depoliticize, to bureaucratize the administration which has turned into a hotly disputed argument between technocracy (modernity) and politics (backwardness) and in the decrease in the decision power, in economic matters, of the elected authorities. Palacios adds that modernization fails when the other structures remain untouched, like in Latin America. In the face of the concentration of wealth, the market is far from perfect and competitive and there is no capable regulating capacity. Who will take Slim or Televisa in hand? The economists took leadership in the redefinition of the economic borders of the state, as if these were a matter of accounting efficiency and if state-society relationships were categories that can be synthesizable in terms of the internal rate of return.

----- What are the findings of your research in the past 15 years?

Several elements I can not explain with the prevailing orthodoxy:

- A. Weakness of the relation between economic growth and the generation of jobs in the formal and tradable sectors;
- B. Premature fall of the participation of manufacturing and agricultural sector within the total GNP and employment resulting in intensification of poverty and migration, international and rural-urban.
- C. Stagnation of low growth of labour productivity;
- D. No direct strong relation between exports growth and the growth of GDP productivity and employment, even in the exporting activities such as the maquila.
- E. Weakening of the relation between economic growth and reduction of poverty and income concentration.

The export lead model and the liberation of the capital market could not allow the developing countries to progress in the industrialization because it eliminated the measures employed by the already developed countries. It was in fact, "*removing the ladder*" which allowed England and the USA and others to ascend in industrialization and the progress in the activities with real potential to increase productivity. The manufactures have the greatest potential in technology and in productivity growth. And the increase in productivity is the basis for an improvement in income and salaries.

It may sound contradictory to insist on the growth of product and productivity. But it is necessary since our societies have yet guaranteed full satisfaction of basic needs for everyone. Until these have not been reached, growth is necessary. Nevertheless, “Once our basic needs are met, aiming for additional wealth does not represent an efficient way to significantly increase well-being”¹⁰. Mexico is far from guaranteeing the basic needs for the entire population, not even the minimum ones promised by the focalized poverty programs. Growth may allow everyone to develop his/her social potential and ensure the satisfaction of his/her needs, but we have to have always in mind that growth is not an end by itself, let alone, growth in exports or the control of inflation or the reduction of fiscal deficit. These are means, tools to move to the final objective of general welfare.

----- In your recollection, what should be considered as progress for the XXI century? Why?

Progress implies “comprehension of nature, for our use without destroying it”. The discovery of vaccines, penicillin, anaesthesia, the pill, steam engines, the jet, nuclear energy, information technologies, those all confirm that there has been progress. But, has it been balanced? Where it can take us? It is most likely there will be technical progress in the future even respecting nature. But, will the discoveries linked to the genome create a deep division in society of the kind “suitable” “non suitable”?

Progress is also the knowledge and comprehension of human beings, without defining it according to reductionist theories which strip from them their fears, anguish, values, feelings, passions from their humanity.

The notion of progress must include the importance and dignity of work. This notion implies an improvement in the quality of life, a reorientation and revalidation of leisure, pleasure, and of “happiness”. We have to understand that “...unemployment has an effect that goes well beyond the loss of income to which it gives rise”.¹¹

According to Keynes, as well as Smith and Ricardo, progress is the spiritual, political and social improvement of the entire society. In “Economic possibilities of our

¹⁰ NEF, 2008, “Bringing real wealth onto the balance sheet”.

¹¹ Stiglitz on the International Commission on the Measurement of Economic Performance and Social Progress, Financial Times, 13 September 2009 <http://www.ft.com/cms/s/0/95b492a8-a095-11de-b9ef-00144feabdc0.html>.

Grandchildren”¹², he suggests that, once society has solved “the economic problem, the struggle for subsistence”, we can aim for the satisfaction of other more important needs, like spending more time cultivating the fine arts. Scientific progress will free humanity from the need to work until exhaustion. According to Keynes, humanity has two kinds of needs: the absolute ones, food, home, health, etc.; and the relative ones which make a person feel superior to others. These differ from the absolutes because they are never satisfied. The satisfaction of the absolute needs will allow us to dedicate our time for the cultivation of the spirit, as long as there is a cultural transformation, which rewards creative leisure and scales down the satisfaction of the relative needs. For Keynes, technological progress and productivity growth would require us to work for no more than 15 hours per week, to satisfy basic needs, as long as there were the necessary change in morality which determines the distribution of wealth, sanctions and rewards.

For the majority of the population, the Mexican economy is not generating, satisfactory and profitable work, and the real, minimum and medium wages have intensively deteriorated. For the majority of the population, the road towards solving the “economic problem” is still a long way ahead; as the fight for survival up till now is. Or in Amartya Sen’s words, we have not achieved the necessary freedom to obtain well being, which is: “freedom from hunger, or being free from malaria.”¹³ Such freedom, which is essential for the quality of life depends, amongst other things, on the satisfaction of the basic needs. “Unless certain basic welfare conditions are met and resources and opportunities provided, we cannot seriously claim that society is preserving and protecting everyone’s freedom.”¹⁴

First, we must assure the right conditions for people to have the sufficient means to appropriately satisfy absolute needs. This satisfaction must not be dependent either on transfers or on private philanthropy. There will always be transfers, as there are in Sweden, or Switzerland and Germany, but in those societies, transfers are not the ones that barely save people from hunger.

----- There has been material progress. But is there any social progress accordingly to the principles mentioned before?

¹² Keynes, J.M. 1930, Economic possibilities of our Grand Children, read at: <http://www.econ.yale.edu/smith/econ116a/keynes1.pdf>

¹³ Sen, A. 1993, “Capabilities and Well-being”, in Nussbaum, M. y Sen, A. 1993, *The Quality of Life*, OUP, p. 44.

¹⁴ Korsgaard, C.M. 1993, “Commentary to Cohen and Sen”, in Nussbaum, M. and Sen, A. 1993, *The Quality of Life*, OUP, p. 58.

For the first three tenths of the Mexican population, whose participation in income is lower than the capital accumulated by Mr. Carlos Slim, freedom of choice is invalid or extremely restricted and their voice is not heard. But even for broad segments of the middle classes their future or their children's future is not secure.

At the moment of redefining the state's frontiers, the rate of return for capital investment was chosen as the ruling axis for the economy and efficiency, and profits and competitiveness as the ruling criteria of public policies, which took pre-eminence over equity. The principle that **efficiency and equity form a unit and as such they must be a matter of discussion of democratic regimes** has been abandoned. Today, the debate is focused on whether with democracy the market may or may not ensure Pareto efficiency¹⁵. Equity is relegated to residual measures, out of economic policies, just to compensate for the devastation which is imposed on equity by the exclusive preference to efficiency and capital's rate of return. *There is regression in the way public policy is managed.*

Coupled to the application of the economic model and to the rhetoric of poverty relieve policies, essential changes in ethics, which I can not qualify as progress, have gained ground. There is a greater tolerance towards levels of poverty and inequality which were previously rejected as absolutely and morally unacceptable. This tolerance guided the acceptance, as normal, of "precarious jobs". It is accepted as economically rational, consequently, no interventions on the labour market should be implemented, and the power of the workers to negotiate has to be eroded. These new rules were supposed to generate more employment, greater investments and better salaries. Instead, salaries have deteriorated, the wage gaps between qualified work and less qualified work have widened, the substitution-elasticity of non qualified labour has increased, the income elasticity of labour demand has been reduced and salary insecurity has increased. It was accepted that the fiscal policy has be neutral, not altering the primary distribution of income. But if it turns out to be necessary to modify it, it should only be done marginally, without altering rate of return of capital, measured in international terms. As the main source of fiscal income, the direct taxing was replaced by the indirect taxes, like the VAT, a regressive and pro-cyclical tax. Thus, we arrived at a minimalist welfare state.

----- What concept of progress must we have in the remainder of the XXI Century?

¹⁵ E. Stiglitz, 1991: "The Invisible Hand and Modern Welfare Economics". NBER Working paper No 3641, March 1991.

There are several points which allow us to work towards the social progress needed in Mexico:

A. To achieve a more equalitarian society, in economic, social and political terms. For this, it is indispensable not to centre the reduction of poverty and inequality on economic growth and the trickle-down effect. To reduce poverty through this way, we would need environmentally unsustainable growth rates.

B. To adopt strongly distributive policies, which have to be radically different to the current ones which at the margin do not affect poverty and do not enhance the capacity of at least reaching the bottom 25 per cent of the population to “solve the economic problem”.

C. To eliminate the false dichotomy between equity and efficiency and to re-establish the most rational use of productive factors through public policies: macroeconomic, monetary, exchange and fiscal policies.

D. To improve the implementation of public services: education and health, housing, and nutrition, by broadening the access and raising the amount and quality of public services, so they stop being means of discrimination and act as channels for social mobility and progress. The endowment of public education (and health) must be of such quality and volume as to coerce the private sector to lower its prices. Then, the public and private services may be an option for every citizen of any economic or social status.

E. To guarantee the full citizenship and equality of everyone in face of the law, while designing mechanisms of positive discrimination. In the face of the dramatic social inequality and the tremendous wealth and income concentration, positive discrimination is indispensable.

F. To accept that there are no perfectly competitive markets, because of the existence of the *de facto* powers which control them (it is enough to think in the power of the television networks, and their capacity to define the public politics and promote voting). It is necessary to abandon the myths of perfect competition, complete information and a level playing field for everyone. The government must create markets and organize freedom for everyone, as prescribed by Amartya Sen. Then there will be progress.

In your opinion, what should be, in the case of Mexico, the objectives to evaluate if any progress has been achieved?

Goals must be oriented to compensate work with criteria of equity and not of micro economic performance exclusively. In the next 50 years we must produce a revolution in the way we consider salary and employment; what are efficiency, justice and freedom and what are the ways to guarantee all of these to all citizens. The raising of our children is a “job” in itself, and all the household work, is a job which contributes to the growth of GDP. Does household work and the women’s double shift help to reduce the cost of the labour force and to maintain wages relatively low? Analysing the macro economy with a gender perspective gives clues for this evaluation and suggests needed modifications of the current principles of the macroeconomics.

In a society in progress, it is inadmissible to think that there is a natural rate of “unemployment”, but still more serious is the acceptance, as economically rational of the unemployment camouflaged in the very low productivity informality, the Colombian *rebusque*¹⁶, which in Mexico holds 64 per cent of employment.

All the economically active population must enter the circuit of the modern economy in order to achieve a generalized increase in productivity and to fulfil the utopia Keynes presented. A good part of the elderly fall victim of poverty or misery, because they never contributed to social security or because the pensions are not enough. It is important to create feasible working opportunities for the “retired”, only then, they will have a dignified and independent life, with affection and respect.

Do you think of progress as a universal concept? What regional or national particularities should be taken into account?

Progress is universal. The technological progress of the past centuries has made the Earth smaller. National frontiers must open to labour movements, as the borders for the movements of goods and capitals were totally eliminated

There are universal parameters, for example, the satisfaction of basic needs which ought to allow every citizen development and freedom as presented above. Conditioning progress to the perception of individuals about their happiness and relegating their material conditions, the satisfaction of basic needs to a second plane, may drive to greater errors than those we want to solve. “...may only depict how well people adapt, conform to the current state of things, with the current conditions”. Is conformism the measure of the new concept of progress we are heading towards?

¹⁶ Rebusque: Colombian world meaning “pickup jobs to escape poverty.

From your area of research what could be the contribution for Mexican Progress?

Any particularity in the notion of progress for Mexico must begin with acknowledgment of the basic deprivation experienced by a large part of society. It has to address, in first place, the quantitative and qualitative deficit in the access to basic needs. The deficit in the material well being is overpowering.

This concern about the definitions of progress is framed within the concept of modernization, which assumes that the society can be integrated by the supply of welfare and political spaces created by the market. But, I wonder, it is not a strategy which comes from developed countries which already have solved “the economic problem” and can concentrate their attention in other problems, always centring their solution in GDP growth and market signals?

From the economy’s point of view there is a lot to do: to release macroeconomics from the dark ages; to place as the focus point of the policy-making the problems derived from the concentration of income, and inequality. The reduction of inequality, property and income, must be the immediate and principal concerns of economists and the main political objective. But it has to be more than just saving the poor from their misery with minimum well being.

In my research, I think that I have managed to establish the reasons why liberalization of the economy and neo-liberal structural reforms, by simply eliminating government interference in markets and leaving untouched the concentration of property, production and distribution, will only reduce actual growth potential and exclude progress for a large part of the population. Due to the quality of the jobs created and the reduction of the GDP elasticity of employment, even during the spells of greater growth a considerable reduction of inequality and poverty did not take place. There is no direct and strong relation between trade liberalization and economic growth. There is evidence of indirect, but not meaningful relation between liberalization of the economy and GDP growth. It is necessary to study the way the economic policies ought to be changed. That need is even more pressing in the wake of the 2008 crisis

Do you think Mexico has experienced some progress, why? How do you think would look Mexico in 2050, assuming that progress was achieved?

Yes, in the two hundred years of independence and one hundred years after the revolution, Mexico has experienced progress in many areas. At the end of the seventies of the XIX Century a truly secular state was established. This liberal regime preserved and institutionalized the extreme inequality created in during the Spanish Colonization and which Humboldt defined as the most extreme in the world, not to be found in any other English dominium or in Hindustan¹⁷. The Mexican revolution was an attempt to remediate some of the problems inherited from colonial times. How much it achieved that goal is under scrutiny. We can agreed that there has been progress, but progress has been unequal and with ups and downs. In economic growth, industrialization and inequality and poverty reduction Mexico did registered important progress since 1940 up to 1980. Since then, clear recoil took place. In the last three decades of the XX century Mexico has experienced retreat rather than progress. The Human Development Index gives clues that in an international perspective Mexican progress, during the last decades is not outstanding.

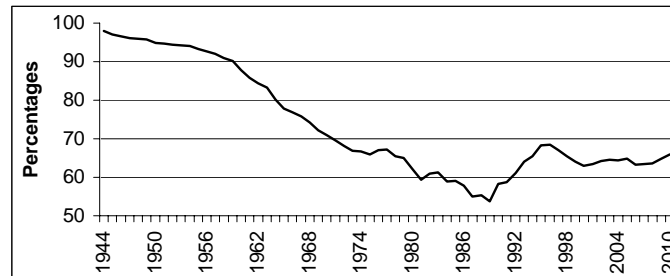
Mexican political economy gives preference to capital over work; to workers organized in unions or linked to the activities intensive in technology and foreign capital; to cities over rural areas. It replaces social universal rights with the “focalized conditioned cash transferences to “deserving” extreme poor individuals”, a social policy inspired in the XIX century concept of charity.

The following few data will give a concrete idea of what I mean: Over 60 per cent of working force is attached to the informal economy, with no social security or health insurance (Table No. 1). Minimum real wages have deeply deteriorated since the reforms started in mid 80s and poverty incidence is just a few points below the level reached in 1980 (Tables No. 2 and Table 1). Democracy, as it has been reduced to the formality of

¹⁷ Humboldt, A. 1822, *Ensayo Político Sobre el Reino de la Nueva España*, consulted December 24th 2010 en: http://www.antorcha.net/biblioteca_virtual/politica/humboldt/indice.html

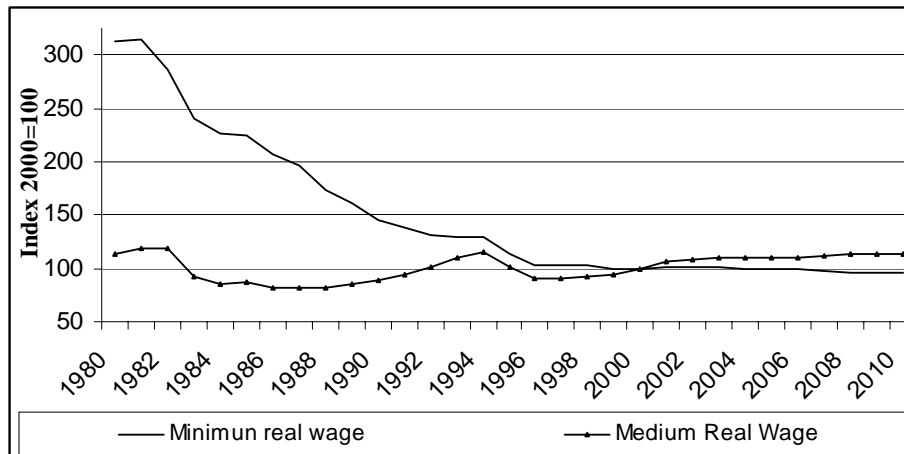
elections, does not guarantee the voice of the majority is heard. On the contrary it has been ignored when the voice of the majority does not conform to the interests of the mighty ones, as it happened in 1988 and again in 2006.

Graph No. 1
Mexico. Informal Employment. 1940-2010
 In percentage of total employment



Secretaría de Trabajo y Previsión Social. 2010. “Indicadores Estratégicos de Ocupación y Empleo, 2005-2010” accessed at <http://www.stps.gob.mx/DGIET/web/ENOETRIM/nal.xls>

Graph No. 2
Average Real Wages and Minimum Real Wages 1980-2010
 (Index 2000 = 100)



Source: For real average wages, own calculation based on ECLAC, <http://websie.eclac.cl/infest/ajax/cepalstat.asp>.
 For Minimum wages, 1980-1990, based on ECLAC op cit. 1990-2010 own calculation based on Comision de Salarios Mínimos http://www.conasami.gob.mx/pdf/salario_minimo/sal_min_real.pdf

Table No 1
Households under Moderate and Extreme Poverty
(Percentages 1970–2008)

	Poverty			Extreme Poverty		
	Total	Urban	Rural	Total	Urban	Rural
1970	34,0	20	49	12	6	18
1984	24	28	45	11	7	20
1989	47,7	42,1	56,7	18,7	13,1	27,9
1994	45,1	36,8	56,5	16,8	9	27,5
1996	52,9	46,1	62,8	22	14,3	33
1998	46,9	38,9	58,5	18,5	9,7	31,1
2000	41,1	32,3	54,7	15,2	6,6	28,5
2002	39,4	32,2	51,2	12,6	6,9	21,9
2004	37	32,6	44,1	11,7	7	19,3
2005	35,5	28,5	47,5	11,7	5,8	21,7
2006	31,7	26,8	40,1	8,7	4,4	16,1
2008	34,8	29,2	44,6	11,2	6,4	19,8

Source: Author's calculations based on ENIGH, third quarters 1989, 1992, 1994, 1996, 1998, 2000 and 2008 and ECLAC, Panorama Social 2009.